Hadera Paper Ltd
Form 20-F
April 11, 2011

As filed with the Securities and Exchange Commission on April 11, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended on December 31, 2010

OR

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

For the transition period from _____ to

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

Commission File Number 1-04212

HADERA PAPER LTD.
(Exact name of registrant as specified in its charter)

| N/A | Israel |
|---|---|
| (Translation of Registrant's name into English) | (Jurisdiction of incorporation or organization) |

P.O. Box 142, Hadera 38101, Israel
(Address of principal executive offices)

Yael Nevo, Adv., Corporate Secretary, Tel: 972-4-6349349, Fax: 972-4-6339740, Industrial Zone, Hadera, Israel.
(Name, Telephone, E-Mail and/or Facsimile and Address of Company Contact Person)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Ordinary Shares par value NIS 0.01 per share | NYSE Amex |

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 5,084,881 Ordinary Shares, NIS 0.01 par value per share, as of December 31, 2010.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

oYes þ No

If this report is an annual or transition report, indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

oYes þ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non- accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer o  Accelerated filer þ  Non- accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o
International Financing Reporting Standards as issued by the International Accounting Standards Board þ
Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o  Item 18o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

oYes þ No

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## CERTAIN DEFINED TERMS

In this Annual Report on Form 20-F (this "Annual Report"), unless otherwise provided, references to "Hadera Paper", "Company", "we", "us" and "our" refer to Hadera Paper Ltd. and its subsidiaries and references to the "Group" refers to Hadera Paper Ltd., its subsidiaries and associated companies. The terms "euro", "EUR", or "€" refer to the common currency of the member states of the European Union, "NIS" or "shekel" refers to New Israeli Shekel, and "dollar", "USD" or "$" refers to U dollars.

## FORWARD-LOOKING STATEMENTS

This Annual Report contains "forward-looking" statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (collectively, the "Safe Harbor Provisions"). These are statements that are not historical facts and include statements about our beliefs and expectations. These statements contain potential risks and uncertainties and actual results may differ significantly. Forward-looking statements are typically identified by the words "believe", "expect", "intend", "estimate" and similar expressions. Such statements appear in this Annual Report and include statements regarding the intent, belief or current expectation of the Company or its directors or officers. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors including, without limitation, the factors set forth below under the caption "Risk Factors" (the Company refers to these factors as "Cautionary Statements"). Any forward-looking statements contained in this Annual Report speak only as of the date hereof, and the Company cautions potential investors not to place undue reliance on such statements. The Company undertakes no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to the Company or persons acting on the Company's behalf are expressly qualified in their entirety by the Cautionary Statements.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated financial data of the Company and its subsidiaries are derived from our 2010 consolidated financial statements and are set forth below in table format. Our 2010 consolidated financial statements and notes contained elsewhere in this Annual Report were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Prior to 2008, our financial statements were prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP").

The consolidated financial statements for the year ended December 31, 2010, 2009, 2008, and 2007, were audited by Brightman Almagor Zohar & Co., a firm of certified public accountants in Israel and a member of Deloitte Touche Tohmatsu, except for certain subsidiaries and associates which were audited by other auditors. Our selected consolidated financial data are presented in NIS.

The selected financial data for the years ended December 31, 2010, 2009, 2008, and 2007, which are presented in Table I below are derived from our consolidated financial statements prepared in accordance with IFRS and do not include consolidated financial data in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). The selected financial data for the years ended December 31, 2006 which is presented in Table II below, is derived from our selected financial statements prepared in accordance with Israeli GAAP. The selected financial data for the year ended December 31, 2006, which is presented in Table III below, is derived from our selected financial statements prepared in accordance with U.S. GAAP.

| TABLE I | Selected Financial Data in accordance with IFRS | | | |
|---|---|---|---|---|
| | Year Ended December 31, | | | |
| | 2010 | 2009 | 2008 | 2007 |
| Income Statement Data: | (in thousands of NIS, except per share amounts) | | | |
| Sales | 1,121,008 | 891,995 | 673,484 | 583,650 |
| Income from ordinary operations | 61,295 | 15,587 | 35,351 | 71,109 |
| Share in profits of associated companies, net | 81,132 | 87,359 | 51,315 | 856 |
| Net income | 100,612 | 91,748 | 67,960 | 31,535 |
| Selected Balance Sheet Data: | | | | |
| Total assets | 2,773,634 | 2,288,676 | 2,044,094 | 1,319,915 |
| Fixed assets | 1,358,619 | 1,134,234 | 767,542 | 405,231 |
| Long-term debt | 813,631 | 697,617 | 676,034 | 186,261 |
| Shareholders' equity | 953,602 | 858,429 | 757,629 | 669,971 |
| Per Share Data: | | | | |
| Shares outstanding at end of year | 5,078,156 | 5,060,788 | 5,060,774 | 4,132,728 |

| | | | | |
|---|---|---|---|---|
| Amount in NIS | 50,782 | 50,608 | 50,608 | 41,327 |
| Net income per NIS 1 par value: | | | | |
| Primary attributed to company shareholders | 19.84 | 18.03 | 13.77 | 7.63 |
| Fully diluted attributed to company shareholders | 19.68 | 18.03 | 13.77 | 7.62 |

1

| TABLE II | Selected Financial Data in accordance with Israeli GAAP Year Ended December 31, 2006 |
|---|---|
| Income Statement Data: | (in thousands of NIS, except per share amounts) |
| Sales | 530,109 |
| Income from ordinary operations | 50,501 |
| Share in profits (losses) of associated companies, net | 1(26,202 ) |
| Net income | 13,330 |
| Selected Balance Sheet Data: | |
| Total assets | 1,173,287 |
| Fixed assets | 400,823 |
| Long-term debt | 256,290 |
| Shareholders' equity | 430,842 |
| Per Share Data: | |
| Shares outstanding at end of year | 4,032,723 |
| Amount in NIS | 40,327 |
| Net income per NIS 1 par value: | |
| Primary attributed to company shareholders | 3.31 |
| Fully diluted attributed to company shareholders | 3.28 |
| Dividend declared per share | 224.85 |

1 Amount does not include the cumulative effect of a change in the accounting policy of an associated company (NIS 461 thousand).
2 A dividend for 2006 in the sum of NIS 24.85 per share ($ 5.64 per share) was declared in June 2006 and paid in July 2006.

| TABLE III<br><br>Income Statement and Balance Sheet Data: | Selected Financial Data in accordance with U.S. GAAP Year ended December 31 2006<br><br>(in thousands of re-measured NIS, except per share amounts) |
|---|---|
| Sales | 530,109 |
| Income from ordinary operations | 76,917 |
| Share in profits (losses) of associated companies, net | (19,686 ) |
| Net income | 23,909 |
| Total assets | 1,123,964 |
| Fixed assets | 362,539 |
| Long-term debt | 257,075 |
| Shareholders' equity | 374,768 |
| Per Share Data: | |
| Shares outstanding at end of year | 4,032,723 |
| Share outstanding to compute: | |
| Basic net income per share | 4,025,181 |
| Diluted net income per share | 4,055,628 |
| Amount in NIS | 40,327 |
| Net income per share (re-measured NIS) | |
| Basic | 5.94 |
| Diluted | 5.89 |
| Dividend declared per share | 324.85 |

3 A dividend for 2006 in the sum of NIS 24.85 per share ($ 5.64 per share) was declared in June 2006 and paid in July 2006.

Exchange Rates

The exchange rate between the NIS and U.S. dollar published by the Bank of Israel was NIS 3.451 to the dollar on April 7, 2011. The high and low exchange rates between the NIS and the U.S. dollar during the six months from October 2010 through March 2011, including the partial month of April 2011, as published by the Bank of Israel, were as follows:

| Month | High<br>1 U.S. dollar = | Low<br>1 U.S. dollar = |
|---|---|---|
| April 2011 (until April 7, 2011) | 3.473 NIS | 3.438 NIS |
| March 2011 | 3.635 NIS | 3.481 NIS |
| February 2011 | 3.713 NIS | 3.602 NIS |
| January 2011 | 3.710 NIS | 3.528 NIS |
| December 2010 | 3.665 NIS | 3.549 NIS |
| November 2010 | 3.684 NIS | 3.580 NIS |
| October 2010 | 3.645 NIS | 3.569 NIS |

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

| Period | Exchange Rate |
|---|---|
| January 1, 2011 – March 31, 2011 | 3.601 NIS/$1 |
| January 1, 2010 – December 31, 2010 | 3.733 NIS/$1 |
| January 1, 2009 – December 31, 2009 | 3.933 NIS/$1 |
| January 1, 2008 – December 31, 2008 | 3.588 NIS/$1 |
| January 1, 2007 – December 31, 2007 | 4.108 NIS/$1 |
| January 1, 2006 – December 31, 2006 | 4.456 NIS/$1 |

B. Capitalization and Indebtedness

Not applicable.

C. Reason for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Macro-economic risk factors

A slowdown in the market may result in a reduction of profitability.

An economic slowdown in Israel or globally and/or a deterioration of the political and security situation in Israel and outside of Israel could have an adverse effect on the financial situation of the Company and the Group. The emergence from the global financial crisis in 2010 has led to developments in global markets, especially in Europe and the United States. This process also included volatility in global exchange rates, which have and may continue to affect the business results of the Company and its investees, their liquidity, shareholders' equity and assets shareholders' ability to realize the aforementioned assets and the state of their business (including the demand for the products of the

Company's investees). In Israel, 2010 was a year of recovery from the global crisis which was accompanied by growth and expanded activity. During the last several months of the year, much like in other developing countries, a certain slowdown in growth was evident, accompanied by the revaluation of principal foreign currencies against the shekel, coupled with an increase in the inflation rate in the local market. These factors may serve to erode the competitive abilities of the Company against global competitors and imports.

As of the date of this Annual Report, it appears to be impossible to predict whether the economic implications of the crisis in the financial markets has indeed run its course, what its direct and indirect economic implications are, globally and in Israel, and how long such implications will last, if at all.

An economic slowdown in Israel or globally, a persistent recession and/or a deterioration of the political and security situation in and outside of Israel could have an adverse effect on the financial situation of the Company and the Group. In addition, these circumstances could reduce the demand for the Company's products, and as a result adversary affects sales, financial results and profitability.

Finally, it should also be noted that the global paper industry is a historically cyclical one, reflected in more highly profitable years which lead to investments in the paper industry and expanded production capacity. Therefore, in subsequent years there is excess supply, which causes a significant decline in profitability for several years, until supply and demand are once again balanced. As a result, and since this is a capital-intensive industry, the global paper industry typically exports its surplus production at relatively low prices at "cost plus" (i.e. covering the variable cost plus a certain contribution toward fixed costs).

We are exposed to exchange rate fluctuations.

The Company and its consolidated subsidiaries and associated companies are exposed to risks on account of changes in exchange rates, whether due to the import of raw materials and finished goods, or due to exports to foreign markets. Changes in exchange rates of various currencies against the NIS may erode profit margins and cash flows.

Approximately half of the Company's sales are denominated in U.S. dollars, whereas a significant share of its expenses and liabilities are denominated in NIS. The Company is therefore exposed to exchange rate fluctuations of the NIS against the U.S. dollar.

The above mentioned exposure includes economic exposure on account of surplus proceeds on payments in foreign currency or linked thereto, and accounting exposure on account of a surplus of dollar-linked assets over foreign-currency-denominated liabilities.

Pursuant to the purchase of equipment to be used in connection with a machine for the manufacture of packaging paper, also known as Machine 8, whose prices are denominated in euros, as of December 31, 2010, the Company has entered into forward transactions on the euro in the aggregate amount of €3.0 million, to hedge against the cash flows in connection with the payments for the acquisition of the fixed assets acquired from the equipment vendors of Machine 8. It should be noted that with respect to the aggregate level which includes associated companies, the currency exposure is limited.

For further information regarding Machine 8, see "Item 4.D Property, Plants and Equipment."

We are exposed to interest rate risks.

The Company is exposed to changes in interest rates, primarily in respect of bonds it has issued in aggregate the amount of NIS 658 million, as of December 31, 2010.

Any future rise in the inflation rate may negatively affect business.

Since the Company has significant excess liabilities linked to the Israeli Consumer Price Index, or CPI, primarily in respect of bonds issued by the Company in the aggregate amount of NIS 296 million net, a high inflation rate may cause significant financing expenses. The Company occasionally enters into hedging transactions to cover said exposure on account of the liabilities. The Company is examining the cost of hedging as opposed to the relevant exposure and is operating accordingly to hedge the risk.

A high inflation rate may also impact payroll expenses, which are adjusted over time to changes in the CPI.

The Company continues to regularly monitor quoted prices for hedging its exposure and in the event that these will be reasonable the Company will enter into the relevant hedging transactions.

The Company also enjoys partial natural hedging on some of the said liabilities, due to the current debt of an associated company that is linked to the CPI.

Risks related to the Company

We face risks relating to account receivables.

Most of the sales of the Company and its associated companies are made to many customers in Israel, with some of these sales being made without full collateral. Exposure to accounts receivable risk is generally limited due to the relatively large number of customers. The Company and its associated companies regularly examine the quality of accounts receivable in order to determine the sum of provision that is required for doubtful debts, especially in light of the lessons learned from the global financial crisis. The Company and its associated companies' exposure to accounts receivable risk is measured according to the quality of the client and volume of the exposure thereto in terms of the total credit. The financial statements reflect appropriate provisions for doubtful debt.

Geo-political developments in Egypt may adversely affect us.

Our agreement with our current supplier of natural gas to our facility in Hadera, the Yam Tethys Gas Company ("Yam Tethys"), terminates in July 2011. We have been looking to engage other natural gas suppliers, including the East Mediterranean Gas Company ("EMG"). However, recent geo-political developments in Egypt and uncertainty with regards to the stability of the Egyptian government could negatively impact the Company's ability to engage in an agreement with EMG for the supply of gas.

As of the date of this Annual Report, the Company cannot assess the impact the situation in the region will have on the ability to engage in an agreement with EMG, the gas supply of EMG or on the terms of our engagement with other gas suppliers in the region.

For further information regarding Yam Tethys, see "Risks related to our packaging paper and recycling business – We are dependent on a single supplier of natural gas." below.

We face risks associated with receiving credit from banks.

The Company forms part of the IDB Group, one Israel's leading business groups, and is influenced by the Israel Banking Supervisor's "Correct Banking Management Regulations", which includes, amongst other things, limits to the volume of loans an Israeli bank can issue to a single borrower; a single "borrowing group" (as this term is defined in the said regulations), and to the six largest borrowers and "borrowing groups" of a bank corporation. IDB Development Corporation Ltd., an entity within the IDB Group, its controlling shareholders and some of the companies held thereby, are considered to be a single "borrowing group". Under certain circumstances, this can influence the Group's ability to borrow additional sums from Israeli banks and to carry out certain business transactions in partnership with entities that drew on the aforesaid credit.

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

We face risks associated with environmental protection.

Requirements of the Ministry of Environmental Protection (the "Ministry") with respect to our field of operations and our facilities require the Company to allocate significant financial resources to the issue of environmental protection. These requirements may become more stringent due to increasing awareness toward environmental protection and developing regulation in this area, which may require the Company to allocate further financial resources associated with this operating sector.

On January 30, 2011, the Ministry held a hearing for the Company regarding the alleged pollution of water as a result of the discharging of low quality waste water into the Hadera Stream. The Ministry held that the Company has a duty to improve the quality of the waste water, and ordered it to provide a weekly report to the Ministry with respect to the quality of the treated waste water.

Furthermore, it was determined that if the Company does not fulfill the requirements stated in the permit regarding the discharge of waste water into the Hadera Stream, granted on August 11, 2010, the Ministry's Director of the Haifa District would issue an order to cease operations of Machine 8 which the Company operates, without requiring any advance warnings or additional hearings. The Company is acting to improve the treated waste water by taking various actions, and as a result of these an improvement in the quality of the treated waste water flowing into the Stream is evident. At this stage, however, the Company cannot estimate the rate or timetable for improvement of the treated waste water, and cannot estimate said effects in the event of failure to comply with the requirements stated in the permit.

Finally, as the Company handles dangerous and toxic materials, it is exposed to the damages and risks relating to these products, including health, environmental and fire risks. Therefore, the Company is exposed to claims which may negatively impact the business results of the operating sector, as well as Company's reputation.

Risks related to our packaging paper and recycling business

We are exposed to increases in the cost of raw materials.

The anticipated increase in the capacity of the paper machines of the Company, based on paper waste for recycled fiber, requires an increase in the paper collection volumes to be used as raw material for production in the paper production sector and location of more extensive collection sources. Consequently, the Company is required to significantly increase the quantities of paper waste and is even examining the possibility of importing paper waste. Failure to locate a sufficient quantity of paper waste for manufacturing will impair the Company's ability to realize its output capacity potential in packaging paper.

Failure to enforce the Collection and Evacuation of Waste for Recycling Act, 5753-1993 (the "Recycling Act"), which mandates waste recycling by businesses and the general public, would make it more difficult to obtain alternative sources for raw materials at a competitive cost. Nevertheless, an amendment to the Protection of Cleanliness Law, 5744-1984 (the "Cleanliness Law"), passed in January 2007, which imposes a landfill levy on waste, may bring about, if effectively enforced, some improvement in the paper waste collection capacity, according to the Company's estimate. The recently enacted Treatment of Packaging Law, 5771-2011 (the "Packaging Law") may also serve to significantly affect the collection operations of raw materials, although this impact is dependant upon the regulations that will be promulgated by virtue of the Packaging Law and the actions of the recognized body that will be established by virtue of the law.

As the prices of raw materials, primarily paper, which is a material component in the production cost of cardboard, and inputs, such as gas, electricity, transportation and starch, rise, the profitability of companies in this sector of operations may be impacted. In July 2011, the gas supply agreement with Yam Tethys, entered into in connection with the Company's electricity-generating turbines, is scheduled to terminate and the Company is examining alternatives gas sources. According to Company estimates, and based on the prevailing market prices, upon the signing of a new agreement with any of the potential suppliers, the price of gas is expected to rise in relation to the gas prices under the current agreement.

We are dependent on a single supplier of natural gas.

We are dependent on our current supplier of natural gas, Yam Tethys, for the supply of natural gas to our facility in Hadera. As our agreement with Yam Tethys terminates in July 2011, we are looking to engage with a natural gas supplier.

Another alternative is to convert our turbines from natural gas to diesel, which, as of the date of this Annual Report, would be significantly more expensive to run.

For further information with respect to EMG, a potential gas supplier, please see "Risks relates to the Company - Geo-political developments in Egypt may adversely affect us" above.

We are dependent on the transporter of natural gas to our plant in Hadera.

In October 2007 we converted our energy-generation systems from heavy fuel oil to natural gas, and currently depend on the sole transporter of natural gas operating in Israel. The termination of our agreement with the natural gas transporter could have a material adverse effect on our operations.

For further information regarding the transporter of natural gas, see "Item 10.C – Material Contracts."

Under Israeli law, we are considered a "monopoly" and therefore subject to certain restrictions that may negatively impact our ability to grow our business in Israel.

We have been declared a monopoly under the Israeli Restrictive Trade Practices Law, 5748-1988, in the market for the manufacture and marketing of packaging paper. Under Israeli law, a monopoly is prohibited from taking certain actions, and the Commissioner of the Israeli Antitrust Authority has the right to intervene in matters that may adversely affect the public, including imposing business restrictions on a company declared a monopoly, including supervision of prices charged. The Israeli Antitrust Authority may further declare that we have abused our position in the market. Any such declaration in any suit in which it is claimed that we engage in anti-competitive conduct would serve as prima facie evidence that we are a monopoly or that we have engaged in anti-competitive behavior. Furthermore, we may be ordered to take or refrain from taking certain actions, such as setting maximum prices, in

order to protect against unfair competition. Notwithstanding the aforementioned, the Israeli Antitrust Authority has not intervened and/or imposed any restrictions upon us with regards to our declaration as a monopoly. Restraints on our operations as a result of being considered a monopoly in Israel may negatively affect our financial results in the manufacture and marketing of packaging paper activity.

In February 2010, the Company submitted a request to the Antitrust Authority to rescind its monopoly status in the sector of packaging paper in rolls and sheets, as mentioned above, since the Company believes it is not actually a monopoly in this sector. As of the date of this Annual Report, the Company has not received a response to its request.

The financial results may be affected by centralization.

The production operations of the packaging paper and recycling business are concentrated in a limited number of sites. Impact on one or more of the production and/or distribution sites may materially impact the financial results of this sector.

Our profitability may be affected by new environmental and safety laws and regulations and compliance expenditures.

Certain aspects of our manufacturing operations are subject to a wide range of general and industry-specific environmental, and safety laws and regulations, which impose a substantial financial burden on our resources, such as stricter environmental protection regulations and government decisions concerning the raising of minimum wages. Furthermore, non-enforcement of regulation concerning waste collection, in accordance with the Cleanliness Law and the Recycling Act, may impact the Company's capacity to increase paper waste collection. Additionally, the recently enacted Packaging Law may also serve to affect our collection operations of raw materials and the price and availability of such materials, although this impact is dependant upon the regulations that will be promulgated by virtue of the Packaging Law and the actions of the recognized body that will be established by virtue of the law.

Such financial expenses are likely to increase as the public's environmental awareness increases and laws and regulations impose additional obligations on us.

In addition, as our operations involve the use of hazardous and poisonous materials, we may be exposed to litigation in connection with third-party damages, including tort liability and natural resource damages, relating to past or present releases of hazardous substances on or from our properties. We may be involved in administrative or judicial proceedings and inquiries in the future relating to such environmental matters which could have a material adverse effect on our business, financial condition and operating results.

Our import of products may be affected by a prolonged closing of ports.

We import raw materials and spare parts to serve in the manufacture of our products through the various ports in Israel. The closing of ports in Israel may prevent the import of raw materials and spare parts and may directly impact our operations. However, since We maintain an inventory of raw materials, only a prolonged closing of the ports will have a substantial impact on activity.

We are dependent on a limited number of customers in Israel.

We depend on a limited number of customers for finished goods in packaging paper in Israel. As there is a relatively small number of customers for packaging paper finished products in Israel, there is a dependency on Israeli customers and a decrease in the number of such customers could adversely affect the results of operation. However, since we have the advantage of being a local producer in Israel, we may be able to limit the effects caused by a loss of a local customer.

Sales to export customers are conducted through foreign sales agents. Since these agents are not the end customer, they may be replaced within relatively short periods of time and the dependence on them is therefore low.

We face significant competition in the markets we operate in.

In the packaging paper sector, we face competition from imported paper. We also face competition from paper waster collectors operating in Israel, of which, to the best of the Company's knowledge, two collectors have a significant market share.

Risk related to our office supplies business

We face risks relating to account receivables.

Most sales in this sector of operations are performed in Israel, and some of the sales are performed without full collateral. We routinely study the quality of our customers so that we may determine if provisions must be made for doubtful debts, and the amount thereof. We estimate that the financial statements reflect appropriate provisions for doubtful debts.

We face significant competition in the markets we operate in.

We operate in a competitive market with a considerable degree of competition. The entry of new competitors and/or expansion of existing competitors' operations could adversely affect the scope of operations, as well as the financial outcome of this sector.

We are dependent on the ability of a wholly-owned subsidiary to maintain its current status as an exclusive distributor of certain international brands of office supplies.

Graffiti Office Supplies & Paper Marketing Ltd., or Graffiti, our wholly owned subsidiary, through Atar Marketing Office Supplies Ltd., or Atar, which is also a wholly owned subsidiary of ours, is the exclusive distributor of a number of international brands in the office supplies industry. If we were to lose exclusivity regarding one or more of these brands, our profitability in this field could be adversely affected.

Risks related to our printing and writing paper sector

The demand for Hadera Paper – Printing & Writing Paper Ltd.'s products and the expenses it incurs may be adversely affected as a result of macro-economic and sector specific risk factors.

An economic slowdown in the global or Israeli market may potentially cause a decline in the demand for the type of products that Hadera Paper – Printing & Writing Paper Ltd. ("Hadera Paper Printing") produces or imports, while increasing the competition from imports, thereby causing a decline in Hadera Paper Printing's sales and adversely affecting its profitability.

Any future rise in the inflation rate may negatively affect business.

A high inflation rate may impact Hadera Paper Printing's payroll expenses, which are adjusted over time to changes in the CPI.

We are exposed to exchange rate fluctuations.

Approximately 50% of sales to Hadera Paper Printing customers are made in U.S. dollars or linked thereto, while the remainder is in NIS. A devaluation of the U.S. dollar (lower exchange rate) may lead to a decline in NIS-denominated sale prices, due to competing imports. Furthermore, the price of pulp and of some additional raw materials, which comprise a material share of Hadera Paper Printing's production costs, are denominated in U.S. dollars. Accordingly, significant changes in the exchange rate may impact Hadera Paper Printing's results and profitability.

For additional information regarding Hadera Paper Printing, see "Item 4.B – Business Overview – 4. Fine Paper Sector (the Hadera Paper Printing Sector)."

We face significant competition in the markets we operate in.

Hadera Printing Paper operates in a competitive market and faces competition from imported paper. Hadera Printing Paper is exposed to competition from paper importers who do not face entrance barriers to the Israeli market. As there are no restrictions, obstacles or customs imposed on paper imported into Israel, Hadera Paper Printing must constantly maintain its advantages as a local manufacturer, such as availability, flexibility, service and quality, in order to face with its competitors.

We are exposed to increases in the cost of raw materials.

Pulp is the main raw material used in paper manufacture. Material price hikes in pulp prices could adversely affect the sector's profitability. Moreover, we are also exposed to increases in the price of chemical inputs, such as starch.

We are exposed to changes in energy prices.

Paper mills, by their very nature, are heavy energy consumers. An increase in the price of energy or disruptions in the supply of energy could have a negative effect on Hadera Paper Printing profits.

We face risks relating to account receivables.

Most of the sector sales are made in Israel, with some sales made without full collateral. Accordingly, Hadera Paper Printing is exposed to the risk of receiving the full credit owed it by it customers. Hadera Paper Printing is continuously examining the quality of its customers and has a trade credit insurance policy, which provides insurance

for some of the credit extended to customers of Hadera Paper Printing.

We are dependent on a single supplier of a certain chemical agent.

Hadera Paper Printing is dependent upon Omya Shefaya Ltd., the supplier of a chemical agent named precipitated calcium carbonate (PCC). Any disruption in the supply of PCC by Omya Shefaya Ltd. may adversely affect Hadera Paper Printing's operation.

Risks related to Hogla-Kimberly and Kimberly-Clark Turkey (non-food disposable consumer goods sector)

We are exposed to increases in the cost of raw materials.

A substantial increase in the price of the raw materials of our associated company, Hogla-Kimberly, or H-K, could adversely affect its operations and profits. H-K's exposure derives from fluctuations in the price of raw materials, mainly pulp, fluff and absorbent materials (SAP), representing the main raw materials used for the production of tissue paper and diapers, and imported products.

Operations in Turkey may be adversely affected as a result of the Turkish economy.

We are exposed to various economic-related risks with respect to our operations in Turkey. These operations are conducted through H-K, which operates through a Turkish subsidiary, Kimberly–Clark Tuketim Mallari Sanayi Ve Ticaret A.S, also known as Kimberly-Clark Turkey, or KCTR. Over the last few years there has been greater stability in the Turkish market and H-K estimates that the main risk associated with the Turkish market involves economic instability and elevated inflation rates that previously characterized the Turkish economy, and could potentially re-occur and negatively affect KCTR's operations. However, in light of the nature of products in the non-food disposable consumer goods market, which is a relatively stable market, this sector may only be slightly affected by the overall level of economic activity.

Our operations in Turkey are governed under the Turkish law. For more information, in respect to a tax inspection in Turkey, please see "Item 8A – Consolidated Statements and Other Financial Information – Legal Proceedings."

An economic slowdown in the Israeli economy could adversely affect our operations.

Since most of the products of H-K are basic consumer goods, a decline in the standard of living in Israel, in private consumption and in the level of available income, could adversely affect the financial results of H-K.

Any future rise in the inflation rate may negatively affect business.

H-K is exposed to a certain degree of risk with respect to changes in the CPI, primarily due to input prices. A high inflation rate may also impact payroll expenses, which over time are adjusted for changes in the CPI.

We are exposed to exchange rate fluctuations.

H-K is exposed to risks on account of changes in exchange rates, whether due to the import of raw materials and finished goods, or, to a far more limited degree, due to exports to foreign markets. Changes in exchange rates of various currencies vis-à-vis the NIS may erode profit margins and cash flows.

H-K implements a hedging policy against exchange rate exposure by purchasing rolling protection (forward transactions) for six months ahead, that cover, at any given moment, an average of three months of transactions, up to the maximum level of protection approved by the board of directors, which is 80% of the anticipated monthly exposure.

We face competition from several competitors.

Intensification of competition, unexpected entry of new competitors, the strengthening and expansion of private labels, could adversely affect H-K's market share in its areas of operation and cause erosion in the sale prices of its products, resulting in damage to H-K's financial results and business operations.

We face the risk of damage to our reputation.

H-K has a wide variety of well-reputed brand names, and damage to these brand names could detrimentally impact H-K's financial results. H-K acts to safeguard the reputation of its brands while enforcing a strict and uncompromising quality control system and using modern production technologies.

We may be affected by centralization.

H-K's production operations are centralized at three sites (Hadera, Nahariya and Afula), and its distribution operations are located at two additional sites (Zrifin and Haifa). Ongoing disruptions to one or more of the production and/or distribution sites could substantially impact H-K's financial results.

We face risks associated with environmental protection.

The requirements of the Ministry with regard to the sector and its installations require that H-K devote financial resources to this issue. These demands could expand and increase because of the growing awareness of protection of the environment, which could force H-K to devote additional resources.

We are exposed to changes in energy prices.

H-K's operations are dependent on energy consumption. A rise in energy prices or substantial delays in supply could adversely affect H-K's operations and profits. H-K is exposed in a secondary manner to fluctuations in energy prices, both in the process of paper production, and as the fuel for its fleet of distribution trucks.

Our operations are subject to legal restrictions.

H-K is subject to certain legal restrictions in its commercial operations, which could impact the outcome of its operations. These include government policies on various issues and various government resolutions, such as a rise in the minimum wage. Such changes in regulations could impact H-K's activities in its sector of operations.

We have a limited number of customers.

There are three large retail marketing chains in Israel. H-K's sales to these three retail chains represent 40% of total sales. Although, the discontinuation of sales to each of these three chain could adversely affect the sales of H-K in the short term, given the customers' loyalty to the strong brands, no long-term negative impact is expected, and therefore H-K does not regard itself as dependent on these chains.

Risks relating to our location in Israel

Political, economic, and security conditions in Israel affect our operations and may limit our ability to produce and sell our products or provide our services.

We are incorporated under the laws of the State of Israel, where we also maintain our headquarters and our principal manufacturing facilities. Specifically, we could be materially and adversely affected by:

§ any major hostilities involving Israel;

§ a full or partial mobilization of the reserve forces of the Israeli army;

§ the interruption or curtailment of trade between Israel and its present trading partners; or

§ a significant downturn in the economic or financial condition of Israel.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Since June 2007, the Hamas militant group has taken over the Gaza Strip from the Palestinian Authority, and the hostilities along Israel's border with the Gaza Strip have increased, escalating to a wide scale attack by Israel in December 2008, in retaliation to rocket attacks into southern Israel. In addition, in the summer of 2006, for approximately one month, battles took place between the Israeli military and Lebanese guerilla units. There is no indication as to how long the current hostilities will last or whether there will be any further escalation. Any continuation of or further escalation in these hostilities or any future armed conflict, political instability or violence in the region may have a negative effect on our business condition, harm our results of operations and adversely affect our share price. Furthermore, there are a number of countries, primarily in the Middle East, as well as Malaysia and Indonesia, that restrict business with Israel or Israeli companies, and we are precluded from marketing our products to these countries. Restrictive laws or policies directed toward Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Generally, all nonexempt male adult citizens and permanent residents of Israel, including some of our officers and employees, are obligated to perform military reserve duty annually, and are subject to being called to active duty at any time under emergency circumstances. While we have operated effectively under these requirements since our incorporation, we cannot predict the full impact of such conditions on U.S. in the future, particularly if emergency circumstances occur. If many of our employees are called for active duty, our business may be adversely affected.

Furthermore, an economic slowdown in Israel or globally and/or a deterioration of the political and security situation in Israel and outside Israel could have an adverse effect on the financial situation of the Company and the Group's companies. In addition, these circumstances could reduce the demand for the Company's products, and as a result adversely affect sales, financial results and profitability.

Risks relating to our ordinary shares

Our ordinary shares are listed for trade on more than one stock exchange, and this may result in price variations.

Our ordinary shares are listed for trading on NYSE Amex and on the Tel Aviv Stock Exchange, or TASE. This may result in price variations. Our ordinary shares are traded on these markets in different currencies, U.S. dollars on NYSE Amex and New Israeli Shekels on TASE. These markets have different opening times and close on different days. Different trading times and differences in exchange rates, among other factors, may result in our shares being traded at a price differential on these two markets. In addition, market influences in one market may influence the price at which our shares are traded on the other.

Any shareholder with a cause of action against us as a result of buying, selling or holding our ordinary shares may have difficulty asserting a claim under U.S. securities laws or enforcing a U.S. judgment against us or our officers, directors or Israeli auditors.

We are organized under the laws of the State of Israel, and we maintain most of our operations in Israel. Most of our officers and directors as well as our Israeli auditors reside outside of the United States and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, if you wish to enforce a judgment obtained in the United States against us, or our officers, directors and auditors, you will probably have to file a claim in an Israeli court. Additionally, you might not be able to bring civil actions under U.S. securities laws if you file a lawsuit in Israel. We have been advised by our Israeli counsel that Israeli courts generally enforce a final executor judgment of a U.S. court for liquidated amounts in civil matters after a hearing in Israel. If a foreign judgment is enforced by an Israeli court, it will be payable in Israeli currency. However, payment in the local currency of the country where the foreign judgment was given shall be acceptable, subject to applicable foreign currency restrictions.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

Hadera Paper Ltd. (formerly, American Israeli Paper Mills Ltd.) was incorporated in 1951 under the laws of the State of Israel, and, together with its subsidiaries and associated companies is Israel's largest manufacturer of paper and paper products.

The Company's principal executive offices and registered offices are located at 1 Meizer St., Industrial Zone, P.O. Box 142, 38108, Hadera, Israel. The Company's telephone number is (972-4) 634-9349, and its facsimile number is (972-4) 633-9740. The Company's agent for service in the U.S. is American Stock Transfer & Trust Company (AST), located at: 59 Maiden Lane, New York N.Y. 10007.AST's telephone number is (718) 921-8200.

The Group has participated in several joint ventures as follows:

1. In July 1992, the Group purchased 25% of the outstanding share capital of Carmel Container Systems Ltd., or Carmel, a leading Israeli designer, manufacturer and marketer of containers, packaging materials and related products. On June 1, 2007 Carmel preformed a repurchase of its own shares, and as a result, the Company's holding in Carmel increased to 36.2% of the outstanding share capital of Carmel. In August 2008, a transaction was completed for the acquisition of shares of Carmel, pursuant to an agreement entered into on July 10, 2008, whereby the Company acquired shares of Carmel held by Robert Kraft, the principal shareholder in Carmel, as well as those of several other shareholders, in consideration of a total of $20.77 million, paid upon closing of the transaction. The shares were acquired "as-is" and the transaction closed subsequent to receiving the approval of the Israel Antitrust Authority, which was a pre-condition for said closing. Upon conclusion of the transaction and as of August 24, 2008, the Company held approximately 89.3% of Carmel outstanding share capital. Commencing September 1, 2008, the financial statements of Carmel and those of Frenkel CD Ltd., or Frenkel CD, have been consolidated with the Company's financial statements. On October 4, 2010, the Company completed a full tender offer for the acquisition of all of the holdings of the public in Carmel, at a price of $22.5 per share in cash, at a total consideration of approximately $4.4 million. As of October 4, 2010, the Company holds 100% of the issued and outstanding share capital and voting rights of Carmel, which has become a privately held company. For the impact of the acquisition of Carmel shares on the Company, see Note 15 of our consolidated financial statements contained elsewhere in this Annual Report. Carmel shares were traded on the NYSE Amex before it was delisted and deregistrated in 2005.

2. In 1996, Kimberly-Clark Ltd., or K-C, acquired 49.9% of the outstanding share capital of Hogla Ltd., a wholly-owned subsidiary of the Company and a leading Israeli consumer products company, which was then renamed Hogla-Kimberly Ltd. H-K is engaged in the production and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products. The partnership was intended to expand the local production base in Israel, in order to serve both local and regional demand, and to offer H-K access to international markets. In 1999, H-K purchased "Ovisan", which was renamed Kimberly–Clark Tuketim Mallari Sanayi Ve Ticaret A.S, also known as Kimberly-Clark Turkey, or KCTR, a Turkish manufacturer and marketer of diapers, feminine care and paper products. On March 31, 2000, K-C increased its holdings in H-K to 50.1%. As a result, since the second quarter of 2000, H-K is no longer consolidated within the Company's financial statements, and the Company's holdings in H-K are included in the Company's financial statements under profits of associated companies.

3. Effective January 1, 2000, the Company entered into a joint venture agreement (for the purpose of this paragraph, "Agreement") with an Austrian company, Neusiedler AG, which later changed its name to Mondi Business Paper, or MBP, pursuant to which MBP acquired 50.1% of the Company's printing and writing paper operations which was separated from the Company upon the completion of this transaction and was sold to Neusiedler Hadera Paper, or NHP, a subsidiary that was established for this purpose, of which MBP acquired 50.1%. In 2004, NHP was renamed Mondi Business Hadera Paper Ltd., was again renamed in February 2008 Mondi Hadera Paper Ltd., and was once again renamed in on January 24, 2011 and is now called Hadera Paper - Printing and Writing Paper Ltd. ("Hadera Paper Printing"). In accordance with the Agreement, MBP was granted the option, exercisable up to an unlimited time, by which MBP is allowed to sell its holdings in Hadera Paper Printing to the Company in consideration of a price 20% lower than Hadera Paper Printing's actual value. According to the Agreement, Hadera Paper Printing's value will be determined according to a valuation that will not be less than the minimal amount set forth in the Agreement. Effective as of December 31, 2010, the Company acquired 25.1% of the issued and outstanding share capital of Hadera Paper Printing. The total consideration of the acquisition transaction amounted to €10.364 million, which was paid from the Company's own resources. Following the closing of the transaction the Company holds 75% of the shares of Hadera Paper Printing, which were consolidated within the financial statements of the Company, with a subsidiary of MBP holding the remaining shares of Hadera Paper Printing Ltd. See also Note 5(b)(3) of our consolidated financial statements contained elsewhere in this Annual Report.

4. Tri-Wall Containers (Israel) Ltd., or Tri-Wall, a wholly-owned subsidiary of Carmel, that was acquired in 1988 from Koor Foods Ltd. Tri-Wall is engaged in the design, manufacture and marketing of special triple-wall corrugated shipping containers (manufactured by Carmel), with the combination of additional materials, which are designed for the packaging and transportation of products primarily to the high-tech market, bulk shipments, etc. In addition, Tri-Wall manufactures wooden shipping pallets for the local market and for export.

5. In June 2005, C.D. Packaging Systems Ltd. or C.D., a company jointly held by the Company and Carmel, acquired the business activity of Frenkel CD and Sons Ltd., in exchange for an allocation of 44.3% of the shares in C.D. Both C.D and Frenkel CD and Sons Ltd. were engaged in the field of folding boxes, design, production and marketing of consumer goods packaging. In 2006, upon the consummation of the transaction, C.D. was renamed Frenkel CD Ltd., and the Company directly held 27.85% of the outstanding share capital of Frenkel CD. In August 2008, the Company increased its holdings in Carmel, thereby increasing its holdings in Frenkel CD to 28.92% directly and to 25.83% indirectly, via its holdings in Carmel, which currently holds 28.92% of the outstanding share capital of Frenkel CD. Commencing September 1, 2008, the Company holds in the aggregate 54.75% of outstanding share capital of Frenkel CD and the financial statements of Carmel and of Frenkel CD were consolidated with those of the Company (directly and indirectly through Carmel).

The current Group structure is as follows:

Hogla
-
Kimberly
Ltd
.

Hadera Paper

-
Packaging
Paper and
Recycling Ltd.

Carmel
Container
Systems Ltd.

Graffiti Office
Supplies
&
Paper Marketing
Ltd
.

Amnir
Recycling
Industries
Ltd
.

Frenkel
CD Ltd
.

(
2
)

Attar Marketing
Office Supplies
Ltd
.

75%

49
.9
%

100
%

%

Hadera Paper Ltd
.

(
1
)

100
%

Hadera
Paper
Printing and
Writing
Paper Ltd.

100%

28
.92
%

Kimberly
-
Clark Tuketim
Mallari Sanayi Ve

Ticaret A
.
S
.
(
Turley
)

KCTR

(
Turkey
)

100%

Hadera Paper
Development and
Infrastructure Ltd.

100

%

Tri
-
Wall
Containers
(
Israel
)
Ltd
.

28
.92
%

%

100
%

1 In addition, the Company has holdings in the following companies: Integrated Energy Ltd. (100.0%); Bondex Technologies Ltd. (18.97%) and Cycle-Tech Recycling Technology Ltd. (30.18%) (an inactive company).
2 Frenkel CD Ltd. has two types of shares. The Company's direct and indirect ownership of voting rights is 57.82%.

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Other important events in the development of the Company include:

In November 2007, the Company allotted, via a private placement, 1,012,585 ordinary shares which on the allocation date comprised approximately 20% of the Company's outstanding share capital for a total consideration of NIS 213 million (approximately $57.6 million). Approximately 60% of these shares (607,551 shares) were allotted to shareholders in the Company, Clal Industries Ltd. and Discount Investments Corporation Ltd. (for the purpose of this paragraph, the "Special Offerees"), in accordance with their pro-rata holdings in the Company, and the remaining 40% of these shares (405,034 shares) were offered by way of a tender to institutional and/or private investors (whose number did not exceed 35) (for the purpose of this paragraph, the "Ordinary Offerees"). The share price for Ordinary Offerees, determined by auction, was NIS 210 per share (approximately $56.7). Accordingly, the price per share for Special Offerees, when considering the number of shares offered to Special Offerees, was set at NIS 211.05 (approximately $57.0), or auction share price plus an additional 0.5%.). The consideration received from the allotment of these shares was used for the partial financing of the acquisition of Machine 8.

During 2008, the Company completed the execution of the key agreements for the purchase of major equipment required for Machine 8. The principal equipment for the production system was acquired from leading companies in the world in the field of the manufacture and sale of paper machines, with the central equipment purchased from the Italian company Voith, while additional complementary items were ordered from Finnish company METSO and Italian company SEEI.

For further information regarding Machine 8, see "Item 4.D Property, Plants and Equipment".

On July 1, 2008, pursuant to approval by the Registrar of Companies, the Company changed its name from American Israeli Paper Mills Ltd. to Hadera Paper Ltd.

On May 26, 2008, the Company publicly filed with the Israeli Securities Authority and the TASE a shelf prospectus (the "Shelf Prospectus") pursuant to which the Company may issue from time to time: (i) up to 1,000,000 ordinary shares of the Company; (ii) a series of up to five debentures (Series 3 to 7) each of a total principal amount of up to NIS 1,000,000,000 (approximately $270,270,270), payable in a number of payments, as described in the Shelf Prospectus; (iii) a series of up to five convertible debentures (Series 8 to 12) each of a total principal amount of up to NIS 1,000,000,000 (approximately $270,270,270), payable in a number of payments, as described in the Shelf Prospectus; (iv) a series of up to four warrants (Series A to D), each series including no more than 10,000,000 warrants, each warrant exercisable into one ordinary share of the Company, subject to adjustments, in return for cash payment, as more fully described in the Shelf Prospectus; and (v) a series of up to four warrants (Series E to H), each series including no more than 1,000,000 warrants, each warrant exercisable to debentures with a principal amount of NIS 100 from Series 2, 3 to 7 and 8 to 12 of the Company, subject to adjustments, in return for cash payment, as more fully described in the Shelf Prospectus. The offering of the ordinary shares, debentures and warrants in accordance with the Shelf Prospectus will be made in accordance with Article 23A(F) to the Israeli Securities Law of 5278-1968 (the "Securities Law"), pursuant to shelf offering reports, in which all the details specific to that offering shall be disclosed. The securities covered by the Shelf Prospectus have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Pursuant to the Shelf Prospectus, on July 16, 2008, the Company completed the offering of two bond series (Series 3 and 4) at an aggregate amount of approximately NIS 308,060 thousand (approximately $93,500 thousand) . The Company has allotted NIS 187,500 thousand par value in bonds Series 3, for total consideration of NIS 187,500 thousand (approximately $ 50,676 thousand), bearing interest at 4.65% and repayable in equal annual installments on July 10 of each year between 2009 and 2018. In addition, the Company has allotted NIS 120,560 thousand par value in NIS-denominated bonds Series 4, for total consideration of NIS 120,560 thousand (approximately $32,584

thousand), bearing interest at 7.45%. These are repayable in equal annual installments on July 10 of each year between 2010 and 2015. Net of issuing expenses, the Company received net proceeds at an aggregate amount of NIS 306,609 thousand (approximately $82,867 thousand).

On August 17, 2008, the Company completed a further offering pursuant to the Shelf Prospectus, raising a total of NIS 120,000 thousand, in exchange for the allocation of NIS 114,997 thousand par value of bonds (Series 4), for total consideration of NIS 119,800 thousand (approximately $37,378 thousand), bearing interest at 7.45%. Total net proceeds, net of issuance expenses, amounted to NIS 119,167 thousand. Net of issuing expenses, the Company received net proceeds at an aggregate amount of NIS 119,826 thousand.

Total net proceeds received by the Company from these two offerings amounted to a total of NIS 426,435 thousand (approximately $115,523 thousand).

On May 23, 2010, the Company completed a further offering pursuant to the Shelf Prospectus, raising a gross total of NIS 181,519 thousand (approximately $ 47,500 thousand), in exchange for the allocation of NIS 181,519 thousand par value of bonds (Series 5), bearing interest at 5.85%. The balance of these debentures, as of December 31, 2010, in the amount of approximately NIS 181.52 thousand, is repayable in five equal annual installments on November 30 of each of the years 2013 through 2017.

The Company has obtained a rating by Standard and Poor's Maalot for the bonds (Series 1-4) issued by the Company; these are rated (AA-) / Negative Outlook. This AA- rating was granted in December 2003, and in February 2008 it was further validated by a rating of (AA-)/Stable. Pursuant to the Company's request to raise additional debt by issuing bonds amounting up to a total of NIS 435 million (approximately $118 million), the Company was issued, in July-August 2008, a rating of AA- / Negative Outlook for its bond issuance (Series 3 and Series 4), which also applies to all other Company bond series in circulation. On October 5, 2009, Standard and Poor's Maalot announced that it has downgraded the Company's debenture series in circulation to A+/ Negative Outlook, due to the crisis in the global business environment and the rise in financial leverage. The rating was conditional on the Company's meeting certain financial ratios. On February 2, 2011, due to a decrease in leveraging and an improvement in the business situation, Maalot confirmed the rating of the Company and has updated the rating forecasts to A+ / Stable.

On May 10, 2010, the Company announced that Maalot (Israeli Securities Rating Company Ltd., an affiliate of Standard and Poor's) decided to rate Series 5 Debentures as (ilA+)/Negative.

On March 31, 2011, the Company issued an immediate report regarding the filing of a non-public draft shelf prospectus for an additional amount of shares and an additional series of debentures.

Capital Expenditures and Divestitures

2010

The Company's investments in fixed assets totaled approximately NIS 179.8 million (approximately $48.2 million) in 2010. These investments included:

- Investment of approximately NIS 2.7 million (approximately $0.7 million) in improvement of power plant.

- An investment of approximately NIS 3.8 million (approximately $1.0 million) in a conversion to a gas system.

- Investments of approximately NIS 96.3 million (approximately $25.8 million) in Machine 8.

- Investments in the aggregate of approximately NIS 77.0 million (approximately $20.7 million) in buildings, equipment, transportation and information technology.

2009

The Company's investments in fixed assets totaled approximately NIS 438.5 million (approximately $111.4 million) in 2009. These investments included:

- Investment of approximately NIS 4.2 million (approximately $1.1 million) in improvement of power plant.

- Investments of approximately NIS 333.0 million (approximately $84.7 million) in Machine 8.

- Investments in the aggregate of approximately NIS 101.3 million (approximately $25.6 million) in buildings, equipment, transportation and information technology.

2008

The Company's investments in fixed assets totaled approximately NIS 263.7 million (approximately $69.3 million) in 2008. These investments included:

- Investments of approximately NIS 7.7 million (approximately $2.0 million) in environmental expenditures.

- An investment of approximately NIS 4.7 million (approximately $1.2 million) in a conversion to a gas system.

- Investments of approximately NIS 6.7 million (approximately $1.8 million) in conversion and improvement of steam tanks.

- Investments of approximately NIS 191.0 million (approximately $49.7 million) in Machine 8.

- Investments in the aggregate of approximately NIS 53.6 million (approximately $14.6 million) in buildings, equipment, transportation and information technology.

B. Business Overview

The Group's Operations and Principal Activities

The Group, through its subsidiaries and associated companies, is currently engaged in the following five sectors of operations: (i) packaging paper and recycling; (ii) office supplies marketing; (iii) packaging and cardboard products; (iv) fine paper (also known as the "Hadera Paper Printing Sector"); and (v) disposable, non-food consumer goods (also known as the "Hogla Kimberly Sector").

In 1995, the Company estabilished a wholly-owned subsidiary, AIPM Paper Industry (1995) Ltd. which was renamed Hadera Paper - Packaging Paper and Recycling Ltd., whose purpose is to engage in the production and sale of packaging paper.

Commencing in December 2007, the operations of the production service division, which the Company provides to Group companies at the Company's site in Hadera, were split into a new company named Hadera Paper - Development and Infrastructure Ltd. The aforementioned services include engineering services, regular maintenance for maintaining production continuity, supply of gas, electricity, steam, fuel and water. This company also provides additional services, including spare-parts warehouse, cleaning, security and catering.

The Company operates in its main production site in Hadera according to the following standards:

§ ISO 9001/2000 – quality management;

§ ISO 14001 – environmental regulations; and

§ Israeli Standard 18001 – safety.

The following will include a description of each of the Group's five sectors of operations:

1. The Packaging Paper and Recycling Sector

General

The packaging paper and recycling operations focus primarily on the manufacture and sale of packaging paper, used as raw materials in the corrugated board industry as well as paper waste collection and recycling. Production and sales of packaging paper is conducted through Hadera Paper - Packaging Paper and Recycling Ltd. Paper waste collection and recycling is primarily conducted via Amnir. Packaging paper is primarily intended for the corrugated board industry, for the manufacture of board containers used as product packaging. The corrugated board industry serves the following sectors: Industry, agriculture and the food and beverage industry. Consequently, the macro-economic variable that possesses the greatest impact on the demand for packaging paper and the derived volume of waste collection is the level of economic activity in the market and the export volumes of its customers. The majority of production consists of fluting paper (incorporated in corrugated board boxes as a wavy layer between the outer and inner box walls). This paper is produced from recycled paper waste, collected from various sources throughout Israel.

Based on internal Company estimates, consumption of paper in Israel (not including tissue) averaged approximately one million tons in recent years. The volume of paper recycling in 2010 amounted to 390,000 tons (including corrugator waste). This constitutes an increase from the annual Israeli average of the last several years which amounted to approximately 345,000 tons. The paper recycling rate, out of total paper consumption in Israel, was approximately 40% in 2010. There is an apparent potential for growth in the volume of paper production in Israel as

an alternative to paper importing, as well as potential for continued growth in paper recycling due to the low recycling rate in Israel, in relation to existing rates in Europe.

In December 1988, the Company was declared a monopoly in the manufacture and marketing of papers in rolls and sheets by the Israel Antitrust Authority. In July 1998 this declaration was partially rescinded with regard to fine paper in rolls and sheets. The declaration has not been rescinded for packaging paper in rolls and sheets. In February 2010, the Company submitted a request to the Antitrust Authority, to rescind its monopoly status in the area of packaging paper in rolls and sheets, as mentioned above, since the Company's believes, it is not actually of monopoly in this area. The Company has not received any response from the Israel Antitrust Authority as of the date of this Annual Report.

Raw Material

Since the supply of raw materials is vital for production continuity, Amnir's operations in collecting waste constitute a crucial step in the packaging paper production process. Amnir's operations primarily include paper and board collection, information security (shredding services at customer premises or at Amnir premises), plastic recycling and production of paper products, that is not material for the sector. Amnir collects paper waste from various sources around Israel and processes, sorts and compresses paper waste at its plants in Hadera and Modi'in, at a rate of approximately 270,000 tons of paper waste annually (wood-free paper, wood-based paper and board), as of the date of this Annual Report. In 2010 approximately 78% of the paper waste handled by Amnir was used for in-house production of packaging paper by Hadera Packaging and 22% of the said quantity is sold as raw material to producers of tissue paper to H-K, Shaniv, Panda Paper Mills (1997) Ltd. and White Paper Jerusalem (2000) Ltd. In addition to paper waste collection, Amnir also purchases paper waste from various collectors as needed.

The relative absence of supporting enforcement of Israel's Recycling Act, which mandates waste recycling, detracts from the Company's ability to expand waste collection. On January 16, 2007, however, the ninth amendment to the Cleanliness Law was enacted, imposing a landfill levy on waste. Pursuant to the provisions of the Cleanliness Law, a landfill charge will be levied against waste, at the rate of NIS 10 per ton in 2007, rising up to NIS 50 per ton from 2011. In early 2011, regulations were enacted pursuant to the Cleanliness Law under which the landfill average will continue to increase over time. The remains of waste sorting (that is, waste that was sorted at a transfer station for treatment and sorting of waste for recycling) will be charged a reduced land filling levy of NIS 0.80 per ton in 2007, rising gradually to NIS 4 per ton from 2011 and thereafter. The Company estimates that the enforcement of the said landfill levy may cause various entities to prefer transferring their waste for recycling over land filling, in order to avoid the land filling levy. This may result in the increase of the volume of waste collected for recycling, thereby lowering the collection costs. On January 19, 2011, the Packaging Law was enacted, with the goal of regulating arrangements in the matter of treatment of packaging waste. Inter alia, the Packaging Law establishes responsibility for recycling packaging waste and goals for recycling types of packaging waste. The Packaging Law entered into effect on March 1, 2011, and certain provisions regarding the commencement of collection by the recognized body will enter into effect on July 1, 2011. In light of the provisions of the Packaging Law, the Company's system of collection of paper will need to be adjusted. However, the Company cannot at this stage estimate the impact the law will have on operations, which will depend, inter alia, on regulations that will be enacted by power of the law with respect to the separation at source, removal and collection of waste and the method of operation to be used by the recognized body. The Company is examining it's preparations in anticipation of the potential alteration of the system of collection. Amnir is working to increase the volume of waste collection with the increase in the output of Machine 8 over time (with Company production levels rising from 160,000 tons of packaging paper before Machine 8 became operational to an expected 320,000 tons of packaging paper in 2011), by increasing and intensifying collection activity from existing customers and the development of new collection sources, adaptation of its organizational structure, construction of an alternative site for Amnir's Bnei Brak facility and inventory accumulation. Machine 8 will require larger volumes of paper waste collection to serve as raw material in the production of packaging paper over the coming years.

The paper production process requires considerable amounts of energy. As part of the process of the Company's transition to the use of natural gas instead of fuel oil, the Company entered into an agreement with Yam Tethys Sea Group. The natural gas will be supplied by the Yam Tethys partnership through mid-2011.

For further information regarding the gas supply to the Company, see "Item 10.C - Material Contracts".

Customers

The Company is dependent on four material long-standing customers who produce corrugated board and cardboard packaging (corrugators), including Carmel. Due to the industry structure (one local producer and a limited number of customers) there is a dependency on each of the aforementioned customers, and termination of the contract with any one of them may have a material adverse effect on the Company results. The Group successfully maintains contracts with the customers over years by ensuring current delivery and service with a short lead time, which allows it to enjoy the benefit of a local supplier. Company sales to Carmel in 2010 and 2009 accounted for 7% and 8% of total Company sales, respectively. Company sales to each of the other three material customers in 2010 and 2009 accounted for: (a) 4% and 3% of total Company sales, respectively; (b) 3% and 3% of total Company sales, respectively; (c) 4% and 1% of total Company sales, respectively. Such customers are long-standing customers of the Company, and have been in business with the Company for many years.

In the years 2008-2009, a decrease was recorded in sales to local customers on account of imports at dumping prices as well as of the global economic crisis and of the increase of the Company's export operations and the establishment of markets overseas, at the expense of the local market, as part of preparations for an increase in exports following the

operation of Machine 8.

With the operation of Machine 8 and the initial emergence from the global crisis, the sales to the domestic market already started to increase in 2010 and amounted to 129,000 tons in 2010, as compared with 93,000 tons in 2009. The company estimates that the sales of the operating sector to the domestic market are expected to rise even further in 2011.

In addition, Hadera Packaging exports packaging paper to various customers overseas (mostly in Turkey, Greece, Egypt and Italy). In the years 2010 and 2009, the volume of revenues from the sale of packaging paper to overseas customers amounted to NIS 160 million (NIS 197 million, including sales during the running-in period) and approximately NIS 57 million, respectively, accounting for 15% and 6% of total sales in these respective years. Hadera Packaging intends to increase its sales to export markets in 2011. In 2008 revenues from packaging paper sales to overseas customers amounted to NIS 50 million (approximately $14 million).

Marketing and Distribution

Marketing and distribution in the local market are conducted directly by Company employees vis-à-vis the customers. Marketing and distribution to export markets are conducted through local agents or through international marketing and sales companies that purchase the paper from the Company and sell it to their own customers overseas. Despite the fact that in certain regions to which the merchandise is exported there exists a single agent for the region, the Company estimates that in the event that such agent stops its operations vis-à-vis the Company, the impact on the Company would be purely temporary due to the fact that the Company shall not incur an additional cost as a result of the replacement of such agent.

Shipping to customers is mostly via external shipping companies. Marine shipping companies are engaged for exports. The Company has no exclusive agreements with any of the aforementioned shipping companies. The Company also has no dependency on any of these shipping companies.

Competition

As mentioned above, the Company is the sole producer in Israel of packaging paper, hence the competition in the packaging paper business is against imports made directly by customers. Imports into Israel include all paper types produced in Israel at different paper qualities, depending on the supplier's production machinery. To the best of the Company's knowledge, its major competitors in Israel are the following foreign vendors: Varel – Germany, and Modern Carton - Turkey. The two major competitors in paper waste collection, which operate throughout Israel, are KMM Recycling Plants Ltd. and Tal-El Collection and Recycling Ltd. In addition, there are many competitors with small market share who mainly operate in a limited geographical area.

On January 15, 2009, the Company announced that as producer of packaging paper, it had filed a complaint with the Supervisor of Anti-Dumping and Homogenization Charges at the Ministry of Industry, Trade and Employment (the "Supervisor") regarding dumping imports of packaging paper from several European countries to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. The Company claimed that in recent years it has faced importing of packaging paper at very low prices, suspected of being dumping prices, and after collecting the required information and identification of the sources of dumping, the Company filed the aforementioned complaint. On September 1, 2009, the Supervisor announced that importing at dumping prices of recycled packaging paper products was allegedly taking place, while causing damage to the local production sector. The Supervisor therefore decided to impose a temporary levy, for a period of six months, at a level equal to €52-€67 per ton on the import of recycled packaging paper products from manufacturers in the European Union. In December 2009, the Company announced that in a hearing held in court regarding the petitions of five importers/producers that were appealing the decision of the Supervisor, it was agreed between the parties that the decision of the Supervisor would remain in place for the four months following December 3, 2009, while the guarantees that were deposited by the petitioners in October and November would be returned to them. This agreement received the validity of a court ruling and the temporary guarantee was valid until March 31, 2010. On January 21, 2010, the Supervisor informed the Dumping Committee of his recommendation to impose a dumping levy of €31-€44 per ton, on most different producers from the European Union. On August 4, 2010, the Supervisor announced that the Advisory Committee on Levy and Dumping recommends the imposition of a levy on the Company for a limited period. The Minister of Trade

Employment and Industry accepted such recommendation. However, following the refusal of the Minister of Finance to approve the levy, no dumping levy was imposed on the import of recycled packaging products.

The Company estimates, based on its internal estimates, that its market share in sales of packaging paper used as raw material for the corrugating industry in Israel, is equal to 37% in 2010 (data representing annual average).

Changes to Volume of Operations and Profitability

The global paper industry is a historically cyclical one, reflected in more highly profitable years which lead to investments in the paper industry and expanded production capacity. Therefore, in subsequent years there is excess supply, which causes a significant decline in profitability for several years, until supply and demand are once again balanced. As a result, and since this is a capital-intensive industry, the global paper industry typically exports its surplus production at relatively low prices at “cost plus” (i.e. covering the variable cost plus a certain contribution toward fixed costs).

New Products

Over the course of the last two years, the sector has started to quickly develop paper types based on 100% recycled fibers, whose high quality will render it possible to replace packaging paper based on pulp, in the corrugated board industry in Israel and overseas. The technological and operational development process is currently in advanced stages and is meant to increase the volume of the potential market for recycled packaging paper. The development of new paper types is based on the characterization of fibers, developing and implementing new chemical additives and using these advanced manufacturing technologies, both in the existing production lines and in the new production line. In 2010 the Company recorded substantial sales of the new product and expects sales to increase in 2011. The cost of the new paper types is competitive compared to the cost of pulp-based paper and allows for a gradual improvement in the profitability of the sector.

Moreover, the significant increase in the output capacity of recycled packaging paper, upon the operation of the new manufacturing system, will allow for an expansion of the operations both in Israel and overseas. The process of developing pulp-replacement packaging paper products on the basis of 100% recycled fibers, as mentioned above, will enable the division to expand the sale of such products for the first time, as a substitute for pulp-based packaging paper in international markets. The new products create an improved profit potential and have begun to be sold at a significant price supplement per ton of exported paper, as compared with the selling prices of basic paper types.

In 2009 and 2010, the Company worked to develop export markets that would absorb surplus manufacturing that cannot be absorbed by the domestic market and has started marketing to several agents dealing in various types of packaging paper, in Europe and elsewhere. With the ongoing operation of Machine 8, this activity is expected to bring about the anticipated gradual growth in export sales, while diversifying the product and market portfolio of the sector.

Seasonality

Sector demand in the area of the marketing of cardboard packaging products tends to rise during the winter months, primarily between November and March of each year, due to demand related to agricultural crops. This seasonality does not hold a material impact on the Company, due to the fact that to date, this sector of operations has sold all of the output it has managed to produce. As for the other products of the packaging paper and recycling segment, there is no seasonal impact on demand.

2. Office Supplies Marketing Sector

General

The office supplies marketing sector focuses on the marketing of office supplies, disposable paper products, office technology, office furnishings, complimentary equipment (dry food, cleaning products), art products, sales promotion products and more. The office supplies marketing sector is conducted through Graffiti and Attar. The office supplies sector in Israel is relatively stable, yet is affected by the prices of paper, plastics and steel. Moreover, the overall level of economic activity possesses an impact on this market, as expressed by a change in the consumption habits during periods of recession. Most of the products marketed in Israel in this sector are imported, including pens and stationery, office supplies, shredders, binding machines, disposable paper products etc. In addition, the Israeli market also deals in the marketing of products acquired from local producers and suppliers, such as office furniture, printers, fax machines, computers and peripherals, cameras, food products, toiletry products etc. The rate of technological development of Israel’s business sector leads to increasing demand for technology-based products marketed by Graffiti, including office automation, printers, hardware, software and consumables such as toners, inkjet cartridges, etc. The critical success factors in this area of activity are a high level of service supported by complex logistics and reduction of costs by improving purchasing sources and a transition to purchasing from the Far East.

Graffiti has been one of the leading companies in Israel in the area of comprehensive solutions in the office supplies sector for over fifteen years, through direct supply to institutions and businesses. Graffiti offers its customers around Israel some 12,000 different items supported by a logistics system including storage and distribution facilities, distribution vehicles as well as customer service and sales offices located in Rosh Haayin, Jerusalem, Tiberias and Be'er Sheva. The Graffiti site in Rosh Ha'Ayin is planned to relocate to the new logistic center in Modi'in in the second half of 2011. Investments will be necessary for the relevant storage and distribution equipment.

Graffiti provides outsourcing services by delivering a wide range of office supply products, often in conjunction with managing the customer's applicable purchasing budget, thereby assisting large organizations in reducing costs and increasing efficiency. Graffiti does not manufacture office supplies itself, but rather purchases supplies from a large number of suppliers, including Hewlett Packard Ltd., Brother – Reshef Engineering Solutions Ltd., Xerox Israel Ltd., Hadera Paper Printing, H-K, Strauss-Elite Ltd., Afik Printing Products Ltd., Canon-Karat Israel Ltd. Graffiti serves as the exclusive distributor for international brand name products in the office supplies sector, such as Artline (Sachihata Inc.), Mitsubishi (uni-Mitsubishi Pencil Co.), Max (Max Co. Ltd.), Schneider (Schneider Schreibgerate GmbH) and Fellowes (Fellowes Distribution Services B.V.).

On August 4, 2008, a transaction was concluded between Graffiti and Yavne Pitango 2000 (1994) Ltd., or Yavne Pitango, which is also engaged in marketing office supplies to businesses and institutions in the North of Israel, to acquire all business and operations of Yavne Pitango in the field of office supplies, including its customer base and website. In conjunction with this transaction, the office supplies inventories and other equipment were also acquired. The annual sales by Yavne Pitango immediately prior to closing of this transaction amounted to NIS 20 million.

Hadera Paper Printing is Graffiti's main supplier of fine paper in the marketing of office supplies sector.

Customers

Graffiti sells its products to thousands of diverse customers in the business and institutional sectors, in Israel only. There are large local and national organizations among Graffiti's customers (such as government ministries, banks, health funds and the like), with thousands of employees, as well as small organizations with only a small number of employees.

During 2010, 2009 and 2008, approximately 34%, 32% and 25% of Graffiti's sales, respectively, were derived from securing a variety of tenders, awarding Graffiti supply contracts for periods of one to four years. Engagements made through tenders are by nature for a limited time, according to the terms of the tender, and upon termination of the agreement period, such engagements end.

Marketing and Distribution

Graffiti markets office supplies to business customers, institutional customers, chains and stores, using sales methods that include sales agents, telephone sale and service centers, a B2B e-commerce website, with the market being characterized by numerous local and international brands. This tool allows Graffiti to serve a wider variety of customers with no significant increase in marketing costs. Graffiti's orders for products in this sector of operations come from a number of sources (field sales personnel, telephone sales center, e-mail, fax and an e-commerce website). All orders are routed to the order processing system that generates picking tasks for the coming days. Once the orders have been picked, they are organized by delivery destination, and ordered products are delivered the following day.

Graffiti's distribution system is based on a fleet of trucks under operational lease, backed up by external distribution contractors in cases of peak demand. Graffiti is not dependent upon any of its external contractors.

Some of the marketing activities are performed through Attar.

Competition

There are three dominant players in the sector of office supplies by direct supply to institutions and businesses: Graffiti, Office Depot (Israel) Ltd. and Kravitz (1974) Ltd., who mainly dominate market share of customers with agreements by tenders and strategic customers (such as banks and local authorities). In addition to these players, there

are also a large number of competitors in the business customer market holding small market sectors, mainly active in smaller geographic areas.

Graffiti also competes against Ofek Hadash Ltd., Pythagoras (1986) Ltd., Arta Supplies for Art Graphics and Office Ltd., Lautman Rimon Ltd., and Pan Office Supply Manufacture and Import Ltd.

Graffiti cannot estimate its share of the market, as Graffiti markets a very large variety of products in the area of office supplies, with the aim of providing comprehensive solutions for supply of the various products in the office supplies sector. It is consequently difficult to define the size of the relevant market, and Graffiti's share therein.

In January 2010, Graffiti received notice from the Ministry of Industry, Trade and Employment regarding the investigation launched following the complaint filed by DC Paper and Plastic Industries Ltd., to the Supervisor, in connection with import of paper cups from China to Israel at dumping prices, allegedly conducted by Graffiti and others. On November 22, 2010, the Supervisor imposed a temporary guarantee on the import of paper cups from China to Israel. In his decision, the Supervisor named a few importers with regards to whom no levy, or a levy at a lower rate, would be imposed. Following this decision Graffiti has been purchasing cups only from importers on whom no levies have been imposed, and the above has no substantial impact on Graffiti.

Seasonality

Graffiti's sales during the second half of the calendar year are usually higher than the first half of that same year, in light of the start of the school year and the realization of annual purchase budgets for institutions and businesses. In the second half of 2010, Graffiti's sales were 14% higher than in the first half of the year; sales in the second half of 2009 were 18% higher than in the first half of 2009; and sales in the second half of 2008 were 15% higher than in the first half of that same year.

3. Packaging and Cardboard Products Sector

General

The packaging and cardboard products operating sector focuses primarily on the manufacture and sale of cardboard packaging, that serve primarily for customers in industry and agriculture, while also focusing on the manufacture and sale of cardboard shelf packaging for consumer goods that serve primarily for industry, agriculture, pharmaceuticals, food and beverage and cosmetics. Consequently, the macro-economic variable that possesses the greatest impact on the demand for packaging products and cardboard is the level of economic activity in the market and the export volumes of its customers.

The cardboard packaging production and sales operations are carried out through Carmel and Frenkel CD. Carmel is engaged in the design, manufacture and marketing of cardboard packaging products. Carmel also possesses unique capabilities in the area of digital printing on various materials with a wide format. On October 4, 2010, the Company completed a full tender offer in accordance to Section 336 of the Israeli Companies Law, 5759-1999 (the "Companies Law"), for the purchase of all of the holdings of the public in Carmel, so that as of that date Carmel became a privately held company, owned by the Company. Tri-Wall Containers (Israel) Ltd., a wholly-owned subsidiary of Carmel, that was acquired in 1988 from Koor Foods Ltd., is engaged in the design, manufacture and marketing of special triple-walled board corrugated shipping containers (manufactured by Carmel), with the combination of additional materials, which are designed for the packaging and transportation of products primarily to the high-tech market, bulk shipments, etc. In addition, Tri-Wall manufactures wooden shipping pallets for the local market and for export. Frenkel CD is one of the leading companies in the design, manufacture and marketing of packages for consumer goods and engages in shelf packaging made of compressed cardboard. Frenkel CD offers its numerous customers from industry, agriculture, food and beverage industries, cosmetics, pharmaceuticals and high-technology industries, unique packaging solutions that are tailored to their needs.

The global paper industry is historically a cyclical one, reflected in more highly profitable years which lead to investments in the paper industry and expanded production capacity. Therefore, in subsequent years there is excess supply, which causes a significant decline in profitability for several years, until supply and demand are once again balanced. As a result, and since this is a capital-intensive industry, the global paper industry typically exports its extra production at relatively low prices at "cost plus" (i.e. covering the variable cost plus a certain contribution toward fixed costs).

The Company estimates that the entire packaging products and board sector in Israel grew by approximately 3% in 2010, compared to 2009, the decrease of 3% in 2008, which was a result of the cold spell in agriculture at the beginning of 2008 coupled with a deep recession that originated from the global financial crisis, which began in the second half of 2008, and remained at its low levels in 2009 as a result of the deep recession due to the global financial crisis.

Raw Materials

The principal raw material that serves in the manufacture of corrugated board is paper. The supply of this raw material is crucial to the process. The paper that serves in the manufacture of the products of this sector of operations is partially acquired from imports (all virgin paper products that serve in manufacture, approximately 45% of the total raw materials) and partially from Hadera Packaging (all the recycled paper products that serve in manufacture, approximately 55% of the total raw materials).

In Europe, between 85% to 90% of the raw materials that serve in the manufacture of packaging products and cardboard are recycled materials. This rise in this trend also exists in Israel.

Products

1. Cardboard - The Company is engaged, via Carmel, in the production of cardboard products in three categories:

a. Corrugated board products – the corrugated board products, that constitute an essential part of this sector of operations, are manufactured and processed in line with the customers' specific requirements, which are determined according to the type of stored goods, the type of packaging, the expected weights on the packaging during transportation, temperature and humidity conditions during the storage and transportation, the graphic design of the packaging, etc. The manufactured and processed corrugated cardboard products include: (i) "standard" corrugated board containers, i.e., boxes manufactured in different sizes, which are closed by sealing the upper flaps and bottom of the box; (ii) containers and boxes in different geometric shapes that can be "positioned" by manually folding the cardboard plate without sealing or mechanically folding the flaps using warm glue. These products are primarily sold to machinery-intensive industries that operate at high rates, such as the soft beverage industry; and (iii) cardboard crates for agriculture, i.e., trays that are folded only using tray folding machines with matching molds as much as possible, in geographic proximity to the final customers.

b. Corrugated cardboard sheets – these are used as raw materials and marketed to corrugated cardboard processors, who use them as raw materials for the manufacture of packaging. Cardboard processors are small processing plants, which sell their products to small and medium-sized customers. Carmel and another competitor specialize in the manufacture of triple-wall sheets that are used for specialized packaging, among others by Tri-Wall, mainly for the high-tech industry.

c. Digital printing (advertising) products - planning, design and production of digital prints for diverse applications in sales promotion, display stands, decoration of pavilions in trade exhibitions and on billboards. High printing quality using a technology of ink injection on the work surface, while the cutting is shape-based, with no need for dye casts and printing blocks.

2. Cardboard shelf packaging – Frenkel CD designs, produces and markets shelf packaging and display stands.

3. Containers and pallets - The Company is engaged, through Tri-Wall, in the production of the following products:

a. Triple-wall cardboard packaging which are mainly used for the export of heavy bulky products such as chemicals, electronic equipment, high-tech equipment, medical equipment, security equipment, etc.

b. Complex packaging primarily for the export of high-tech products, which are made of wood, plywood, triple-wall cardboard, padding materials, metals and other materials.

c. Regular and unique wooden surfaces and pallets which are used as a basis for the above packaging and wooden pallets for transportation.

Customers

Carmel

The bulk of the Carmel's production is directed to the domestic market to customers from industry and agriculture, as specified below, while 1%-2% of the production is channeled to direct exports. A large percentage of the industrial and agricultural customers export their products in corrugated cardboard containers, so that a considerable portion of sales is also directed to indirect exports. The products are supplied in line with orders that customers submit through salespersons or directly to the customer service department. The orders are made in line with the price proposals to the

customers and in accordance with the commercial arrangements between the parties. A small portion of the products is manufactured for inventory, at the customers' request.

Carmel has a wide range of customers that include leading companies, which operate in different sectors, among which are: (i) the industrial sector, which includes food and soft beverages companies, dairies, textile companies and others; (ii) the agricultural sector, which comprises of customers that are farmers, packaging houses and marketing organization, and where the produce is directed both to the domestic market and to exports; (iii) cardboard processors, small plants for processing corrugated cardboards in small production series; (iv) digital printing customers, which primarily include advertising agencies; and (v) others, such as cellular operators, government offices and banks.

Carmel has one material customer, the revenues from which amounted to Carmel in 2010, 2009 and 2008 to NIS 43.5 million, 55.5 million and 54.0 million, respectively, which accounted for 11%, approximately 14.4% and approximately 12.9%, respectively, of its total revenues. Carmel is not dependent on any single customer.

As of December 31, 2010, Carmel had 250 active customers. As of December 31, 2010, 2009 and 2008, Carmel's 20 largest customers accounted for 51%, 55% and 56% of Carmel's total revenues over the same period, respectively.

Frenkel CD

Most of the sales of Frenkel CD are made to the domestic market, while 6% are directed toward direct exports (some of local customers channel the packaging that is purchased toward indirect exports).

Frenkel CD has a wide range of customers, including leading Israeli companies in various sectors. The principal sectors in which the company operates include food, pharmaceuticals, cosmetics, agriculture, plastics and sales promotion. Frenkel CD is not dependent on any single customer.

Marketing and Distribution

Marketing and distribution are conducted directly by sector employees vis-à-vis the customers. Distribution of products is made in various ways, including direct sales to end customers and sales through distributors.

Shipping to customers is made mostly via external shipping companies. The Company also has no dependency on any of these shipping companies.

Competition

The corrugated cardboard industry is capital-intensive, which constitutes a natural entry and exit barrier of competitors. The main substitute for corrugated board products is primarily shrink wrapping for beverages.

To the best of the Company's knowledge, the cardboard packaging market in Israel is dominated by four principal companies: Carmel, Cargal Ltd., YMA 1990 Packaging Product Manufacturing (a partnership between Kibbutz En HaMifratz and Kibbutz Ge'aton) and Best Cardboard Ltd. According to Carmel estimates, total sales for Carmel in 2010, 2009 and 2008 amounted to 27%, 27% and 25% of the total market, respectively. In addition, there are 30 cardboard packaging manufacturers with small market shares, which perform only the processing activity, but not the manufacturing of corrugated cardboard. These manufacturers produce small series of packaging with less advanced machinery compared to that used by Carmel. Carmel estimates that as of December 31 of 2010, 2009 and 2008, the total annual volume of the corrugated board industry amounted to 315 thousand tons, 300 thousand tons, and 305 thousand tons, respectively, and the estimated sales in 2010, 2009 and 2008 amounted to NIS 1,400 million NIS 1,200 million and NIS 1,350 million, respectively.

Seasonality

Most of the demand in the sector for the marketing of cardboard packaging products is during the winter months, primarily in November and March of each year (first and fourth quarters), due to elevated demand originating from agricultural crops (primarily citrus fruits and bell peppers intended for exports) and sales of cardboard packaging products in the first and fourth quarters are higher by an average of approximately 10% in relation to the sales in the second and third quarters. As for the other products of the packaging products and cardboard segment, there is no seasonal impact on demand.

4. Fine Paper Sector (the Hadera Paper Printing Sector)

General

The production and marketing of fine paper, including special paper and coated paper is managed through Hadera Paper Printing. Hadera Paper Printing and its competitors in the sector market fine paper to active customers including printers, publishing houses, marketers of office supplies, producers of paper products such as notebooks, envelopes and so on, as well as to wholesalers that operate vis-à-vis smaller customers. Products from a variety of producers are sold on the market. These products differ from each other only slightly in their technical characteristics, and all the competitors are importers rather than local producers. The fine paper market in Israel is a stable market marked by slow growth, where the influencing variables consist primarily of supply and demand globally for paper products, coupled with the level of economic activity in the local market that affects the quantity of printing and publication products. Most of the products marketed in this area in Israel, are manufactured products in which Hadera Paper Printing possesses an advantage, the local producer, capable of supplying small quantities at short lead times.

Raw Materials

For its operations, Hadera Paper Printing requires the raw materials listed below:

1. Pulp - The principal raw material used in the production of paper is pulp. Engagement for purchase of pulp is performed in a centralized manner for Hadera Paper Printing and for MBP (the parent company) and for other plants in Europe, allowing for a constant supply of pulp as well as economies of scale. Under the annual negotiations that are conducted between MBP (in coordination and in cooperation with the responsible officer at Hadera Paper Printing) and pulp suppliers, framework agreements are made between them and MBP which obligate them to supply a certain amount of pulp to the MBP Group (with Hadera Paper Printing included therein). These agreements do not set pulp prices, which are set in a routine manner according to pulp's global market prices every month. Hadera Paper Printing pays the pulp price directly to the supplier and pays a commission to MBP exclusively in order to cover its costs. Hadera Paper Printing purchases approximately 116,500 tons of pulp per year, of three principal types. All the pulp is purchased overseas within the framework of long-term contracts, which include mechanisms for price adjustment and suppliers' undertakings to ensure the supply of pulp from alternative sources in the event that the supplier cannot provide the agreed quantity. There is a relative flexibility in the demand for types of pulp, with shifting from one type of pulp to another, and as the world pulp market is quite a large one relative to Hadera Paper Printing use. Hadera Paper Printing is in effect not dependent on any particular supplier or on any particular type of pulp. If need be, it would be possible to purchase any type of pulp in any quantity immediately on the free market. The principal pulp supplier for Hadera Paper Printing is International Forest Products Corporation. The supplier is located in the United States (supplying pulp from various mills in the Americas) and the volume of purchasing from the supplier the years 2010 and 2009 amounted to 41% and 39% respectively, out of total pulp purchases, and represented 24% and 14%, respectively, out of the total purchases made by Hadera Paper Printing from all suppliers of raw materials during these years. The sector is not dependent upon any particular pulp supplier and is exposed to fluctuations in the price of pulp, used as the main raw material in the production of paper. Unusual rises in the prices of pulp could harm profits, unless the company can realize such rises in the sale price of its products. In the course of 2010, pulp prices rose sharply and then proceeded to grow more moderate only towards the end of the year, as pulp prices started to decrease moderately in the fourth quarter.

2. Coated paper – Hadera Paper Printing imports coated paper mainly from APP Group ("APP") and from Stora Enso. Hadera Paper Printing has no dependency on either APP or Stora Enso as paper suppliers.

3. PCC - Another important raw material in the production of fine paper is PCC (Precipitated Calcium Carbonate). In 2005, an agreement was signed between Hadera Paper Printing and the Swiss company Omya International AG, or Omya, for the supply of PCC. In accordance with the aforesaid agreement Omya constructed and operates a PCC plant in Israel. In September 2005, the agreement was assigned to an Israeli fully-owned subsidiary of Omya, called Omya Shefaya Ltd. The original agreement was signed for a period of 10 years. In early 2009, the parties signed an amendment to the original agreement. This amendment stipulates that the original agreement would be extended by a further four years through December 31, 2020, and is based on a different price mechanism which was put in place, compared to the original agreement. The PCC purchased from Omya replaced a former PCC purchase from another PCC supplier, and led to a significant savings in PCC purchase costs and improved product quality. Hadera Paper Printing is dependent on Omya as a single supplier of PCC.

4. Starch – Hadera Paper Printing purchases starch from Galam Ltd., or Galam, used by Hadera Paper Ltd. in paper production. Until 2009, Hadera Paper Printing was dependent on Galam as a single producer of starch in Israel, however, following the entry into Israel of competing imports of starch, at prices competitive to those of Galam, this dependence has now decreased. Should sales from Galam to Hadera Paper Printing cease, Hadera Paper Printing would be required to import starch, which might increase its expenses. However, as mentioned above, due

to competing imports, it appears that the expense for acquiring starch will not rise significantly.

Hadera Paper Printing imports pulp and supplementary papers in foreign currency and may be subject risk arising from fluctuations in the exchange rate.

The paper mills, by their very nature, are also heavy energy consumers. An increase in the price of energy or disruptions in the supply of energy could have a negative effect on Hadera Paper Printing profits.

Products

Manufacture of Fine Paper

Hadera Paper Printing is the only manufacturer of fine paper in Israel. However, there are many importers operating in the Israeli market who import fine paper, mostly from Europe.

The scope of Hadera Paper Printing's annual production of fine paper totaled approximately 141 thousand tons in 2010, compared to approximately 139 thousand tons in 2009 and approximately 144 thousand tons in 2008. The growth in manufacturing output in 2010 originates from the improved efficiency of the manufacturing processes in relation to 2009 (when the efficiency of the paper machine of Hadera Paper Printing deteriorated due to mechanical failures in the course of the year). The manufactured paper is intended for marketing on the domestic market, for direct exports and for inventories.

During 2010, approximately 101 thousand tons of paper produced by Hadera Paper Printing was marketed in the local market. The remainder, consisting of some 34 thousand tons, was designated for direct export to the United States, Italy, Egypt, Jordan and Turkey. In 2010, Hadera Paper Printing expanded its direct exports to additional countries such as the United States and Italy that are characterized by profit margins that are higher than those in Middle Eastern countries. Hadera Paper Printing estimates this trend will continue in the coming years and the scope of Hadera Paper Printing's exports to United States markets may increase.

In 2010, there was a quantitative decrease in sales to the domestic market of 4,400 tons (approximately 4.3%), while in 2009 Hadera Paper Printing recorded a quantitative increase in sales to the local market of 4,000 tons compared to 2008 (approximately 3.6%). Despite the quantitative decrease, growth was recorded in the sales turnover of Hadera Paper Printing in the local market in 2010, in the sum of approximately NIS 31 million, compared to 2009, primarily as a result of the 12% rise in selling price. In 2009, despite the quantitative increase, Hadera Paper Printing recorded a decline in the sales turnover to the domestic market in 2009 of NIS 29 million as compared with 2008, primarily as a result of the erosion of selling prices.

In 2010, Hadera Paper Printing's sales to direct exports increased by NIS 8 million, as compared with 2009, while in 2009 sales increased by NIS 9 million as compared with 2008. In 2008 sales increased by NIS 3 million compared to 2007.

Sales of imported paper

Hadera Paper Printing compliments its basket of products by the importing of paper, such as coated and special papers, that it does not manufacture, through imports from Europe and the Far East. The annual volume of imports by Hadera Paper Printing amounted to approximately 40 thousands of paper, which are marketed exclusively to the domestic market. In 2010, the annual scope of Hadera Paper's imports stood at approximately 40 thousand tons of paper, which are marketed only in the local market, compared with approximately 37 thousand tons in 2009 and approximately 39 thousand tons in 2008.

Amongst Hadera Paper Printing's suppliers of paper are Stora Enso and the APP Group, who are its main suppliers of different types of coated papers.

Customers

Hadera Paper Printing markets its products to a wide range of customers in Israel and overseas. Hadera Paper Printing has about 450 customers in Israel, where the main ones include printing houses (approximately 21%), paper

wholesalers (approximately 19%), office supplies wholesalers (approximately 32%), paper products manufacturers (approximately 32%) and end-users. Hadera Paper Printing markets abroad to big wholesalers in the paper sector, as well as to big printing houses and manufacturers in Jordan.

Hadera Paper Printing is not dependent upon any single customer or group of customers that might significantly influence its operations. Furthermore, Hadera Paper Printing does not have any revenues from any single customer that constitute more than 10% of its total revenues.

Marketing and Distribution

Hadera Paper Printing possesses a local distribution system that provides it with the ability to market its products to a variety of its customers operating within the Israeli market. During the years 2006-2010, Hadera Paper Printing worked to expand its distribution network, and even secured institutional tenders, including the provision of distribution services to customers down to the end-user level.

Distribution to Middle-East customers is carried out to border points (to Egypt via the Nitzanim Terminal and to Jordan via the Sheikh Hussein Bridge), with the transportation from these border points to the actual customer being done at the customers' expense. The distribution to additional export customers, including the United States, is made to the closest marine port in proximity to the customer's place of business.

Hadera Paper Printing distributes its products from two logistic sites throughout Israel, the logistic centers in Modi'in and in Hadera.

The largest and principal site is the Company's site in Hadera, next to Hadera Paper Printing's production and finishing installations. All of the raw material and some of the imported paper is also received at this site, and paper designated for exports is sent from there, by transfer to containers sent off to the ports by truck. Paper intended for marketing on the domestic market is partially sent directly from the Hadera site to the larger customers of the sector nationwide, while another part is distributed from the new logistics center in Modi'in. As of the date of this Annual Report, approximately 103,000 tons are distributed annually from the Hadera site (some of the imported paper is sent directly from the port to the customer).

In November 2010, Hadera Paper Printing moved its logistics center to the new Logistics Center in Modi'in, (the "Logistics Center") replacing the sites in Holon and in Haifa. With an advancing learning curve, the Logistics Center reached full capacity in December 2010. An advanced storage system was installed at the Logistics Center, based on radio shuttle technology, allowing for the optimal storage of large quantities of paper. The warehouse is managed using software for warehouse management according to location, allowing optimal management of paper inventories. Paper is distributed from the Logistics Center to customers of the sector throughout the country, in order to provide an immediate level of service and maintain low levels of paper inventories in their respective warehouses. Furthermore, not all the imports of writing and printing paper are directly taken to the Logistics Center as some of the imported paper is transferred directly to the customers from the sea ports. Distribution from the Logistics Center is performed using trucks of Hadera Paper Printing, through sub-contractors, and using trucks belonging to customers of the sector. As of the date of this report, the Logistics Center site is planned to distribute some 42,000 tons per year.

Upon the transition to the Logistics Center, the leasing contracts of Hadera Paper Printing in connection with the Holon and Nesher sites have terminated. From the site located in Holon, products were distributed to customers of the sector in the greater Tel Aviv area and in Jerusalem.

Hadera Paper Printing sales are mostly sales from existing inventories, and are not performed by advance orders. Hadera Paper Printing is not dependent upon any single marketing channel.

Competition

Hadera Paper Printing's main competitors are the following paper importers: Niris Ltd., Ronaimer Ltd., Allenper Trade Ltd., Mei Hanahal Ltd. and BVR Ahvat Havered Ltd. Hadera Paper Printing estimates that its market share in the local market is approximately 50%.

Due to the global economic crisis, the competition between the paper importers increased, resulting in surplus supply of writing and printing papers in dumping prices. On February 26, 2009, Hadera Paper Printing filed a complaint with the Supervisor regarding dumping imports of fine paper from several European countries to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. On May 27, 2010, the Supervisor announced that in light of developments in the paper market in the recent past and in view of information that he had received, a decision was made to close the investigation. Despite the damages incurred by Hadera Paper Printing in the past as a result of imports at dumping prices, Hadera Paper Printing does not object to the Supervisor's decision, due to the recent market developments.

Changes to Volume of Operations and Profitability

Due to the global economic crisis in 2009, a deterioration was recorded in the ratio between the demand and supply for the paper products sold by Hadera Paper Printing. This deterioration brought about an erosion of the selling prices

in the sector in 2009. In light of the discontinuation of operations in several plants worldwide, the supply of paper on the local market decreased throughout most of the year 2010 and Hadera Paper Printing has raised selling prices on the local market in 2010. The price of pulp, the principal raw material in paper production, rose sharply in relation to the 2009 prices. Despite of such rise in the cost of pulp, Hadera Paper Printing managed to avoid any damage to its profit margins in relation to the profitability in the years 2008 and 2009.

Seasonality

There are no material seasonal effects on Hadera Paper Printing's operations.

5. Non-Food Disposable Consumer Goods Sector (the Hogla Kimberly Sector)

General

The non-food disposable consumer goods market in Israel deals in a wide variety of home paper products, disposable diapers for babies, wet wipes, incontinence products, feminine hygiene products and other products for the kitchen and for cleaning. Operations in this sector are conducted by H-K. H-K and its competitors in the sector market products intended for the private consumer through supermarket chains, drugstore chains and small private stores. The institutional sector services customers such as institutions, hospitals, hotels etc. In the non-food disposable consumer goods market, there exists a wide range of products with competition being waged both against local products and against international brands. The non-food disposable consumer goods market in Israel is a relatively stable market that is only slightly affected by the overall level of economic activity. Most of the products marketed within Israel are those produced in Israel, although imported products also exist.

H-K is a privately-held company that was established in 1963 as a wholly-owned subsidiary of the Company, for the purpose of engaging in operations in the disposable, non-food consumer goods category. In 1996, Kimberly Clark Corporation (KC), or Kimberly-Clark, acquired 49.9% of H-K's outstanding share capital. On March 31, 2000, Kimberly-Clark increased its holdings in H-K to 50.1% of H-K's outstanding share capital.

In June 1996, an agreement was signed between the Company and Kimberly-Clark, pursuant to which the Company provides H-K with various services such as maintenance services and infrastructure for the H-K plant at the Hadera site and also leases it real-estate for its operations in Hadera and in Nahariya. The Company also provides H-K with various staff or headquarter services. Pursuant to the agreement, Kimberly-Clark provides H-K with information, technological assistance and the permission to use its international brands.

As part of the agreement, Kimberly-Clark grants H-K a license to use certain trademarks and technical services associated with the manufacture of the certain products. According to the license, H-K will assume responsibility for product liability and shall indemnify Kimberly-Clark for any breach and/or negligence associated with the manufacture of such products. As of the date of this Annual Report, the aforementioned agreement is effective through July 2011.

H-K operates in the Turkish market through KCTR, a wholly-owned subsidiary that was acquired in 1999. The Turkish market, due to its size and relatively low penetration rates, was identified by H-K as possessing potential for strategic growth.

KCTR operates in the Turkish market through its premium products under the Kimberly Clark Worldwide brand, in a format similar to that used by H-K in Israel. For this purpose, KCTR has, over the past several years, established manufacturing as well as appropriate marketing, distribution and sales infrastructures in Turkey, for the local market and for exporting to Kimberly-Clark companies throughout the region.

KCTR is continuing to implement a multi-annual program for expanding its operations in Turkey and reinforcing the position of the Huggies and Kotex brands in this market. Pursuant to this activity and pursuant to the distribution agreement that KCTR signed with Unilever PLC (Unilever Sanayi ve Ticaret Turk Anonim Sirketi), or Unilever, KCTR managed to increase its turnover (5% in 2010 in relation to 2009, 19.6% in 2009 in relation to 2008, 51.1% in 2008 in relation to 2007), while improving its gross margins.

Raw Materials

The raw materials required for the tissue paper industry are clean pulp and/or recycled fibers. Pulp is imported from overseas, from four main suppliers: Fibria Trading International KFT ("Fibria"), Ekman & COAB, Heizel Pulpsales GMBH and Sodra Cell (UK). The purchase of pulp from Fibria is made under a framework agreement that this supplier possess with Kimberly-Clark, while the purchase of pulp from the other suppliers is made on the basis of an independent agreement between H-K and the supplier. While Amnir is the principal supplier for recycled fibers, H-K also makes use of complementing imports from other various suppliers.

The raw material required for the diaper industry is pulp and absorbent material Super Absorbent Polymer, or SAP. Pulp is imported from three suppliers overseas, Weyerhaeuser Nr Company, Domtar Paper Company LLC and International Forest Corp. SAP is purchased from several international suppliers and mainly thorough Toyota Tsusho Corporation, by way of framework agreements of Kimberly-Clark.

Other raw materials are imported in part and partially purchased from local suppliers.

H-K has no dependency on any single supplier.

H-K is assisted by Kimberly-Clark's central purchasing in the purchase process, mainly in the purchase of commodities.

Alongside the independent manufacturing of products, H-K also purchases finished products for marketing and distribution under its various brands. As at the date of the of this Annual Report, the proportion of H-K sales attributed to products it manufactures is equal to 74%, while the proportion of sales attributed to finished products that it purchases is equal to 26%. Most of the purchase of finished products for marketing and distribution is made from Kimberly-Clark group companies and includes certain types of disposable diapers, special paper products and feminine hygiene products. In parallel, H-K purchases finished products from various suppliers according to its own specifications, including wet wipes, various hygiene products and various kitchen aids that are sold under the Nikol brand, including garbage bags, aluminum foil, nylon cling-wrap and more.

H-K is exposed to fluctuations in the price of raw materials, mainly pulp, fluff and absorbent materials (SAP), representing the main raw materials used for the production of tissue paper and diapers, and for the imported products. An extraordinary increase in the prices of raw materials and imported finished products may impair profitability.

H-K is exposed in a secondary manner to fluctuations in energy prices, both in the process of paper production, and as the fuel for its fleet of distribution trucks. H-K is exposed to changes in the exchange rate of the NIS, both vis-à-vis the U.S. dollar as well as the Euro, via its import of products and raw materials.

The main KCTR raw material is pulp that is imported from several overseas suppliers, chief among which is Kimberly-Clark. KCTR has no special engagement or long term contracts with any of its raw material suppliers, but operates under on-call orders at market prices. The transfer prices vis-à-vis Kimberly-Clark are determined in line with the transfer price policy of Kimberly Clark. In 2010, KCTR purchased absorbent material for diapers from Sandia - Sakai in conjunction with global framework agreements with Kimberly-Clark, for a total of $17.5 million, or 13% of total purchasing from suppliers in 2010. The total purchasing of absorbent material for diapers from Sandia - Sakai in 2009 and 2008, in conjunction with global framework agreements with Kimberly-Clark, amounted to $17 million and $19 million, respectively, or 14% and 15% of total purchasing from suppliers in the same period. KCTR is not dependent upon any single supplier.

Products and Services

H-K manufactures and markets a wide variety of home paper products (tissue paper, paper towels, napkins and wipes), disposable diapers for babies, wet wipes, incontinence products (adult absorbent products), feminine hygiene products and other products for the kitchen and for cleaning. H-K also sells reels of tissue paper to manufacturers of household paper products.

H-K regularly upgrades a large part of its products on the basis of new technology and supporting marketing operations in an ongoing manner.

Two products which account for over 10% of H-K’s total consolidated revenues (Israel and Turkey) are diapers and toilet paper.

H-K upgrades its products from time to time, in order to preserve innovation and leadership.

KCTR manufactures and markets products in the diaper and feminine hygiene sectors. Toward the end of 2005, KCTR launched the first Kotex feminine hygiene products, while in the course of 2006, KCTR also launched the Huggies brand. The launch was accompanied by an extensive marketing campaign. The penetration of products in these sectors involves massive investments in advertising, sales promotion and additional expenses associated with penetrating into the large retail marketing chains and expanding shelf space. In the course of 2009, KCTR continued to develop products and launched new product lines under the Huggies and Pedo brands, manufactured at KCTR’s advanced manufacturing plant. KCTR also launched an advanced Kotex product (for feminine hygiene). In 2010,

KCTR continued to develop its principal products Huggies and Kotex. Moreover, in 2010, KCTR launched a new brand in the adult care category named Depend, with the intention of dominating the market and raising the gross profitability of the category.

Customers

H-K's client base is usually stable. H-K operates nationwide and its products are marketed and distributed extensively to clients throughout the country. In the years 2008-2010, H-K sales to the food retail chains grew to a certain extent, at the expense of sales to private and small stores. In the institutional market, serving businesses such as institutions, hospitals, offices, hotels and the like, there has been a trend of consolidation over the past several years. In 2009, approximately 19% of H-K sales were made to the institutional market, while 81% of its sales were to the consumer market (including retail chains). In 2010, approximately 19.5% of H-K sales were made to the institutional market, while 80.5% of its sales were to the consumer market (including retail chains).

All the retail marketing chains and pharmacy chains number among H-K's customers. Total sales to major retail chain Shufersal, a company controlled by a controlling shareholder of the Company, in 2010, 2009, and 2008, amounted to NIS 224.5 million, NIS 242.2 million (approximately $61.67 million) and NIS 212.2 million (approximately $59.14 million), respectively, which accounted for 13.0%, 14.0% and 13.2% of H-K's revenues. H-K has no agreement with Shufersal and the engagement with Shufersal is made from time to time in the normal course of H-K's business, according to an agreement regarding the commercial terms between the parties and at market terms. The sales of H-K to the three largest retail marketing chains in Israel represent approximately 31% of consolidated sales. The discontinuation of sales to any of these three chains could adversely affect the sales of H-K in the short term, but given the customers' loyalty to the strong brands, no long-term negative impact is expected, and H-K is not dependent upon any of these chains. To this end, H-K is not dependent upon any single customer. At the beginning of 2005, the Anti-Trust Commissioner published his position in the matter of arrangements between dominant suppliers and the retail marketing chains. The Commissioner's position also referred to arrangements between suppliers and retail marketing chains, including, among other things, practices with regard to competing suppliers, the purchase of display areas, category management, stewarding, shelf space, bonuses and benefits and exclusive campaigns. H-K notified the Anti-Trust Commissioner and joined the agreed order in November 2006.

Marketing and Distribution

H-K operates a sales and distribution system based on the operation of distribution warehouses, merchandise distribution trucks and a wide array of sales personnel. For sales to the institutional market, extensive use is made of a separate H-K marketing system and a combination of distribution with operations on the household front. Wholesalers are also used for distribution and customer service for smaller customers in the market. There is no dependence on any particular wholesaler.

As H-K's products are by nature "off-the-shelf products" and of a relatively large volume (diapers, toilet paper and the like), and because of the nature of the customer base, a constant supply to customers is required. H-K has two distribution sites, in Zrifin and in Haifa. The distribution center and office space in Zrifin is leased through 2022. The Haifa distribution site is under lease until 2014. The leasing agreements of these sites allow H-K to shorten the leasing period at various points. H-K also leases a warehouse in Hadera, under lease until 2022.

The fixed assets of H-K consist primarily of machinery and equipment, consisting primarily of five production lines for the manufacture of diapers at the company site in Afula, one paper manufacturing machine and five lines for the production of paper products at the Hadera site and one paper manufacturing machine and four lines for the manufacture of paper products in Nahariya. The fixed assets of H-K also include 87 distribution and transportation trucks (including trucks under operating lease).

KCTR sells its products to the private market in Turkey, consisting of local chains and small retailers, as well as to the nationwide and international food chains that operate in Turkey, which KCTR estimates account for 30% of the market potential, in which KCTR continues to operate directly. The sales and marketing to the private market are made through Unilever. Moreover, KCTR exports its products to various countries in the region. In August 2007, the KCTR plant in Turkey was declared by Kimberly-Clark to be a regional manufacturing plant, which resulted in greater exports. KCTR is not dependent upon any single client. Moreover, KCTR has no single client whose revenues account for over 10% of the total KCTR revenues.

In March 2007, KCTR signed an agreement in principle with Unilever, according to which Unilever shall distribute and sell and sell KCTR's products in Turkey, excluding distribution and sales to international food chains, which is done directly by KCTR. The agreement was signed to help KCTR increase its market penetration and volume of sales following the approval of a strategic plan by KCTR to expand its activities in Turkey in the coming decade. The complete strategic plan is designed to expand the activities of KCTR from the current yearly sales volume of $134

million to a volume of $230 million in the year 2015.

Although KCTR is dependent upon Unilever as a distributor for the private market, and in the event that the agreement is terminated the company anticipates that its operations in Turkey will be impaired in the short-term, KCTR estimates that the cancellation of the agreement would not have a significant detrimental effect on KCTR in the long term, nor cause it to incur significant additional costs as a result of the need to replace it.

Competition

H-K operates in a very competitive environment with the local market as well as against imported products. Nevertheless, the operations of H-K in the manufacture of paper products and diapers is characterized by few competitors, especially in view of the elevated entrance barriers that exist therein, include inter alia, significant investments in production facilities, investments in distribution infrastructure and frequent investments in technological improvements. It should further be noted that although there exists no limit on the import of paper products and diapers, other than tariffs on imports from the Far East, due to the bulky nature of some of the products, local production enjoys a significant economic advantage.

In the field of feminine hygiene products and disposable diapers, H-K's main competitor is Procter and Gamble Co. In the sector of household paper products, H-K's main competitors include Sano - Bruno's Plants Ltd. ("Sano"), Shaniv Paper Industries Ltd. ("Shaniv") and Kalir Chemicals - Production and Marketing Ltd. ("Kalir"). It should be noted that as part of the competition in the household paper products market to the ultra-orthodox activity, one of H-K's competitors, shuts down its production on Saturdays (the "Sabbath"). This fact may constitute a certain advantage for this competitor in that particular market. In the paper products to the institutional market, H-K's main competitors include Kalir and Sano. In the home cleaning aids products there are many competitors and a large market share is held by private labels.

According to data from Nielsen Israel for the Near Food sector, the H-K's market share numbers by value in 2010, in the specific segments wherein H-K operates (data representing annual average) is: disposable baby diapers - 73%, in toilet paper - 66%, in wet wipes - 69%, in disposable kitchen paper towels - 53% and feminine hygiene products - 26%.

The Turkish market is characterized by fierce competition against local brands and primarily against Procter & Gamble (P&G), both in diapers and in feminine hygiene products. In 2010, the competition in the Turkish diaper market wherein KCTR operates, actually escalated, as the selling prices of the leading competitors continued to erode, coupled with the penetration efforts of additional competitors into the market.

KCTR estimates that as of the date of this Annual Report, in the diaper market, KCTR's market share in Turkey is 8%, while to the best of KCTR's knowledge, the main competitor, Procter and Gamble (P&G), holds a 40% market share, while an additional company (Hayat Kimya A.Ş) holds a 21% market share. KCTR estimates that in the feminine hygiene market, the KCTR market share in Turkey is equal to 10%.

Changes to Volume of Operations and Profitability

In the course of 2010, H-K managed to successfully strengthen its leading brands through enhanced marketing efforts. Moreover, in 2010, through focused sales efforts, H-K managed to increase its quantitative sales. The quantitative growth in sales was assisted by the inclusion of H-K's leading products as "loss leaders" (a leading product sold by the retail chain at an unprofitable price in order to attract customers) at the retail marketing chains. On the expense side, H-K managed to lower the cost of manufactured products, by changing certain product specifications and by improving the output of some of its manufacturing plants, by conducting an organizational change to streamline its manufacturing plants and methods of operation opposite consumers and clients, so as to lend support to the long-term strategy of Hogla Kimberly.

On the other hand, an increase in prices was reported for most raw materials in relation to 2009, some of which were offset by the revaluation of the shekel against the dollar. This increase in the prices of raw materials has an impact on the profitability of the sector.

Seasonality

H-K's products are generally sold year-round, with some increase in sales during the Jewish holiday seasons of Rosh Hashanah (third quarter) and Passover (second quarter).

KCTR is exposed to the volatility of the exchange rates of the euro and the U.S. dollar vis-à-vis the Turkish lira, through the purchase of raw materials and the import of products.

The following data presents the distribution of revenues from products and services in 2010, 2009 and 2008 (in NIS thousands):

| | Paper and recycling | Marketing of office supplies | Packaging and carton products | Hogla Kimberly | Hadera Paper Printing | Adjustments to consolidation | Total |
|---|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | | |
| 2010 | | | | | | | |
| Sales | 393,439 | 176,580 | 489,543 | 1,691,918 | 691,069 | (2,382,986) | 1,059,563 |
| Sales between Segments | 117,927 | 2,267 | 20,102 | 5,591 | 37,633 | (122,075) | 61,445 |
| Sales – net | 511,366 | 178,847 | 509,645 | 1,697,509 | 728,702 | (2,505,061) | 1,121,008 |
| 2009 | | | | | | | |
| Sales | 219,866 | 149,107 | 468,339 | 1,722,613 | 645,972 | (2,368,582) | 837,315 |
| Sales between Segments | 119,433 | 1,904 | 15,965 | 4,014 | 23,250 | (109,886) | 54,680 |
| Sales – net | 339,299 | 151,011 | 484,304 | 1,726,627 | 669,222 | (2,478,468) | 891,995 |
| 2008 | | | | | | | |
| Sales | 273,436 | 129,068 | 500,069 | 1,605,376 | 717,424 | (2,660,433) | 564,940 |
| Sales between Segments | 133,331 | 2,046 | 12,508 | 3,200 | 14,923 | (57,464) | 108,544 |
| Sales – net | 406,767 | 131,114 | 512,577 | 1,608,576 | 732,347 | (2,717,897) | 673,484 |

C. Organizational Structure

Immediately prior to September 30, 2009, Clal Industries and Investment Ltd., or Clal, beneficially owned 59.43% of the Company's issued capital and voting rights. Prior to September 30, 2009, Discount Investment Corporation Ltd., or DIC, held 21.45% of the issued capital and voting rights of the Company and was a controlling shareholder of the Company. On September 30, 2009, following the finalization of the transaction for the sale of all the DIC holdings in the Company to Clal, DIC ceased being a controlling shareholder of the Company. To the best of the Company's knowledge, Clal and DIC had entered into a shareholders' agreement with regard to their holdings in the Company, dated February 1980. However, as stated above, as of September 30, 2009, DIC is no longer a controlling shareholder of the Company and the said agreement is no longer valid as of that date.

To the best of our knowledge, IDB Development Corporation Ltd. owns of 60.54% of Clal.

Significant subsidiaries and associated companies

The following table lists our significant subsidiaries and associated companies as of March 28, 2011:

| Name of the Company Subsidiaries | Ownership and Voting | Country of Incorporation |
|---|---|---|
| Amnir Recycling Industries Ltd. | 100.00% | Israel |
| Graffiti Office Supplies & Paper Marketing Ltd. | 100.00% | Israel |
| Hadera Paper – Packaging Paper and Recycling Ltd. | 100.00% | Israel |
| Hadera Paper - Development and Infrastructure Ltd. | 100.00% | Israel |
| Carmel Containers Systems Ltd. | 100.00% | Israel |
| Hadera Paper-printing and writing paper Ltd. | 75.00% | Israel |
| Frenkel CD Ltd. (directly and indirectly through Carmel) | 57.84%* | Israel |
| | | |
| Associated Companies | | |
| Hogla-Kimberly Ltd. | 49.90% | Israel |
| Kimberly – Clark Tuketim Mallari Sanayi Ve Ticaret A.S. (held through Hogla-Kimberly Ltd., which holds 100.00% of this company) | 49.90% | Turkey |

D. Property, Plants and Equipment

The Company's principal executive offices and manufacturing and warehouse facilities are located on approximately 350,000 square meters of land in Hadera, Israel, which is 31 miles south of Haifa. Hadera is a major seaport located 28 miles north of Tel Aviv. The Company owns 274,000 square meters of the land on which it operates. An additional 68,000 square meters are leased from the Israel Land Administration, an agency of the State of Israel, under several leases. The lease periods terminate from 2012 until 2056. Some of this land is leased to associated companies, which operate in Hadera.

The Group's facilities in Hadera are housed in two-story plants and several adjoining buildings. Approximately 111,484 square meters are utilized for manufacturing, storage and sales and administrative offices. In addition, the Company leases from the Israel Land Administration approximately 25,000 square meters in Nahariya, in northern Israel, under a lease agreement until 2018, which are rented to an associated company (Hogla Kimberly), where a plant for the manufacture of paper is located. The Company also acquired the contractual rights via a development agreement in another area of approximately 3,500 square meters in Nahariya, which is also rented to Hogla Kimberly.

Until March 2011, the Company leased from the Tel Aviv Municipality under a real estate lease approximately 7,600 square meters for a plant in Tel Aviv that had been shut down as of the end of 2002. On June 1, 2010, the Company entered into an agreement for the sale of its rights in the land, in consideration of approximately NIS 64 million, plus VAT. The sale was finalized in March 2011.

Amnir, a subsidiary of the Company, previously leased a plot in the industrial zone of Bnei Brak of 9,000 square meters used for collection and recycling of paper and cardboard waste. This plot was sold, pursuant to an agreement dated July 25, 2010 with an unrelated third party, in consideration of NIS 20 million paid in installments until the transfer of possession over the property on March 31, 2011.

H-K's headquarters and logistics center, which are leased under a long-term lease agreement, are located in a new modern site in Zrifin, near Tel-Aviv. The headquarters and logistics center covers an area of 40,000 square meters, with 17,500 square meters of buildings. An additional production plant owned by H-K is located in a 40,470 square meter plot in Afula, a city in northern Israel.

In addition to the above, the Company's subsidiaries and/or associated companies hold and/or rent plants, offices and warehouses at different sites all over the country including Rosh Ha'ayin, Afula, Migdal Haemek, Caesarea, Carmiel, Holon, Haifa, Zrifin.

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

The Company maintains facilities for collecting, sorting and baling waste paper and board in various locations in Israel. It also has a plant in Afula for the production of disposable baby diapers, incontinence absorbent products and feminine hygiene products and a plant in Hadera for recycling plastic waste.

At the end of 2008, the Company signed an agreement for leasing of a logistics center in Modi'in with an area of 74,500 square meters, as well as buildings with a total constructed area of 21,300 square meters, for the Company's subsidiaries and associated companies, which would, in part, replace existing lease agreements. The leasing period is 15 years.

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* The holding in voting shares is 57.82%.

For further information, see “Item 10.C – Material Contracts”.

In October 2006, the National Infrastructure Committee approved the change in designation of 40,000 square meters of land, adjacent to the Company’s premises in Hadera, to be used as a power station and for other uses. The approval was empowered by the Israeli Government on February 6, 2007.

In November 2006 and October 2007, the Company’s Board of Directors approved an investment of approximately $690 million towards the construction of Machine 8. The machine has an output capacity of 230,000 tons per annum. The Company estimates that, upon completion of the learning process of Machine 8 on May 31, 2010, the active output capacity of the Company in packaging paper is expected to grow from approximately 160,000 tons per annum before the construction of the machine, to approximately 320,000 tons per annum. The new packing paper machine is intended to address growing demand in the local market for packaging paper at prices and of a quality that are competitive with prices and quality of imported packaging paper. As part of construction of Machine 8, the Company is investing in the reorganization of the principal site in Hadera, including an expansion of the energy system and the adaptation of the traffic routes and upgrading of environmental systems, as required.

The Company owns three paper machines (including Machine 8) that are used in the manufacture of various grades of paper and board. The paper production facilities of the Company and its subsidiaries are located in Hadera, where the Company operates machines with a combined production capacity of approximately 320,000 tons per year.

In 2000, the Company established a new co-generation power plant in Hadera, based on high-pressure steam available from steam drying employed in paper production, for a total investment of approximately $14.0 million. With the operation of the power plant, the Company now enjoys an independent power generation capacity of 18 megawatt, with generation costs considerably lower than the cost of electricity previously purchased from the Israel Electricity Company. As part of this project, the infrastructure of the main electricity supply system was renovated and improved, utilizing modern technological innovations.

Pursuant to the Company’s agreement with Yam Tethys, as described in “Item 10.C - Material Contracts”, the supply of natural gas by the Yam Tethys partnership will continue until mid-2011. As part of the process of the Company’s transition to the use of natural gas instead of fuel oil, the Company has adapted its work environment accordingly, including by implementing changes according to its hazardous materials permits as well as its policies regarding work procedures.

In addition, the Company is examining and promoting a project for establishing a combined cycle co-generation plant based on natural gas in Hadera. The new plant is expected to enable the Company to sell electricity to external users, including the Israel Electric Company, or IEC and/or private customers, at a scope of up to 230 megawatts, at the Company site in the Hadera Industrial Zone. As of the date of this Annual Report, the project is on hold, awaiting the business stabilization of potential gas sources in order to conclude the contract to acquire the required gas at a price range that would allow the Company to be competitive with expected IEC rates.

The discovery of natural gas deposits drill sites in proximity to Hadera beach and progress in negotiations with potential suppliers are both increasing the likelihood of renewed negotiations and project kick-off.

The machinery, equipment and assets of the Company are free of any mortgage, lien, pledge or other charge or security interest.

Environmental Regulation Matters

The business license for the main production site of the Company in Hadera includes conditions regarding sewage treatment, effluent quality, air quality, process sludge and the handling of waste and chemicals. In addition, the Company is required to operate the site in accordance with the conditions specified by the Israeli water commission regarding effluent disposal. To the best knowledge of the Company, the Company operates the site in compliance with such requirements, and in the event of non-compliance, the Company acts in conjunction with such governmental authorities to rectify any violations.

The Company is working intensively on environmental issues, and is investing heavily in environmental projects with a special emphasis on the treatment of wastewater, cutting down on water consumption and improving airborne emissions with the transition to natural gas. The Company strives to achieve environmental excellence as business leverage on a strategic level. To this end, in 2008, the Company received the Green Globe award for its handling and treatment of wastewater, representing recognition on the part of the umbrella organization of all green associations for the Company’s environmental excellence.

Company activities with regard to environmental protection are focused in three major areas: treatment of sewage and quality of treated waste water, air quality and noise reduction.

The Company discharges treated waste water, purified at the Company facility, into the Hadera Stream. The Company operated according to directives obtained from the Government Water and Sewage Authority, or Water Authority (formerly, the Water Commission), during the course of discussions for obtaining the permit for the year 2010, which has been received. This permit specifies, inter alia, conditions regarding quality of treated waste water discharged into the stream. The Company operates a sewage treatment facility covering some 21,000 square meters adjacent to its Hadera plant. In December 2010, the Company submitted an application for renewal of the permit order for 2011, which is currently under the review of the relevant committee.

In 2009, the Company successfully ran a pilot desalination project that examined desalination technology consisting of membrane separation with ultra filtration as a pre-filtering stage. The successful pilot project constituted an additional step toward the establishment of a future desalination plant at the Hadera site, planed for operation in 2012, that allows for the complete reintroduction of all the wastewater treated at the plants.

During 2010, the project for “returning” waste water was accelerated, and some half million cubic meters of softened water were “returned”, constituting approximately 25% of all sewage sent into the Hadera river. In addition, the Company continued to run the abovementioned pilot program.

The Company anticipates that in 2011 total environmental investments and costs (both current and those relating to the continued development of the desalination installation and improvement of water treatment), will amount to approximately NIS 25 million.

On January 30, 2011, the Ministry held a hearing for the Company regarding the alleged pollution of water as a result of the discharging of low quality waste water into the Hadera Stream. The Ministry held that the Company has a duty to improve the quality of the waste water, and ordered it to provide a weekly report to the Ministry with respect to the quality of the treated waste water. Furthermore, it was determined that if the Company does not fulfill the requirements stated in the permit regarding the discharge of waste water into the Hadera Stream, granted on August 11, 2010, the Ministry’s Director of the Haifa District would issue an order to cease operations of Machine 8 which the Company operates, without requiring any advance warnings or additional hearings. The Company is acting to improve the treated waste water by taking various actions, and as a result of these an improvement in the quality of the treated waste water flowing into the Stream is evident. At this stage, however, the Company cannot estimate the rate or timetable for improvement of the treated waste water, and cannot estimate said effects in the event of failure to comply with the requirements stated in the permit.

In the course of its operations, the Company uses hazardous materials, and therefore the Company has a Hazardous Materials Permit, or HazMat Permit, valid through July 2011, from the Supervisor of Hazardous Materials at the Ministry of Environmental Protection. The HazMat Permit determines the types of hazardous materials that the Company may use, the quantities of hazardous materials that are allowed to be used, storage conditions by type of hazardous material, including internal segregation of fluids and powders - all based on the risk level thereof. In 2007, in conjunction with the transition of the energy systems to using natural gas, the HazMat Permit also covered the use of natural gas, in accordance with all permits and approvals required in this regard by the Ministry of Environmental Protection.

The Company is currently acting in cooperation with the authorities to find solutions for the handling or recycling of process sludge.

Moreover, as part of the upgrading of the Hadera Site to meet the requirements of Machine 8, the Company implemented a multi-annual program this year for noise treatment, prepared in collaboration with the Hadera Municipal Council.

The Company invested NIS 2.22 million in infrastructure relating to environmental protection in 2010.

In 2010 all plants at the main Hadera site successfully passed various environmental inspections.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Critical Accounting Policies and Estimates

The Company's discussion and analysis of the financial condition and operations are based upon the Company's consolidated financial statements, as of December 31, 2010, 2009, and 2008, and for the years then ended prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's previous financial statements were prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP") and reconciled to generally accepted accounting principles in the U.S. ("US GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

The Company identified the most critical accounting principles upon which its financial status depends. The Company determined the critical principles by considering accounting policies that involve subjective decisions or assessments. The Company states its accounting policies in the notes to the consolidated financial statements and at relevant sections in this discussion and analysis. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Annual Report.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

A "critical accounting policy" is one that (i) is important to the portrayal of an entity's financial condition and results of operations and (ii) requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

In the application of our accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and key sources of estimation of uncertainty that management has made in the process of applying our accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Deferred taxes

The Company recognizes deferred tax assets for all of the deductible temporary differences up to the amount as to which it is anticipated that there will be taxable income against which the temporary difference will be deductible. During each period, for purposes of calculation of the utilizable temporary difference, management uses estimates and approximations as a basis upon which it evaluates each period.

Useful lives of fixed assets

Approximation of useful lives of items of fixed assets is done periodically. The Company's management evaluates residual values, depreciation methods and length of useful lives of the fixed assets.

Provisions for legal proceedings

For purposes of evaluating the legal relevance of these claims, as well as determining the reasonableness that they will be realized to its detriment, the Company's management relies on the opinion of legal and professional advisors. After the Company's advisors express their legal position and the probabilities of the claims, on the basis of whether the Company will have to bear its consequences or whether it will be able to rebuff it, the Company approximates the amount which it must record in the financial statements, if at all.

An interpretation that differs from that of the legal advisors of the Company as to the existing legal situation, a varying understanding by the Company's management of the contractual agreements as well as changes derived from relevant legal rulings or the addition of new facts may influence the value of the overall provision with respect to the legal proceedings that are pending against the Company and, thus materially affect the Company's financial condition and operating results.

Employee benefits

The present value of the Company's obligation for the payments of benefits to pensioners and severance pay to employees that are not covered under Section 14 to the Severance Pay Law, 5723-1963, is based upon actuarial estimations. The actuarial estimations take into consideration a great amount of data and utilize a large number of assumptions, including the capitalization rate. Changes in the actuarial assumptions could affect the book value of the obligation of the Company for employees' benefits payments and severance pay. The Company approximates the capitalization rate annually, on the basis of the capitalization rate of government bonds. Other key assumptions are determined on the basis of conditions present in the market and on the basis of the cumulative past experience of the Company.

Purchase price allocation

For the purpose of allocating the purchase price and determining the fair value of the tangible and intangible assets as well as the liabilities of the consolidated subsidiaries at the date of consolidation, the Company's management based the allocation primarily on valuations prepared by external and independent real-estate appraisers and assessors, who possess the necessary know-how, experience and expertise.

The fair value was determined according to generally-accepted valuation methods, including: proposed market prices in active markets, discounting of cash flows and the comparison of selling prices of similar assets and company assets in the immediate proximity. When the discounted cash flows method was implemented the interest rate for discounting the net cash flows expected from the assets possessed a material impact on its fair value.

In determining the fair value, the business/operational risk associated with the Company's operations is taken into account, to the extent relevant. Part of the said risk is the risk associated with the nature of the sector in which the Company operates, while part of the risk stems from the Company's specific characteristics.

The Group strives to determine a fair value that is as objective as possible, yet the process of estimating the fair value also includes subjective elements, originating inter alia from the past experience of the Company's management and its understanding of expected events in the market in which the Group operates at the date when the fair value was determined.

In light of the above, and in view of the aforementioned in the preceding paragraph, the setting of the fair value of the Group calls for implementing judgment. Changes in the assumptions that serve for setting the fair value can materially affect the Group's situation and results of operation.

Impairment of cash generating units

To determine whether there may be a need for an impairment provision with respect to cash-generating units in accordance with IAS 36, the Company's management has primarily used appraisals performed by external independent land appraisers with the required knowledge, expertise and experience. In light of indications that occurred during 2009 and in accordance with IAS-36, the Company examined the need for a provision for impairment of the value of the packaging paper sector as a cash-generating unit.

The external assessment that was done on the discounting of cash flows using a discount rate of 9.5%, indicates that the expected utilization value of the packaging paper cash-generating unit is higher than its carrying value, and in accordance with IAS-36, no recognition is necessary of a loss on account of the impairment of the fixed assets.

The Company strives to determine the fair value of the cash generating units that is as objective as possible, yet the process of estimating the fair value also includes subjective elements, originating inter alia from the past experience of the external assessors and land appraisers and of the Company's management and its understanding of expected events in the market in which the Group operates at the date when the fair value was determined.

In light of the above, and in view of the aforementioned in the preceding paragraph, the setting of the fair values of the cash generating units of the Group calls for employing judgment. Changes in the assumptions that serve for setting of the fair values of the cash generating units can materially affect the Group's situation and the results of its operation.

Significant transactions and events.

1. Dividends from associated companies

On January 20, 2010 a dividend in cash, in the amount of NIS 19.6 million, that was declared on October 22, 2009, was received from an associated company.

On February 18, 2010, an associated company declared the distribution of a dividend in the amount of approximately NIS 20 million out of the unapproved retained earnings accumulated as of December 31, 2009. The Company's share in the dividend is approximately NIS 10 million. The dividend was paid on May 12, 2010.

On April 22, 2010 an associated company declared the distribution of a dividend in the amount of approximately NIS 40 million from the retained earnings. The Company's share in the dividend is approximately NIS 20 million. The dividend was paid on July 15, 2010.

On July 26, 2010 an associated company declared the distribution of a dividend in the amount of NIS 5.9 million. The Company's share in the dividend is approximately NIS 3.0 million. The dividend was paid on August 11, 2010.

On July 27, 2010 an associated company declared the distribution of a dividend in the amount of NIS 40 million from the retained earnings. The timing of the payment is subject to availability of funds and consent of partners. The amount of NIS 35 million was paid on November 29, 2010, and the amount of NIS 5 million was paid on March 24, 2011. The Company's share in the dividend is approximately NIS 20 million.

On December 30, 2010, an associated company declared the distribution of a dividend in the amount of NIS 8.5 million. The company's share in the dividend is approximately NIS 4.3 million. The dividend was paid during January 2011.

On February 23, 2011, an associated company declared the distribution of a dividend in the amount of NIS 30 million. The dividend will be paid during the second quarter of 2011, provided that there are no significant negative developments on account of the tax occurrence in Turkey, as stated in Note 14 of the financial statements of the Company. The Company's share of this dividend is NIS 15 million.

A. Operating Results

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

Amount and Percentage Increase (Decrease)
in thousands of NIS

| | Year ended December 31, 2010 compared to the year ended December 31, 2009 | |
|---|---|---|
| | Changes NIS | Changes % |
| Net sales | 229,013 | 25.7 |
| Cost of sales | 179,745 | 23.5 |
| Gross profit | 49,268 | 39.0 |
| Selling, administrative, general and other expenses | 3,560 | 3.2 |
| Income from ordinary operations | 45,708 | 293.2 |
| Financial income | 4,587 | 97.0 |
| Financial expenses | 31,087 | 135.2 |
| Profit after financial expenses | 19,208 | 717.3 |
| Share in profits of associated companies, net | (6,227) | (7.1) |
| Income before taxes on income | 12,981 | 15.3 |
| Taxes on income | (4,117) | (58.3) |
| Profit for the year | 8,864 | 9.7 |
| | | |
| Attributed to: | | |

| | | |
|---|---|---|
| Company shareholders | 9,498 | 10.4 |
| Non controlling interests | (634 ) | (122.4 ) |

*The statements of income for the year ended December 31, 2010, and the applicable period in 2009 are presented in New Israeli Shekels as more fully described in Note 1 of our consolidated financial statements contained elsewhere in this Annual Report.

The rate of exchange of New Israeli Shekels for U.S. dollars decreased over the prior years by (-6.0%) and (-0.7%) in 2010 and 2009, respectively. See Note 3 to the Financial Statements attached for the anticipated effect of adopting of accounting pronouncements that have been issued but are not yet adopted.

Year ended December 31, 2010 compared to year ended December 31, 2009

I. Overview of Results of Operations

1.Consolidated Data

Consolidated sales in 2010 amounted to NIS 1,121.0 million, compared to NIS 892.0 million in 2009, representing growth of approximately 25.7%.

The consolidated profit from ordinary operations amounted to NIS 61.3 million in 2010, compared to NIS 15.6 million in 2009.

Profit after taxes and before the Company’s share in earnings of associated companies for 2010 amounted to NIS 19.5 million, compared to NIS 4.4 million in 2009.

2.Net profit and the Earnings per Share Attributed to the Company's Shareholders

The net profit attributed to the Company's shareholders in 2010 amounted to NIS 100.7 million, compared to a net profit of NIS 91.2 million attributed to the Company's shareholders in 2009, representing an increase of 10.4%.

The net profit attributed to the Company's shareholders in 2010 was affected by the improvement in the operating margin of most Group companies in Israel as a result of the growth in operations. Moreover, a reduction in the Company's share in the losses on account of the operations in Turkey (KCTR) in relation to the previous year also contributed to the improved profitability.

The net profit attributed to the shareholders of the Company in the fourth quarter this year amounted to NIS 35.4 million, compared to the net profit attributed to the Company's shareholders of NIS 21.1 million in the corresponding quarter last year, representing an increase of 67.8%.

Basic earnings per share amounted to NIS 19.84 per share ($5.59 per share) in 2010, compared to the basic earnings per share of NIS 18.03 ($4.78 per share) in 2009.

Diluted earnings per share amounted to NIS 19.68 per share ($5.55 per share) in 2010, compared to the diluted earnings per share of NIS 18.03 ($4.78 per share) in 2009.

II. The Business Environment

The economic recovery in most of the world's financial and real markets continued during 2010, especially in awakening markets, including Israel. At the same time, however, the effects of the financial crisis which began in 2008 are still evident, including in the fluctuation of rates of securities and currencies in light of the uncertainty regarding the capacities of some of the European countries to service their debts, the United States' ability to bring down unemployment rates, the slow recovery of the US real estate market and the handling of increasing inflation in developing countries (China, in particular), following the sharp rise in commodity prices throughout the world.

In Israel, 2010 was a year of recovery from the global crisis. Starting in the second half of 2009, a gradual recovery was noted in GDP. This trend continued in 2010 as well, as 4.5% growth was recorded, as compared with 0.8% growth in 2009. Exports of goods and services grew by 12.6% in 2010, compared to a decrease of 12.5% in 2009. In parallel to the recovery in exports in 2010, local demand bounced back, the industry's sales in the local market grew at a cumulative rate of approximately 5% from the last quarter of 2009 until the second quarter of 2010. In 2010, a rise in private consumption per capita of some 2.9% was noted. The growth in local demand stemmed from household demand, in light of the drop in unemployment rates, the real increase in average wages in the market, and the rise in economic activity in general.

The local capital market showed a positive trend in 2010, and at the same time, capital raising in the corporate debt market gradually increased. The obvious recovery of the Israeli market, on the one hand, and concerns regarding development of a bubble in the local residential real estate market, on the other hand, caused the Bank of Israel to slowly and gradually increase the monetary interest rate, while at the same time, continue to be involved in the foreign currency market, and recently, in cooperation with the Ministry of Finance, to pressure the short term movements of foreign capital. 2011 opened with a continued growth trend for the Israeli market and recovery in the financial markets, together with the development of a trend of geo-political instability in a number of countries in the Middle East.

The continued trend of geopolitical instability in the Middle East could, under certain scenarios, negatively impact the status of the Israeli market as well as the Company's option to engage in an agreement with gas provider EMG, one of

the gas providers that the Company has been negotiating with, in regards to the supply of gas. As of the date of this report, the Company cannot assess the impact the situation in the region will have on the option to engage ins aid engagement with EMG, or the possible conditions regarding engagement in such a transaction with other gas suppliers.

In September 2010, Israel formally joined the OECD (Organization for Economic Cooperation and Development) as a full member. The OECD is a forum of countries committed to democracy and free-market economics, serving as a platform formulate policy and actual practice in economics, society and the environment. Membership in the OECD serves as an indication that Israel is considered to be a “developed nation” and meets the economic and regulatory standards set by the organization. Moreover, Israel’s membership in the OECD may be a positive influence on foreign investors who are considering an investment in Israel and may also serve to influence the credit rating of the State of Israel.

In the global packaging paper market, the Company estimates that as a result of the continuing rise in global pulp prices during the reported period, the demand for recycled packaging paper has increased as an alternative to virgin packaging paper. The trend of rising prices of recycled products in the global packaging paper market continued consistently throughout the reported period, at an average rate of approximately 28% (according to publications by PPI Germany), and grew more moderate only toward the end of 2010 until its stabilization. The rising trend in global recycled paper prices is expected to continue throughout the beginning of 2011 according to indications in the publications of several recycled paper manufacturers in Europe. An additional increase in prices is expected as of February 2011, at a rate of approximately 10%. The said increase in demand and prices, in addition to the prevailing high level of prices, may support the continued growth and expansion in the volumes of operation of the packaging paper sector, in Israel and worldwide.

Impact of the Business Environment on Company Operations

The Hadera Paper Group manages a wide and diverse portfolio of companies and businesses focused on consumer goods and basic commodities. the trend of consumption in the Israeli economy during the reported period, this trend led to an increase in demand at most Group companies for a wide range of products, while continuing to place an emphasis on the implementation of efficiency and cost-cutting measures across all sectors of operation.

In the packaging paper and recycling sector, Machine 8 is expected to lead to the doubling of operations in the sector. The running-in of the machine was completed in May 2010 and the results of operations have been included as part of the profits of the packaging paper and recycling sector since June 2010. In parallel, the gradual improvement in the learning curve of the machine is continuing. Following the operation of the new manufacturing equipment, the sales turnover of the packaging paper and recycling sector has increased, both in the domestic market and in export sales. Selling prices in the packaging paper sector are currently on an upward trend globally and locally. This trend is expected to continue in the near future. These factors and others are expected to assist in the continued improvement in the profitability and results of the sector. Regarding the capitalization of the net costs of the running-in period, see Note 6g of the financial statements.

Paper waste, which constitutes the main raw material for the manufacture of packaging paper is collected by Amnir from various sources throughout Israel. On January 19, 2001, the Packaging Law was enacted, with the goal of regulating arrangements in the matter of treatment of packaging waste. Inter alia, the Packaging Law establishes responsibility for recycling packaging waste and goals for recycling types of packaging waste. The Packaging Law entered into effect on March 1, 2011, and certain provisions regarding the start of collection by the recognized body will enter into effect on July 1, 2011. In light of the provisions of the Packaging Law, it will be required to adjust the Company’s system of collection of paper. However, the Company cannot at this stage estimate the impact the law will have on operations, and this is dependent, inter alia, on regulations that will be enacted by power of the law in the matter of separation at source, removal and collection of waste, and on the method of operation to be used by the recognized body. The Company is examining it’s preparations in anticipation of the potential alteration of their system of collection.

In the fine paper sector, pulp prices continued to soar during the reported period in relation to the corresponding period last year, inter alia as a result of the damage of the earthquake in Chile that damaged three production plants of large pulp suppliers, thereby leading to delays in the provision of pulp to the global market. In order to compensate for this cost increase, prices were raised in this sector starting in the second quarter of 2010. This rise in prices served, inter alia, to compensate for the decrease in the quantities sold. Additionally, Hadera Paper Printing successfully expanded its exports to the United States in 2010, thereby contributing to its improved profitability. The relocation to the logistics center in Modi’in is expected to improve the Company’s logistic capacities and to support the Company’s continued growth and development.

On December 31, 2010, the Company acquired from a subsidiary of Mondi Business Paper Group, 25.1% of the issued and outstanding share capital of Hadera Paper Printing, (for the purposed of this paragraph, the "Acquisition Transaction"). The total consideration of the Acquisition Transaction amounted to €10.364 million, that were paid from the Company's own resources. Following the closing of the transaction, true to the date of this Annual Report, the Company holds approximately 75% of the shares of Hadera Paper Printing, consolidated within the financial statements of the Company, with a subsidiary of Mondi Group holding the remaining shares of Hadera Paper Printing. As to the accounting implications, see Note 17 to the Company's financial statements dated December 31, 2010, attached to this report.

On October 4, 2010, the Company completed a full tender offer for the acquisition of all of the holdings of the public in Carmel, at a price of $22.5 per share in cash, at a total consideration of approximately $4.2 million. As of October 4, 2010, the Company holds 100% of the issued and outstanding share capital and voting rights of Carmel which has become a privately held company.

In the household paper and absorbent market (through Hogla Kimberly, an associated company), the level of profitability has decreased somewhat in relation to the corresponding periods in the past, due to the fierce competition in certain areas of activity. Moreover, the collapse of a significant supplier overseas has created shortages and has led to a temporary increase in costs that was partially offset by significant efficiency measures. Operations in this sector during the reported period were characterized by price competition and by a preference of consumers for attractively-priced products. The Company is therefore continuing to promote special sales campaigns in order to preserve customers and market share. Additionally, the revaluation of the NIS in relation to the average dollar exchange rate during the reported period, compared to the corresponding period last year, has reduced the damage associated with the higher purchasing costs in some of the sectors. Efforts were also made to distribute purchasing among a wider selection of suppliers in order to reduce costs. These measures provided the Company with the necessary flexibility in order to protect market share and preserve optimized profitability in a competitive business environment.

In the course of 2010, the NIS was revaluated in relation to the average dollar and the euro in relation to last year, by a rate of approximately 5.1% and 9.4%, respectively. This revaluation led to savings in terms of inputs and imported products denominated in dollars or euro, in the principal sectors of operation of the Company, whose prices track import prices in the said currencies. As a result of the said revaluation, the relative price of natural gas denominated in dollars, decreased by approximately 6% in relation to last year and also contributed to savings. Moreover, the price of electricity also decreased by approximately 10% in 2010, in relation to last year. These savings were partially offset by the rising prices of water during the year, by an average rate of 42%, along with the sharp rise in the price of fibers by approximately 43%, in relation to last year.

The developments in global markets, and especially in Europe and in the United States, including volatility in global exchange rates, have and may continue to affect the business results of the Company and its investees, their liquidity, shareholders' equity and assets and the ability to realize these assets, the state of their business (including the demand for the products of the Company's investees), their financial benchmarks and covenants, credit ratings, ability to distribute dividends and even their ability to raise financing for operating activities and long-term activities as well as the financing terms.

As at the date of publication of these financial statements, no material changes have occurred to the Company's risk management policy.

The exchange rate of the NIS in relation to the dollar was revaluated during 2010 by approximately 6.0%, as compared with a revaluation of approximately 0.7% last year (the average exchange rate of the NIS vis-à-vis the dollar was revaluated in 2010 by a rate of approximately 5.1% in relation to last year.)

The changes in exchange rates as mentioned above, affected the results of the various sectors, although the group's business portfolio, including the investee companies, is practically at equilibrium in terms of foreign currency and consequently, the exposure of the group to sharp fluctuations in currency exchange rates is low.

The inflation rate in 2010 amounted to 2.7%, as compared with an inflation rate of 3.9% in 2009. In regards to the hedging of transactions conducted by the Company in 2010 on account of its index-linked liabilities.

III. Analysis of Operations and Profitability

Commencing on January 1, 2009, the Company applies International Financial Reporting Standard (IFRS) No. 8, "Operating Segments", and has accordingly recognized the packaging products and board segment, which includes the operations of Carmel and Frenkel CD., as a separate segment. The associated companies Hogla-Kimberly Hadera Paper Printing, formerly Mondi Hadera Paper (a consolidated company as of December 31, 2010) were also

recognized as independent segments (for further information, see Note 21 of the consolidated financial statements contained elsewhere in this Annual Report). Please note that the following analysis of financial results relates to the companies that are consolidated in the results of the Company and is affected by the adoption of the Standard mentioned above.

1. Sales

Consolidated sales in 2010 amounted to NIS 1,121.0 million, as compared with NIS 892.0 million last year, representing an increase of 25.7% originating primarily from growth in the packaging paper and recycling sector in relation to last year.

The sales of the packaging paper and recycling sector amounted to NIS 511.4 million in 2010, or NIS 442.7 million net of inter-company sales, compared to NIS 339.3 million, and NIS 264.2 million net of inter-company sales last year, representing an increase of 67.6%.

The growth in the sales turnover of the packaging paper and recycling sector originates from quantitative growth in the sales of packaging and recycling as a result of the operation of Machine 8, as mentioned above. The growth in the output of Machine 8 served to increase exports to Europe and offered a response to the growth in demand from the local market. The growth in sales is also attributed to the rise in selling prices in relation to last year.

The sales of the packaging products and cardboard sector in 2010 amounted to NIS 509.7 million, and NIS 500.8 million net of inter-company sales, compared to NIS 484.3 million, and NIS 477.8 million net of inter-company sales, last year, representing an increase of approximately 4.8%, originating primarily as a result of the increase in the volume of operations of the companies in this sector.

The sales of the office supplies marketing sector in 2010 amounted to NIS 178.8 million, or NIS 177.5 million net of inter-company sales, compared to NIS 151.0 million last year, or NIS 150.0 million net of inter-company sales, representing an increase of 18.3% that originated from the quantitative growth in sales, primarily due to having secured institutional tenders that expanded the volume of customers and activity in this sector.

The consolidated sales in the fourth quarter of the year totaled NIS 336.4 million, compared to NIS 237.6 million in the corresponding quarter last year, representing growth of approximately 41.6%, originating primarily as a result of an increase in the sales of the packaging paper and recycling sector in relation to the corresponding quarter last year and compared to the third quarter sales of NIS 295.4 million this year, representing growth of approximately 13.9%.

2. Cost of Sales

The cost of sales amounted to NIS 945.4 million in 2010 – or 84.3% of sales – compared to NIS 765.7 million – or 85.8% of sales – last year. The improvement in the ratio of cost of sales to sales is primarily attributed to the manufacturing efficiency of Machine 8 and a reduction in the rate of consumption of raw materials, despite the sharp rise in output. The increase in the cost of sales originated primarily from an increase in manufacturing costs (especially energy costs and the use of raw materials, as a result of the operation of Machine 8).

The gross profit totaled NIS 175.6 million in 2010 (15.7% of sales), compared to NIS 126.3 million, 14.2% of sales, last year, representing growth of approximately 39.0% in relation to last year.

The higher gross profit in relation to last year originated primarily as a result of a quantitative growth in sales in light of the initial recognition of revenues from the sales of Machine 8 in June, coupled with the expansion of operations in the entire range of companies as a result of the market recovery, as stated above. The growth in gross profit is also attributed to the lower prices of some of the raw materials.

Labor Wages

The labor wages within the cost of sales amounted to NIS 215.1 million in 2010, 19.2% of sales, compared to NIS 206.9 million last year, 23.2% of sales. The growth in the labor wages in relation to last year is primarily attributed to the rise in the number of employees as a result of the growth in the volume of operations, both in the office supplies sector and in the packaging paper and recycling sector, that were offset as a result of the discounting of labor expenses in the sum of NIS 8.5 million in the running-in period of Machine 8. (See Note 6f to the financial statements dated December 31, 2010).

The labor wages within the general and administrative expenses amounted to NIS 95.7 million in 2010, 8.5% of sales, compared to the sum of NIS 87.5 million last year, 9.8% of sales.

The growth in the cost of labor wages in relation to 2009 originated primarily from the recording of labor wages on account of a special bonus to the retiring CEO, according to the decision of the Board of Directors dated March 23, 2010.

The relatively sharp drop in the cost of labor wages in proportion to sales is primarily attributed to the growth in the volume of operations and sales.

3. Selling, General and Administrative Expenses

The growth in selling, general and administrative and other expenses is primarily attributed to the wage bonus granted to the retiring CEO, as mentioned above, that was offset by the recording of proceeds from the sale of real estate in the amount of NIS 18.5 million, a refund of approximately NIS 8.5 million from Hadadit fund for employers, and earnings from the devaluation of an investment in a subsidiary that was consolidated on December 31, 2010, in the amount of NIS 5.8 million. The general and administrative expenses also included an amortization of excess cost in the sum of NIS 2.7 million, on account of excess cost recorded during the acquisition of Carmel and Frenkel CD in 2008. Net of the non-recurring labor expenses and net of non-recurring revenues, the selling, general, administrative and other expenses increased by approximately NIS 20.0 million in relation to last year. The increase in expenses originates primarily from an increase in the selling and transportation expenses as a result of the growth in the volumes of operation in the local market in various sectors as well as opposite export markets of the packaging and recycling sector, coupled with the recording of an expenditure related to the valuation of a Hadera Paper Printing Put option in the amount of NIS 0.9 million in 2010, as compared with a revenue of NIS 1.9 million last year.

The selling, general and administrative expenses (including wages) and other expenses amounted to NIS 114.3 million in 2010 or 10.2% of sales – compared to NIS 110.7 million, 12.4% of sales, last year. Net of non-recurring revenues during the reported period, as a result of the sale of assets in the amount of approximately NIS 18.5 million, a refund from the Hadadit fund for employers, valuation of an investment in an investee company and a non-recurring labor expenditure, as mentioned above, the selling, general and administrative expenses amounted to NIS 147.1 million , or approximately 13.1% of sales, compared to last year, when the selling, general and administrative and other expenses, net of non-recurring revenues as a result of the distribution of a unilateral dividend on account of a preferred share that was allocated by a consolidated subsidiary in the amount of NIS 16.4 million, amounted to NIS 127.1 million, or approximately 14.2% of sales.

4. Operating Profit

The operating profit totaled NIS 61.3 million in 2010, 5.5% of sales, as compared with NIS 15.6 million, 1.7% of sales, last year. The increase in operating profit in 2010 compared to the corresponding year is primarily attributed to the increase in gross profit as a result of the increase in sales, as mentioned above. In 2010 and 2009 the operating profit included non-recurring revenues.

The operating profit of the packaging paper and recycling sector amounted to NIS 50.1 million in 2010, compared to an operating loss of NIS 2.8 million last year, that included non-recurring profits, as mentioned above. It should be noted that the expenses allocated in 2010 to the packaging sector included non-recurring labor expenses of NIS 5.0 million.

The operating profit of the packaging products and board segment amounted to NIS 7.1 million in 2010, as compared with an operating profit of NIS 14.7 million last year. The decrease in operating profit in this sector is primarily attributed to the rise in raw material prices and the increase in other manufacturing expenses, compared to last year.

The operating profit of the office supplies sector amounted to NIS 5.1 million in 2010, compared to NIS 4.0 million last year.

The operating profit in the fourth quarter of the year amounted to NIS 28.6 million compared to an operating profit of NIS 0.4 million in the corresponding quarter last year and compared to an operating profit of NIS 20.2 million in the third quarter of this year. The increase in operating profit this quarter is primarily attributed to the sharp rise in gross profit of packaging paper and recycling sector, as a result of the increase in sales and the manufacturing efficiency of the sector on account of the operation of Machine 8, as mentioned above.

5. Financial Expenses

The net financial expenses amounted to NIS 44.8 million in 2010, compared to NIS 18.3 million in 2009.

The growth in financial expenses originated primarily from the growth in financial expenses on account of long-term liabilities that increased by approximately NIS 30.6 million in relation to last year, mostly due to the cost of financing Series 3 and Series 4, whose discounting of financing costs for Machine 8 ended at the end of May, coupled with the issuing of bond series 5 (new series) in May. Moreover, an increase was recorded in financial expenses as a result of long-term loans assumed by a subsidiary for financing an investment in corrugators.

6. Taxes on Income

Tax revenues of NIS 3.0 million were recorded in 2010, compared to tax revenues totaling NIS 7.1 million in 2009. The decrease in tax revenues this year, originating from a loss, for tax purposes, in the current operations, in

comparison to the tax revenues last year, is primarily attributed to non-recurring tax revenues in the amount of NIS 8.6 million that were included in 2009, as a result of the decrease in the tax rate over the next several years.

7. Company's Share in Earnings of Associated Companies

The companies whose earnings are reported under this item (according to Hadera Paper's holdings therein), include primarily: Hadera Paper Printing, Hogla Kimberly.

The company's share in the earnings of associated companies totaled NIS 81.1 million in 2010, compared to NIS 87.4 million 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:

-The Company's share in the net profit of Hadera Paper Printing (49.9%) in 2010 amounted to NIS 11.1 million compared to NIS 14.1 million in 2009, a decrease of NIS 3.0 million. The decrease in the profit originated primarily from the decrease in the operating profit of Hadera Paper Printing that decreased from NIS 40.5 million last year to NIS 31.1 million this year. The decrease in operating profit in 2010 originated primarily from the sharp rise in the prices of raw materials in relation to last year, despite taking measures to raise prices in the course of the year and the improved gross margin of part of the product range. The decrease in net income was also affected by the growth in tax expenditures in the amount of NIS 6.7 million in 2010, compared to the recording of tax revenues of approximately NIS 6 million last year as a result of the change in the tax rate, that were offset by the reduction in financial expenses in the amount of NIS 9.7 million.

-The Company's share in the net profit of Hogla Kimberly in Israel (49.9%) in 2010 amount to NIS 75.0 million as compared with NIS 83.0 million in 2009. The decrease in the sum of NIS 8.0 million, originated primarily from the decrease in operating profit from NIS 210.0 million to NIS 193.8 million this year. The decrease in the operating income is primarily attributed to the erosion of the selling prices in some sectors of operation, coupled with the rise in the prices of some principal inputs at the company, that were offset by far-reaching efficiency measures that were implemented across the company, continuing savings in purchasing and the strengthening of the company brands, led to a reduction in the erosion of earnings in 2010.

-The Company's share in the losses of KCTR Turkey (49.9%) in 2010, amounted to NIS 2.7 million, compared to NIS 7.6 million in 2009, representing a decrease of NIS 4.9 million. This reduction in loss, despite the slight decrease in the volumes of operation, is primarily attributed to the sale of the PEDO brand to a local chain which generated non-recurring revenues of NIS 3.1 million in 2010 and contributed to the continued reduction of the net loss from NIS 15.1 million last year, to NIS 5.4 million in 2010. In addition, the loss was reduced as a result of recording financial revenues from the valuation of operational balances.

Year ended December 31, 2009, compared to year ended December 31, 2008

I. Overview of Results of Operations

1. Consolidated Data

Consolidated sales in 2009 amounted to NIS 892.0 million, compared to NIS 673.5 million in 2008, representing growth of approximately 32.4%.

The consolidated profit from ordinary operations amounted to NIS 15.6 million in 2009, compared to NIS 35.4 million in 2008.

Profit after taxes and before the Company's share in earnings of associated companies for 2009 amounted to NIS 4.4 million, compared to NIS 16.7 million in 2008.

2. Net profit and the Earnings per Share Attributed to the Company's Shareholders

The net profit attributed to the Company's shareholders in 2009 amounted to NIS 91.2 million, compared to the net profit of NIS 69.7 million attributed to the Company's shareholders in 2008, representing an increase of 30.8%.

The net profit attributed to the Company shareholders in 2009 was affected by the improvement in operating profitability at some of the Groups companies in Israel and Turkey and by the recording of earnings as a result of the distribution of a unilateral dividend on account of the application of a preferred share by an associated company that generated net revenues of NIS 8.4 million for the Company. Moreover, a reduction of the Company's share in the losses on account of the operations in Turkey (KCTR) in relation to the previous year also contributed to the improved profitability.

The net profit attributed to the shareholders of the Company in the fourth quarter of 2009 amounted to NIS 21.1 million, compared to the net profit of NIS 10.2 million attributed to the Company's shareholders in the corresponding quarter in 2008, representing an increase of 106.8%.

Basic earnings per share amounted to NIS 18.03 ($4.78 per share) in 2009, compared to basic earnings per share of NIS 13.77 ($3.62 per share) in 2008.

Diluted earnings per share amounted to NIS 18.03 ($4.78 per share) in 2009, compared to diluted earnings per share of NIS 13.77 ($3.62 per share) in 2008.

3. The Business Environment

The global financial crisis and the slowdown in the real-term economic activity that developed in 2008 resulted, inter alia, in severe damage to global capital markets, in a severe downturn and considerable fluctuations in stock markets both in Israel and worldwide, including severe downturns and fluctuations in the prices of the securities of certain investee companies of the Company, a deterioration of the credit crunch, a decrease in the value of assets held by the public and a considerable slowdown and uncertainty in economic activity. Consequently, various economies worldwide, including the economy of the U.S. and those of numerous countries in Europe, slipped into a recession while indications of a recession were also identified in Israel.

The weakness in economic activity that characterized the second half of 2008 continued in the first quarter of 2009 as well. Commencing in the second quarter of 2009, a certain recovery was observed and then gained momentum in most sectors of the Israeli economy. The prices of traded securities recorded a considerable increase in the Israeli capital market, while in parallel the corporate debt market began to recover as the raising of funds by the business sector renewed. Various markets worldwide were experiencing similar developments as a global trend of recovery in real-term operations was observed, along with bullish capital markets and an improvement in the stability of financial institutions. The global recovery was largely attributed to a combination of fiscal expansionary plans, along with a continuing expansionary monetary policy, led by the U.S. economy.

In the last quarter of 2009 the prices of various products were raised in the global paper industry. In the packaging paper sector in Europe the cumulative rise in prices since September 2009 totaled €80 per ton (approximately 35%) until the end of 2009.

4. Impact of the Business Environment on Company Operations

The Group manages a wide and relatively diverse portfolio of companies and businesses. This fact is instrumental in dealing with the local and global crisis. The different Group companies operated in 2009 on the basis of aggressive efficiency and cost-cutting measures across all companies and all sectors of operation. The Company's sectors of operation focused on consumer goods and basic inputs that were affected in a relatively limited manner by the repercussions of the global economic and financial crisis.

In light of the economic crisis, the Company's principal operation in the area of household paper and absorbent products (through the Hogla Kimberly sector), , was characterized by preserving market share and maintaining the quantitative volumes of operation in view of the acquired consumption habits of customers and consumers in Israel characterized primarily on the basis of attractive pricing. In the course of 2009, the Company maintained stability in its market shares thanks to increased marketing activity that served to strengthen its leading brands.

In light of the aforementioned, during 2009, the Company successfully managed to continue improving its profits despite the challenging business environment in these areas.

During the years 2008 and 2009 packaging paper products were imported into Israel at dumping prices, primarily from Europe. The Dumping Supervisor at the Ministry of Employment, Industry and Trade decided to impose a temporary levy on the importing of packaging paper from Europe, at a rate of € 52-67 per ton. Some of the manufacturers and importers filed petitions against this decision.

On January 21, 2010, the Supervisor informed the Dumping Committee of his recommendation to impose a dumping levy of €31- 44 per ton, on most different producers from the European Union. The recommendation of the Dumping Supervisor was subject to the approval of the Dumping Committee and the signature of the Minister of Employment Industry and Trade and the Minister of Finance. For more information regarding the refusal of the Minister of Finance, see "Item 4B. Business Overview – 1. The Packaging Paper and Recycling Sector - Competition"

In the fine paper sector, the impact of the global crisis was evident primarily in the advertising industry, as demand for fine paper decreased in the global market by 11%-14% in 2009. Towards the end of 2009, pulp prices rose due to the earthquake in Chile, which caused temporary delays in pulp supply to the global market.

The reduced demand created surplus supply in Europe and worldwide. Fine paper was being imported to Israel at dumping prices since 2008. In this respect, the Company worked with the Dumping Supervisor in order to control imports at these prices. On February 26, 2009, the Company announced that Hadera Paper Printing had filed a complaint to the Supervisor regarding the dumping imports of fine paper from several European nations to Israel. Upon review of the complaint the Supervisor decided to launch an investigation of this issue. On May 27, 2010, Hadera Paper Printing reported that the Supervisor announced his decision to terminate the investigation concerning the import in dumping prices of fine paper products due to the recent developments in the paper market and certain information provided to him.

A decrease was recorded in 2009 in the prices of inputs, primarily fibers and chemicals as a result of the global crisis. This trend began to change in the last quarter of 2009, in light of awakening market activity. These decreases in prices offered partial compensation for the erosion in prices at some of the Group companies. These savings were partially offset as a result of an increase in the prices of water in 2009 by an average rate of 3%, along with an increase in the prices of gas, which constitute a principal input in the paper production chain. Gas prices rose by approximately 10% in relation to 2008 as a result of the devaluation of the NIS in relation to the U.S. dollar by an average of 9.6% in relation to 2008. This adversely affected the Company in terms of the imported inputs as well, while serving to improve the eroded selling prices that, as mentioned above, in the main sectors of operation of the Company, where the prices tend to follow the import prices, denominated in U.S. dollars.

The U.S. dollar exchange rate was revaluated by 0.7% in 2009, relative to a revaluation of approximately 1.1% in 2008.

The Company’s business portfolio, including its associated companies, is balanced in terms of foreign currency and the level of the Company’s exposure to sharp fluctuations in currency rates is therefore low.

The inflation rate in 2009 amounted to 3.9%, compared to an inflation rate of 3.8% in 2008.

5. Analysis of Operations and Profitability

Commencing on January 1, 2009, the Company applies International Financial Reporting Standard (IFRS) No. 8, “Operating Segments”, and has accordingly recognized the packaging products and board segment, which includes the operations of Carmel and Frenkel CD., as a separate segment. The associated companies H-K and Hadera Paper Printing were also recognized as independent segments (for further information, see Note 19 to the consolidated financial statements contained elsewhere in this Annual Report). Please note that the following analysis of financial results relates to the companies that are consolidated in the results of the Company and was affected by the adoption of the Standard mentioned above.

Commencing on September 1, 2008, the financial statements of Carmel and Frenkel CD Ltd. (an associated company of Carmel and of the Company), are consolidated within the Company’s financial statements, as a result of the fact that the holding rate in Carmel increased from 36.2% to 89.3%, and in Frenkel CD, indirectly, from 37.93% to 54.74% (for details see Note 15 to the annual financial statements contained in the Company’s Annual Report on Form 20-F for the year ended December 31, 2008).

6. Sales

Consolidated sales in 2009 amounted to NIS 892.0 million, compared to NIS 673.5 million in 2008, representing an increase of 32.4%, primarily attributed to the first-time consolidation of the data of Carmel and Frenkel CD in the reported period in the amount of approximately NIS 477.8 million, compared to their consolidation for only part of 2008 in the sum of NIS 160.9 million.

Sales of the packaging paper and recycling sector amounted to NIS 263.2 million in 2009, compared to NIS 381.5 million in 2008.

The decrease in the sales turnover in the packaging paper and recycling sector originated both from the decrease in the sale of packaging and recycling as a result of the decrease of selling prices (sales in the sector are affected by dollar-denominated import prices), coupled with the quantitative decrease in sales originating from the importing of packaging paper at dumping prices from Europe, along with the decrease in demand from the local market and Israeli export operations during 2009.

The sales of the packaging products and board sector in 2009 amounted to NIS 477.8 million, compared to their consolidation for part of the reported period in 2008 year, in the amount of NIS 160.9 million.

Sales in the marketing of office supplies segment amounted to NIS 151.0 million in 2009, compared to NIS 131.1 million in the corresponding period in 2008, representing an increase of 15.2% that originated from the continued implementation of the segment's strategic growth plan by way of expanding the customer base.

The consolidated sales in the fourth quarter of 2009 amounted to NIS 237.6 million, compared to NIS 226.3 million in the corresponding quarter in 2008, representing an increase of approximately 5.0%. This increase originated primarily from the growth in sales of the packaging paper and recycling sector in view of the higher prices since September 2009, as mentioned above, coupled with the increase in the sales of the office supplies marketing sector in relation to the corresponding quarter in 2008 as well as the sales in the third quarter of 2009 in the amount of NIS 220.4 million, representing an increase of approximately 7.8%.

7. Cost of Sales

The cost of sales amounted to NIS 765.7 million, or 85.8% of sales, in 2009, compared to NIS 542.4 million, or 80.5% of sales in 2008. The increase in the cost of sales originates primarily from the consolidation of the results of Carmel and Frenkel CD in 2009, compared to their partial consolidation in 2008.

The gross profit totaled NIS 126.3 million in 2009, representing approximately 14.2% of sales, compared to NIS 131.1 million in 2008, representing 19.5% of sales exhibiting a decrease of 3.7% of the gross profit in 2009 in relation to the corresponding period in 2008.

The decrease in gross profit in relation to 2008 originated primarily from the decrease of the prices of packaging paper, as well as from the slowdown in the markets that led to a decrease in quantitative sales. Additional factors that contributed to the decrease in gross profit were the 3% increase in the price of water, that was offset by the lowering of paper collection costs and the procurement of raw materials, along with a 5% decrease in electricity prices. Additionally, the cost of sales included part of an amortization of NIS 4.3 million in excess cost as a result of the acquisition of Carmel and Frenkel CD in 2008.

8. Labor Wages

The labor wages within the cost of sales amounted to NIS 206.9 million in 2009, representing approximately 23.2% of sales, compared to NIS 149.2 million in 2008, representing approximately 22.2% of sales.

The labor wages within the selling, general and administrative expenses amounted to NIS 85.3 million during 2009, approximately 9.6% of sales, compared to the sum of NIS 73.9 million in 2008, approximately 11.0% of sales.

The increase in the cost of labor wages in relation to 2008 originated primarily from supplemental labor wages in the sum of NIS 105.2 million, stemming from the consolidation of Carmel and Frenkel CD, compared to NIS 34.4 million from their partial consolidation in the corresponding period in 2008. Net of labor expenses on account of Carmel and Frenkel CD, the labor expenses decreased by a rate of 0.9%.

Moreover, the cost of labor includes the labor costs derived from the issue of options to executives and the allocation of the expenditure thereupon at a cumulative rate of NIS 3.8 million in 2009, an expenditure not involving cash flows.

As part of the alignment with the global economic crisis, the Company's management adopted a policy of mutually-agreed pay cuts for executives. In this capacity, senior executives and managers voluntarily agreed to cut their wages by 8%-10% in 2009, while senior employees agreed that their wages be cut by 5%. The Company also decided to freeze any raises in labor wages for employees under a personal employment contract in 2009.

9. Selling, General and Administrative Expenses

The selling, general and administrative (including wages) and other expenses amounted to NIS 110.7 million in 2009, or 12.4% of sales, compared to NIS 95.7 million, or 14.2% of sales in 2008. When the revenues were neutralized as a result of the distribution of a unilateral dividend on account of a preferred share that was allocated by an associated company in the sum of NIS 16.4 million, the selling general, administrative and other expenses amounted to NIS 127.1 million.

The increase in selling, general and other expenses originated primarily from the consolidation of the expenses of Carmel and Frenkel CD in the Company's financial statements in the sum of NIS 54.0 million, compared to their consolidation during the part of last year, in the sum of NIS 17.3 million. The general and administrative expenses also included an amortization of excess cost in the sum of NIS 2.9 million, on account of excess cost recorded during the acquisition of Carmel and Frenkel CD in 2008. Net of the expenses of Carmel and Frenkel CD, and net of non-recurring income, the Selling General and Administrative expenses decreased by approximately NIS 5.3 million.

10. Operating Profit

The operating profit totaled NIS 15.6 million in 2009, 1.7% of sales, compared to NIS 35.4 million. 5.2% of sales, in 2008. The decrease in operating profits originated from the erosion of selling prices, coupled with the quantitative erosion of packaging paper and recycling, as a result of the imports of packaging paper at dumping prices, which was offset by the recording of non-recurring revenues of NIS 16.4 million on account of a unilateral dividend.

The operating loss of the packaging paper and recycling sector amounted to NIS 2.8 million in 2009, compared to the operating profit of NIS 38.7 million in 2008, primarily as a result of dumping prices of competing imports that served to erode the prices and quantities as mentioned above.

The operating profit of the packaging products and board segment amounted to NIS 14.7 million in 2009, compared to an operating loss of NIS 6.2 million in 2008. The improvement in the operating profit in the sector was primarily due to the erosion in input prices and the implementation of an aggressive efficiency program that compensated for the erosion in the quantities sold and in the selling prices.

The operating profit of the office supplies sector amounted to NIS 4.0 million in 2009, compared to NIS 3.2 million in 2008.

The operating profit in the fourth quarter of the year amounted to NIS 0.4 million, compared to an operating loss of NIS 2.6 million in the corresponding quarter in 2008 and an operating profit of NIS 1.2 million in the third quarter of the year. The change in the operating profit for the quarter in relation to the loss in 2008 originates primarily from the transition from an operating loss from the packaging products and cardboard sector in the fourth quarter of 2008 that originated from inventory hedging transactions, to an operating profit in the fourth quarter of 2009 as a result of the utilization of the erosion of raw material prices in the sector and the continued implementation of the efficiency program. The increase in operating profits in the fourth quarter was offset due to the transition to an operating loss of the packaging paper and recycling sector in relation to the corresponding quarter in 2008, as a result of the aforementioned dumping of prices.

11. Financial Expenses

The financial expenses totaled NIS 18.3 million in 2009, compared to NIS 15.0 million in 2008, representing growth of 22.0%.

The total average of net interest-bearing liabilities charged to the Company’s financial expenses, decreased by an average of NIS 3 million between 2008 and 2009. This decrease originated primarily from the positive cash flows from operating activities between the periods, net of the current investments in fixed assets.

The interest on the short-term credit decreased by approximately NIS 0.8 million, as a result of both the decrease in the average balance of short-term credit and the lower interest rate between the two periods. The interest expenses in respect to CPI-linked long-term liabilities (debentures) decreased by NIS 4.3 million compared to the corresponding period in 2008, as a result of both the decrease in the balance of debentures following redemptions made to the holders of the debentures and the hedging transactions on the CPI-linked debentures against the increase in the CPI, whose costs amounted to 0.3% per annum in 2009, compared to 2.6% in 2008. An additional factor that contributed to the decrease of the aforementioned interest expense was the valuation of the hedging transactions to their fair value in accordance with international standards. The actual CPI rose by 3.9% in 2009.

Financial revenues of NIS 5.2 million were included in the Annual Report of 2008 on account of a currency transaction on the dollar and were not included in the Annual Report of 2009.

12. Taxes on Income

The tax revenues on income amounted to NIS 7.1 million in 2009, compared to tax expenses of NIS 3.7 million in 2008. The tax revenues originated primarily from the decrease in pretax profits in the amount of NIS 23.0 million, coupled with the change of the tax rates in the following years that generated deferred tax revenues in the amount of NIS 8.6 million, which were offset as a result of recording a provision for taxes on account of events that were included in the reported period.

13. Company's Share in Earnings of Associated Companies

The companies whose earnings are reported under this item (according to Hadera Paper's holdings therein), primarily include Hadera Paper Printing, H-K and KCTR Turkey.

The Company's share in the earnings of associated companies totaled NIS 87.4 million in 2009, compared to NIS 51.3 million in 2008.

The following principal changes were recorded in the Company's share in the earnings of associated companies, in relation to 2008:

- The Company's share in the net profit of Hadera Paper Printing (49.9% in 2009) rose by NIS 4.5 million. The increase in profits originated primarily from an increase in the operating profit of Hadera Paper Printing that grew from NIS 34.1 million in 2008, to NIS 40.5 million in 2009, despite the erosion of prices impacted by imported goods priced at dumping prices. This increase in profits resulted from the implementation of an aggressive efficiency program in operations and purchasing, as well as a decrease in input prices. The net profit also grew, as the tax rate was changed, after which the Company, subsequently, recorded tax revenues in the sum of NIS 6.4 million which was offset by the increase in financial expenses during the reported period compared to 2008. The increase in the financial expenses resulted primarily from the devaluation of the NIS against the U.S. dollar.

- The Company's share in the net profit of H-K Israel (49.9% in 2009) increased by NIS 21.5 million. H-K's operating profit grew from NIS 169.0 million to NIS 210.0 million in 2009. The improved operating profit originated from a quantitative increase in sales, improved selling prices in some of the sectors of operation, innovation of products and empowerment of the H-K's brands, a decrease in the prices of certain companies inputs on account of the erosion of global commodity prices, continued implementation of efficiency measures throughout the Company and growing savings which also contributed significantly to the improved profit.

- The Company's share in the losses of KCTR Turkey (49.9% in 2009) was reduced by NIS 8.1 million. The significant decrease in the loss is attributed primarily to growth in the volumes of operation (see above - "Strategic Investment in Turkey") that led to the continued reduction in the operating loss, from NIS 33.4 million in 2008 to approximately NIS 14.7 million in 2009. Moreover, due to the increase in the shareholders' equity of KCTR through a financial influx from H-K in 2008 and during the reported period of the 2009 Annual Report, as well as the repayment of bank loans, the financial expenses were reduced, thereby leading to an additional reduction in the net loss.

5B. Liquidity and Capital Resources

1. Cash Flows

The cash flows from operating activities in 2010 amounted to NIS 193.1 million, as compared with NIS 179.2 million in 2009. The growth in the cash flows from operating activities in 2010 in relation to last year, originated primarily from the growth in the earnings from operating activities, coupled with the Company share in the dividends of associated companies, that was offset as a result of an increase in working capital this year in relation to last year, amounting to NIS 9.4 million, as compared with a decrease of approximately NIS 39.6 million last year. The increase in working capital this year originated primarily from an increase in the accounts receivable balances, an increase that was partially offset by the growth in the payable balances on account of a payable debt in the sum of NIS 49.4 million on account of the acquisition of control over Hadera Paper Printing.

The Company possesses positive cash flows from operating activities, according to its interim consolidated financial statements dated December 31, 2010. However, the Company's ongoing cash flows from operating activities in its separate financial statements, according to Regulation 38D of the Reporting Regulations ("Separate Financial Statements"), are negative. In light of the above, the Company's Board of Directors conducted a discussion during its meeting on November 7, 2010, about Regulation 10(b)(14) to the Securities Regulations (Periodical and Immediate Reports) - 1970 ("Reporting Regulations") and determined that the ongoing negative cash flows from operating activities in the separate financial statements as at December 31, 2010, does not indicate a liquidity problem on the part of the Company. This determination is based on an examination of the expected cash flows of the Company and on the Company's ability to raise additional credit on the basis of an economic calculation performed by the Company, and after having the report of cash flows that is included in the Company's separate financial statements presented to the Board of Directors and discussed by the board.

The data that served the board of Directors as a basis for its estimation included the expected cash flows of the Company for the next two years, based on the balance of cash and deposits as at the date of the report above mentioned, totaling NIS 43.8 million held by the Company, cash flows from operating activities in the sum of NIS 105 million in the coming year (approximately NIS 89.5 million in the following year), originating from Company estimates regarding cash flows from revenues from operating activities, cash flows from dividends and the repayment of loans from investee companies. Cash flows created from investment activities totaling approximately NIS 9.9 million (net) in the coming year (approximately NIS 5 million that will serve for investment activities the following year), originating from the realization of real estate assets and an increase in holdings in investee and associated companies. The cash flows that will serve for financing activities, totaling approximately NIS 155 million in the coming year (approximately NIS 83.5 million in the following year), originating from the utilization of short-term credit, to serve for the repayment of loans plus interest, net. In addition to the above, the Company is able to raise additional credit in the total sum of approximately NIS 280 million, also by way of recycling existing bank credit, for its continued operating activities and for making investments.

2. Financial Liabilities

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

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

The Company uses notes to finance its activities as of December 31, 2010, these notes consisted of the following:

- On December 21, 2003, the Company issued notes through tender by private placement to institutional investors in the aggregate amount of NIS 200 million. These notes carry an interest rate of 5.65% per annum (a margin of 1.45% above government notes with a comparable average maturity at the time). The unpaid balance of the notes as of December 31, 2010, in the amount of NIS 101 million are to be repaid in three equal annual installments, each on December 21st of the years 2011-2013, with both the principal and the interest being linked to the CPI. The notes are not convertible into the Company's ordinary shares and shall not be registered for trade on a public exchange.

- On July 14, 2008, the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008, of a new series of debentures. The Company has offered an aggregate principal amount of NIS 187.5 million of debentures issued in return for approximately NIS 187.5 million bearing an interest rate of 4.65% per annum. The unpaid balance of the notes (Series 3) as of December 31, 2010, in the amount of NIS 179.8 million is payable annually, in 8 equal annual installments, each on July 10th of the years 2011-2018. The notes, principal and interest, are linked to the CPI (base CPI of May 2008). The debentures are not convertible into shares of the Company.

- On July-August, 2008, the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008. The Company offered an aggregate principal amount of approximately NIS 235.6 million of debentures issued in return for approximately NIS 240.4 million bearing an interest rate of 7.45%, per annum. The unpaid balance of the notes (Series 4) as of December 31, 2010, in the amount of NIS 196.3 million is payable annually, in 5 equal annual installments, each on July 10th of the years 2011-2015. The debentures are not convertible into shares of the Company.

- On May, 23 2010, the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008. The Company offered an aggregate principal amount of NIS 181.5 million of debentures issued in return for approximately NIS 179.9 million, bearing an interest rate of 5.85%, per annum. The unpaid balance of the notes (Series 5) as of December 31, 2010, in the amount of NIS 181.5 million is payable annually, in 5 equal annual installments, each on November 30th of the years 2013-2017. The interest is payable half annually each on May 31st and November 30th of the years 2011-2017. The debentures are not convertible into shares of the Company.

As of December 31, 2010 the balance of the notes amounts to NIS 657.8 million, is after deduction of issuance costs (on December 31, 2009, the amounts were NIS 566.0 million).

The long-term liabilities (including current maturities) of the Company amounted to NIS 989.6 million as of December 31, 2010, compared with NIS 847.6 million as at December 31, 2009.

The net debt, as at December 31, 2010, net of the deposits and cash balance, amounted to NIS 1,013.2 million, compared to the net debt of NIS 825.3 million as of December 31, 2009.

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In July 2010 the Supervisor of the Capital Market, Insurance and Savings at the Ministry of Finance published a circular which sets forth the Committee's recommendations for establishing parameters for institutional bodies' investments in non-government bonds. The circular, inter alia, includes provisions regarding the formulation of internal policies by institutional bodies prior to investing in bonds, the information required by such bodies to review and monitor investment in bonds, the mechanisms for cooperation between institutional bodies on certain matters relating to investment in bonds, the provisions that should be included in the bond documents as a condition for institutional bodies' investment therein and the requirement of institutional bodies to establish an investment policy (including with respect to rights to call in loans which would be included in the bonds), which addresses contractual criteria for the bonds and their various issuers. Most of the directives entered into force in October 2010.

The memorandum of the Supervisor and the manager in which the recommendations are adopted as they appear in the report of the Committee, may hold implications on the ability to raise capital from institutional entities by way of bonds, including the terms and the price of raising such capital. As at the date of the reports the Company is yet unable to identify these influences.

The Company uses loans from local financial institutions, mostly banks, to finance its activities. As of December 31, 2010, these loans consisted of the following:

- Short-term credit from banks – the Company has a bank credit facility of approximately NIS 649.6 million, of which, as of December 31, 2010, some NIS 144.6 million were utilized. The Company does not have any credit limitations (i.e. – financial covenants) other than this. See Notes 10b, 10c and 15c of our consolidated financial statements contained elsewhere in this Annual Report.

    - Notes – see Note 10a of our consolidated financial statements contained elsewhere in this Annual Report.

- Long Term Loans – see Note 10b of our consolidated financial statements contained elsewhere in this Annual Report.

- Financial Parameters and Covenant – see Note 10c of our consolidated financial statements contained elsewhere in this Annual Report.

For information regarding financial instruments used for hedging purposes and market risks, see Note 19 of our consolidated financial statements contained elsewhere in this Annual Report, and "Item 11 - Quantitative and Qualitative Disclosure about Market Risk".

3. Financial Liabilities at Fair Value through the Statement of Income

There exists a put option for a certain shareholder in an associated Company. For information regarding the put option see note 17a of our consolidated financial statements contained elsewhere in this Annual Report.

Liability on account of the put option to a shareholder of an associated Company, as at December 31, 2010, in December 31, 2009, is presented in the sum of NIS 31.5 million, and NIS 12.0 million, respectively.

On account of the put option to associated company - until its consolidation on December 31, 2010 - other expenses of NIS 0.9 million were recorded in 2010, compared to other income of NIS 1.9 million in 2009.

The principal factors responsible for the change originated from an agreement signed by the Company for the acquisition of 25.1% of the shares of Hadera Paper Printing ("Transaction Agreement") determining economic calculation of the value of the option and its blocking for three years. Regarding additional agreements arising from the Transaction Agreement and their potential impact on the terms of the option, see Note 17 of our consolidated

financial statements contained elsewhere in this Annual Report.

For further information regarding the put option, see “Item 4. – Information on the Company – History and Development of the Company”.

4. Material Commitments for Capital Expenditures

- In the last quarter of 2007, the Company entered into an agreement with a gas company for the delivery of gas for a period of six years with a two-year extension option. The total financial value of the transaction is NIS 13.8 million.

- During the years 2008 and 2009, the Company engaged in a contract with the main equipment suppliers for the new manufacturing facility of packaging papers (“Machine No. 8”), for the total sum of €62.3 million. Most of the equipment was supplied during 2008, 2009 and 2010. The balance as of December 31, 2010 is approximately 4 million Euro.

- On November 3, 2008, the general meeting of the Company approved the validity of a lease agreement signed on September 18, 2008 between the Company and Gav-Yam Lands Ltd. ("Lessor"), a public company indirectly controlled by the controlling shareholder of the Company, pursuant to which the Company rented a plot in Modi'in, with a space of 74,500 square meters, and buildings that the lessor plans to build for the Company, covering a total space of 21,300 square meters, which is used as a center for the purposes of logistics, industry and office ("Logistic Center") for subsidiaries and associated companies of the Company and in part substitutes existing lease agreements. The term of the lease is 15 years from the date of the transfer of possession of the leased property. In addition the Company has an option to extend the lease for an additional 9 years and 11 months. The cost of the annual lease amounts to NIS 13.6 million linked to the Consumer Price Index of July 2008.

- In December 2006 Natural Gas Lines informed the Company that owners of lands close to the gas transportation lines initiated a damages claim against Natural Gas Lines in regard to impairment. It should be noted that the agreement between the Company and Natural Gas Lines addresses the indemnification of Natural Gas Lines as part of the payment of compensation due to harm to adjacent land. The proceeding was conducted before the appeals committee and the Company was not a party to the proceedings. On February 25, 2010, the Company received the committee's decision to set the damages at NIS 2.67 million. Natural Gas Lines and the land owners appealed the committee's decision. On December 10, 2010, these appeals were rejected. The Company received a payment demand from Natural Gas Lines and recorded a provision on its financial statements as of December 31, 2010.

C. Research and Development, Patents and Licenses, etc.

There were no significant investments in research and development activities during the last three years. However, during 2010, the Company purchased some 18.37% of the shares of Bondex (16.84%, on a fully diluted basis), in consideration of $450 thousand. Bondex deals in research and development of bonder, a biological material (grown in tobacco leaves, designated to provide improved features in strength and water resistance of paper. This material still in the process of early development. Development is in the initial stages, and it would seem that significant development expenses are not anticipated over the coming year. Note that Bondex's operations are not material to the overall group's operations at this stage.

During February 2011, a foreign investor purchased shares in Bondex. Following this investment, the Company's holdings in Bondex total 16.33% and, on a fully diluted basis (assuming realization of the options granted to the investor), 13.70%.

D. Trend Information

For further information see "Item 5 - The Business Environment".

E. Off Balance Sheet Arrangements

Subsidiaries provided guarantees to various entities, in connection with tenders, in the aggregate amount of approximately NIS 3,470 thousand.

F. Contractual Obligations

| | | Payment due by Period | | | |
|---|---|---|---|---|---|
| in millions of NIS | Total | Less than 1 year | 1-3 years | 4-5 years | More than 5 years |
| Long term debt obligations* | 1,180.6 | 230.9 | 440.2 | 307.7 | 201.8 |
| Purchase obligations | 553.6 | 74.7 | 103.4 | 76.3 | 299.2 |

* Including interest.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A Directors and Senior Management

The following table sets forth certain information with respect to the directors and executive officers of the Company, as of March 28, 2011:

| Name | Age | Position/Principal Occupation |
|---|---|---|
| Senior management of the Company and its subsidiaries | | |
| Ofer Bloch | 51 | Chief Executive Officer and Chairman of the Company's subsidiaries |
| Shaul Gliksberg | 49 | VP Finance and Business Development |
| Lea Katz | 60 | Legal counsel and Corporate Secretary (until October 31, 2010) |
| Yael Nevo | 43 | Legal counsel and Corporate Secretary (from November 1, 2010) |
| Gur Ben David | 59 | General Manager of Packaging, Paper and Recycling Division. |
| Gideon Liberman | 61 | General Manager of Development and Infrastructure Division, VP Operations |
| Amir Moshe | 45 | General Manager, Graffiti Office Supplies & Paper Marketing Ltd. |
| Uzi Carmi | 55 | General Manager, Amnir Recycling Industries Ltd. |
| Simcha Kenigsbuch | 53 | Chief Information Officer |
| Doron Kempler | 61 | General Manager, Carmel Container Systems Ltd. |
| David Basson | 51 | VP Group Supply Chain |
| Zvi Abramovits | 51 | VP Human Resources (from March 1, 2011) |
| Michal Mendelson | 52 | Group Marketing Manager |
| Noga Alon | 46 | Group Organizational Development Manager |
| Abraham Tenenboum | 59 | Development and Innovation Manager |
| Shmuel Molad | 58 | Accountant |
| Eli Greenbaum | 59 | Internal Auditor |
| Avner Solel | 56 | General Manager, Hadera Paper Printing and Writing Paper Ltd. |
| | | |
| Senior management of the associated companies | | |
| Ari Melamud | 43 | General Manager, Hogla-Kimberly Ltd. |

| Directors of the Company | | |
|---|---|---|
| Zvi Livnat(1) | 58 | Chairman of the Board |
| Amos Mar-Haim(2) | 72 | Director |
| Isaac Manor(3) | 69 | Director |
| Adi Rozenfeld(4) | 54 | Director |
| Roni Milo(5) | 60 | Director |
| Samuel Avital(6) | 60 | Director (from December 22, 2010) |
| Avi Yehezkel(7) | 51 | Director (until November 7, 2010) |
| Avi Fischer(8) | 55 | Director (until December 12, 2010) |
| Atalya Arad(9) | 56 | External Director |
| Aliza Rotbard(10) | 65 | External Director (from March 21, 2011) |
| Dan Vardi(11) | 71 | Director (from December 22, 2010) |
| Amir Makov(12) | 76 | External Director (until March 1, 2011) |

(1) Mr. Livnat has been a member of our Board of Directors since 2003 and was appointed Chairman of our Board of Directors in 2006.
(2) Mr. Mar-Haim has been a member of our Board of Directors since 1984.
(3) Mr. Manor has been a member of our Board of Directors since 2003.
(4) Mr. Rozenfeld has been a member of our Board of Directors since 2004.
(5) Mr. Milo has been a member of our Board of Directors since 2007.
(6) Mr. Samuel Avital has been a member of our Board of Directors since December 22, 2010.
(7) Mr. Yehezkel has been a member of our Board of Directors since 2003.
(8) Mr. Fischer has been a member of our Board of Directors since 2004.
(9) Mrs. Arad has been a member of our Board of Directors since 2008.
(10) Ms. Aliza Rotbard has been a member of our Board of Directors since March 21, 2011.
(11) Mr. Vardi has been a member of our Board of Directors since December 22, 2010.
(12) Mr. Makov has been a member of our Board of Directors since 2005.

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

Mr. Zvi Livnat. Mr. Livnat has been a member of our Board of Directors since 2003 and was appointed Chairman of our Board of Directors in April, 2006. In addition, Mr. Livnat serves as Co-CEO of Clal Industries and Investments Ltd., Deputy Chairman of IDB Development Corporation Ltd., a Deputy CEO and director of IDB Holding Corporation Ltd. and a director of Discount Investments Corporation Ltd. Mr. Livnat also serves in prominent positions in other public and private companies. Mr. Livnat is a graduate HND Business Studies &Transport (CIT) - Dorset Institute of Higher Education, Bournemouth, United Kingdom.

Ms. Atalya Arad. Ms. Arad has served as a member of the Board of Directors of the Company since 2008. Ms. Arad serves as an External Director of “Bank Otsar Ha-hayal”. Previously, during 2004-2008, Ms. Arad served as the head of the Investigation Department of the Israel Securities Authority. During 2000- 2004, Ms. Arad served as a head of fraud investigations department) chief superintendent) in the Israeli Police Ms. Arad holds a masters degree in sociology from the Hebrew University of Jerusalem.

Mr. Roni Milo. Mr. Milo has served as a member of the Board of Directors of the Company since 2007. Mr. Milo served as Chairman of Azorim from 2003-2006, as well as Chairman of the Israeli Cinema Council during the same period. He also serves as a Director of Bank Yahav. Mr. Milo is a lecturer of social science at Bar Ilan University. Mr. Milo holds a LLB degree from Tel-Aviv University.

Mr. Avi Fischer. Mr. Fischer is a former director. Mr. Fischer served as a member of the Board of Directors of the Company from 2004 until December 22, 2010. Mr. Fischer is a Co-CEO of Clal Industries and Investments Ltd., Deputy Chairman of IDB Development Ltd., Deputy CEO of IDB Holdings Corporation Ltd., and Chairman and Director of several public and private companies in the Ganden Group and the IDB Group. He is a senior partner in Fischer, Behar, Chen & Co., Law Offices. Mr. Fischer holds a LLB degree from Tel-Aviv University.

Mr. Isaac Manor. Mr. Manor has served as a member of the Board of Directors of the Company since 2003. Mr. Manor is a Deputy Chairman of IDB Holdings Corporation Ltd. A director of IDB Development Ltd, Discount Investments Corporation Ltd., Clal Industries and Investments Ltd. and various publicly-traded and privately-held companies within the IDB Group, the Israel Union Bank Ltd. and others. He also serves as chairman and as a director of companies in the David Lubinsky Group Ltd. Mr. Manor holds a masters degree in Business Management from the Hebrew University of Jerusalem.

Mr. Amos Mar-Haim. Mr. Mar-Haim has served as a member of the Board of Directors of the Company since 1984. Mr. Mar-Haim is a member of the Israel Accounting Standards Board and a director of various companies. He is the Deputy Chairman of Phoenix Investments & Finances Ltd., Chairman of Migdal Underwriting & Promotion of Investments Ltd. and is a member of the Active Committee of the Public Companies Union. Mr. Mar-Haim holds a B.A. in Economics and M.A. in Business Management with specialization in Finance from the Hebrew University of Jerusalem.

Mr. Adi Rozenfeld. Mr. Rozenfeld has served as a member of the Board of Directors of the Company since 2004. Mr. Rozenfeld is a businessman, an Honorary Consul of Slovenia in Israel and a Director of Clal Industries and Investments Ltd. Mr. Rozenfeld also serves as a representative of Activa Holdings in Israel. Mr. Rozenfeld is a graduate of General History from Haifa University.

Mr. Avi Yehezkel. Mr. Yehezkel is a former director. Mr. Yehezkel served as a member of the Board of Directors of the Company from 2003 until November 7, 2010. Mr. Yehezkel is an External Director at Bank Yahav. Mr. Yehezkel served as a Knesset member from 1992-2003. Mr. Yehezkel holds a graduate degree in Economics from Tel-Aviv University, and holds a LLM degree from Bar- Ilan University.

Ms. Aliza Rotbard. Ms. Rotbard has served as a member of the Board of Directors of the Company since March 21, 2011. Ms. Rotbard serves as a director of various companies. Ms. Rotbard served as a director of Clal Investment Ltd. until March 17, 2009. and Chairman of Prisma Shukey Hon Ltd. Furthermore, Ms. Rotbard represents the public on the boards of various companies. Ms. Rotbard is recognized as an expert in accounting and financial issues. Ms. Rotbard holds a B.Sc in Mathematics and Physics from the Hebrew University of Jerusalem.

Mr. Amir Makov. Mr. Makov served as a member of the Board of Directors of the Company from 2005 until March 1, 2011. Mr. Makov is Chairman of The Israel Institute of Petroleum & Energy, and a director in the following companies: ICL Fertilizers (Dead Sea Works, Rotem Amfert Negev), ICL Industry Products (Dead Sea Bromine Company), and Pigmentan Ltd. He is also an external director in Wolfman Industries and in Leumi Card Ltd. Mr. Makov served as an external director of the Company from 1996-2001. Mr. Makov holds a B.Sc in Chemical Engineering from the Technion - Israel Institute of Technology and holds a LLM from the Hebrew University of Jerusalem.

Mr. Dan Vardi. Mr. Vardi has served as a member of the Board of Directors of the Company since December 22, 2010. Mr. Vardi is the CEO of Clal Energy Ltd. and the former CEO of Israel Natural Gas Lines Ltd. Mr. Vardi is a director in the following companies: Tigo Energy Inc., Clal P.V. Ltd. and Global Wind-Energy Ltd. Mr. Vardi holds a B.Sc in Economics and a B.Sc in Political Science from the Hebrew University of Jerusalem. In addition he holds an Advanced Engineering Studies degree from MIT University, Boston, USA, and an Advanced Management Program degree from Harvard University, Boston, USA.

Mr. Samuel Avital. Mr. Avital has served as a member of the Board of Directors of the Company since December 22, 2010. Mr. Avital is Chairman of Maxima Air Separation Center Ltd. and former Chairman of Hamashbir Latzarchan Ltd. and Hadas Mercantile Investment House. Mr. Avital is a member of the Board of Directors of Amot Investment Ltd., the Organization of Veteran Pension Funds and B.S.R. Engineering Ltd.

Mr. Ofer Bloch. Mr. Bloch is our Chief Executive Officer and Chairman of the Company's subsidiaries. Mr. Bloch also serves as a Director in H-K, Hogla-Kimberly Marketing Ltd., Mollet Marketing Ltd., KCTR, Mondi Hadera Paper Ltd. and Cycltec. Mr. Bloch also serves as an external director of Walla Ltd. Prior to this, Mr. Bloch served as the Chief Executive Officer of Lidcom Integrated Solutions Ltd. Between 2006-2009, Mr. Bloch served as the Chief Executive Officer and President of Netafim Ltd. and between 2003-2006, Mr. Bloch was the Chief Executive Officer of DBS Satellite Services (1998) Ltd. (yes). Mr. Bloch holds a graduate degree in Economics and Political Science from Tel-Aviv University, and holds an MBA degree from Tel Aviv University.

Mr. Shaul Gliksberg. Mr. Gliksberg serves as the VP Finance and Business Development of the Company, a position he holds since January 31, 2010. Mr. Gliksberg also serves as a director in Hadera Paper Industries Ltd., Amnir, Graffiti, Atar, Carmel, Frenkel CD and Mondi. Prior to this, Mr. Gliksberg served as VP Finance in Africa Israel Investments Ltd. and Chief Financial Officer of Tnuva Ltd. Mr. Gliksberg is a C.P.A., holds a graduate degree in Economics and Accounting from Bar-Ilan University and holds a MBA degree from Tel Aviv University.

Mr. Eli Greenbaum. Mr. Greenbaum serves as the Internal Auditor of the Company, its subsidiaries (except for Carmel) and its associated companies (except for KCTR). Prior to this, Mr. Greenbaum was the finance manager of the Company's Packaging and Recycling Division. Mr. Greenbaum is a CPA and holds a graduate degree in Economics and Accounting from Tel-Aviv University.

Mr. Gideon Liberman. Mr. Liberman serves as the Company's VP Operations, Chief Executive Officer of Hadera Paper Infrastructures Ltd. and as a director in Hadera Paper Industries Ltd. and Hadera Paper Infrastructure Ltd. Mr. Liberman holds a graduate degree in Mechanical Engineering from Ben Gurion University and holds a MBA in from Polytechnic University, New York.

Mr. Gur Ben-David. Mr. Ben-David serves as the Chief Executive Officer of the Packaging and Recycling Division and a Director in Amnir and Hadera Paper Industries Ltd. Mr. Ben David holds a graduate degree in airline companies management from New Haven University, Connecticut.

Ms. Lea Katz. Ms. Katz served as the Legal Counsel and the Corporate Secretary of the Company until October 31, 2010. Ms. Katz holds a LLB degree from Tel Aviv University.

Ms. Yael Nevo. Ms. Nevo serves as the Legal Counsel and the Corporate Secretary of the Company. She has held this position since November 1, 2010. Since 2009, Ms. Nevo is an external director of Analyst IMS Investment Management Services Ltd. Ms. Nevo holds a LLB degree from Tel Aviv University.

Ms. Michal Mendelson. Ms. Mendelson serves as the Group Marketing Manager. Ms. Mendelson holds a B.Sc. in Industrial Engineering and Management from the Technion - Israel Institute of Technology.

Mr. Simcha Kenigsbuch. Mr. Kenigsbuch serves as the Chief Information Officer of Hadera Paper Group. Mr. Kenigsbuch holds a graduate degree in Mathematics and Computer Science from Bar-Ilan University.

Ms. Noga Alon. Ms. Alon serves as the Group Organizational Development Manager. Ms. Alon holds a graduate degree in Behavioral Sciences from Ben-Gurion University and holds a MBA degree, specializing in organizational consultation from the Ono Academic College.

Mr. Abraham Tenenbaum. Mr. Tenenbaum serves as the Development and Innovation Manager of the Company. Previously, Mr. Tenenbaum served as the Technology Manager of Hadera Paper Infrastructure Ltd. Mr. Tenenbaum is a graduate of Chemical Engineering from the Technion - Israel Institute of Technology.

Mr. David Basson. Mr. David Basson serves as the VP Group Supply Chain of the Company, a position he has held since March 1, 2010. Prior to this, Mr. Basson was the Group Purchasing Manager of the Company. Mr. Basson holds a graduate degree in Industrial Engineering and Management from Ben-Gurion University.

Mr. Shmuel Molad. Mr. Molad serves as the Company's controller, a position he has held since February 2006. Mr. Molad is a CPA and holds degree in accounting and economics from Bar-Ilan University, including additional studies in finance and business administration.

Mr. Uzi Carmi. Mr. Uzi Carmi serves as the General Manager of Amnir, a position he has held since 1999. Mr. Carmi holds a graduate degree in Business Management for Managers from the Ruppin Academic Center, and also holds a diploma in Marketing Management Specialization from the Management Faculty of Tel-Aviv University.

Mr. Amir Moshe. Mr. Amir Moshe serves as the General Manager of Graffiti, a position he has held since December, 2006. Prior to this, Mr. Moshe served as V.P. of HaMashbir Hachadash Latsarchan.

Mr. Doron Kempler. Mr. Doron Kempler serves as the General Manager of Carmel, a position he has held since May 2001. Mr. Kempler holds a LLM a masters degree in Public Administration from Bar-Ilan University.

Mr. Avner Solel. Mr. Avner Solel serves as the General Manager of Mondi, a position he has held since 1999. Mr. Solel is a holds a graduate degree in Industrial Engineering and Management and a MBA from Tel Aviv University.

Mr. Ari Melamud. Mr. Ari Melamud serves as the General Manager of H -K, a position he has held since July 2009. Prior to this, Mr. Melamud served as the Managing Director of KCTR. Mr. Melamud holds a graduate degree in Business Administration from the College of Business Management in Tel-Aviv

Mr. Zvi Abramovits. Mr. Abramovits serves as V.P, of Human Resources, a position he has held since March 1, 2011. Mr. Abramovits is the former assistant director general of the National Water Sources Company Ltd. and former V.P of Human Resources of Tnuva. Mr. Abramovitz holds an Organizational Consulting graduate degree from Haifa University and a B.A in Business Administration from the American Coastline University.

6.B Compensation

The aggregate amount of remuneration paid to all directors and senior officers of the Company and its subsidiaries (31 officers and directors) as a group for services provided by them during 2010 was approximately NIS 21,957, 712. The aggregate amount set aside for pension, retirement or similar benefits for all directors and senior officers of the Company and its subsidiaries as a group for services provided by them during 2010 was approximately NIS 2,628,993.

The aggregate remuneration above includes payments to the Company's five most-highly compensated officers*.

Following below is the accounting cost of remuneration (remuneration paid during the reporting year, including the Company's undertakings of remuneration on account of the reported year) for the five highest-paid senior officers of the Company.

| Recipient Details | | | | Remuneration for Services (in NIS thousands) | | | | Total in NIS Thousands |
|---|---|---|---|---|---|---|---|---|
| Name | Position | Scope of employment | Holding rate in company equity, fully diluted | Salary | Bonus | Other | Share-based payment in respect of options * | Total |
| Ofer Bloch1 | Group CEO | 100% | - | 1,8792 | 7503 | | | 2,629 |
| Shaul Glicksberg4 | VP Finance and Business Development | 100% | 0.11% | 1,3895 | 3506 | | 387 | 1,777 |
| Gideon Lieberman8 | COO | 100% | 0.11% | 1,1349 | 30010 | | 3811 | 1,472 |
| Shimon Biton12 | Combined Energy CEO | 100% | 0.05% | 1,15213 | 20014 | | 3815 | 1,390 |
| | | 100% | 0.13% | 1,03217 | 30018 | | 3819 | 1,370 |

| | |
|---|---|
| Gur Ben David16 | General Manager, Packaging Paper & Recycling Division |

The sums appear in terms of the cost to the Company in 2010.

*Sum appearing in column “share based payment” reflects the expenditure recorded by the Company in its 2010 financial statements according to IFRS 2 on account of the granting of option warrants.

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* Following below is the accounting cost of remuneration (remuneration paid during the reporting year, including the Company’sundertakings of remuneration on account of the reported year) for the five highest-paid senior officers of the Company.

The exercise periods of the option warrants are as follows:

- The offeree will be eligible to exercise into options one quarter of the quantity of the stock options (starting one year after January 14, 2008) (the "Determining Date") and up to four years from the Determining Date.

- The offeree will be eligible to exercise into shares one additional (second) quarter of the quantity of option warrants, starting two years from the Determining Date and up to four years from the Determining Date.

- The offeree will be eligible to exercise into shares an additional (third) quarter of the total sum of stock options, starting with the end of three years from the Determining Date and until the end of five years from the Determining Date.

- The offeree would be eligible to exercise into shares an additional (fourth) quarter of the total sum of stock options allocated to him according to the plan, starting with the end of four years from the Determining Date and until the end of six years from the Determining Date.

1. Mr. Ofer Bloch began his tenure as CEO of the Company on January 1, 2010. According to the employment contract, any one of the parties is eligible to terminate the engagement at any time while providing advanced notice of three months.
2. The wage component appearing in the above table includes all the following components: Labor wages, social and additional deductions as normally accepted, bonus 13th paycheck annually and company car.
3. The sum appearing in the column "bonus" is a provision on account of some of the annual bonus approved the Board of Directors of the Company for payment to Mr. Ofer Bloch for the year 2010 and that will actually be paid in 2011. According to the employment agreement, the annual bonus of the CEO the equal to 6-9 monthly salaries, according to the discretion of the Board of Directors of the Company.
4. Shaul Glicksberg has been employed as VP Finance at the Company since January 1, 2008. According to the employment agreement, each one of the parties may terminate the engagement at any time while providing advanced notice of three months.
5. The wage component appearing above includes all of the following components: basic salary, social and additional deductions as normally accepted, bonus 13th paycheck annually and company car.
6. The sum appearing under the "bonus" column is the bonus that the Company decided to pay to Shaul Glicksberg in the March 2011 paycheck, on account of 2010. Shaul Glicksberg does not have a guaranteed bonus and the sums of the bonuses were determined according to the discretion of the Board of Directors, in appreciation of the contribution of Shaul Glicksberg to the results of operation of the Company.
7. On March 10, 2008, Shaul Glicksberg was allocated 11,000 option warrants, exercisable into up to 11,000 ordinary shares of the Company, in accordance with the terms of the employee stock option plan adopted by the Company.
8. Gideon Lieberman, has been employed as COO of the Company since August 25, 1975. According to the employment agreement, each of the parties may terminate the engagement at any time by providing advanced notice of three months.
9. The wage component appearing in the above table includes all the following components: Labor wages, social and additional deductions as normally accepted, bonus 13th paycheck annually and company car.
10. The sum appearing under the "bonus" column is the bonus that the Company decided to pay to Gideon Lieberman in the March 2011 paycheck, on account of 2010. Gideon Lieberman does not have a guaranteed bonus and the sums of the bonuses were determined according to the discretion of the Board of Directors, in appreciation of the contribution of Gideon Lieberman to the results of operation of the Company.
11. On March 10, 2008, Gideon Lieberman was allocated 11,000 option warrants as part of the terms of his employment, to be exercised into up to 11,000 ordinary shares of the Company, according to the terms of the employee stock option plan adopted by the Company.

12. Shimon Biton, CEO of Combined Advanced Energy Ltd. has been working for the Company since July 1977. According to the employment agreement, each one of the parties may terminate the engagement at any time while providing advanced notice of three months.
13. The salaries component appearing above includes all of the following components: Basic salary, social and additional deductions as normally accepted, bonus 13th paycheck annually and company car.
14. The sum appearing under the “bonus” column is the bonus that the Company decided to pay to Shimon Biton in the March 2011 paycheck, on account of 2010. Shimon Biton does not have a guaranteed bonus and the sums of the bonuses were determined according to the discretion of the Board of Directors, in appreciation of the contribution of Shimon Biton to the results of operation of the Company.
15. On March 10, 2008, Shimon Biton was allocated 11,000 option warrants as part of the terms of his employment, to be exercised into up to 11,000 ordinary shares of the Company, according to the terms of the employee stock option plan adopted by the company.
16. Gur Ben-David, CEO of the Packaging Paper Division has been employed by the Company since August 1, 2006. According to the employment agreement, each one of the parties may terminate the engagement at any time while providing advanced notice of three months.
17. The salaries component appearing above includes all of the following components: Basic salary, social and additional deductions as normally accepted, bonus 13th paycheck annually and company car.
18. The sum appearing under the “bonus” column is the bonus that the Company decided to pay to Gur Ben-David in the March 2011 paycheck, on account of 2010. Gur Ben-David does not have a guaranteed bonus and the sums of the bonuses were determined according to the discretion of the Board of Directors, in appreciation of the contribution of Gur Ben-David to the results of operation of the Company.
19. On March 10, 2008, Gur Ben-David was allocated 11,000 option warrants as part of the terms of his employment, to be exercised into up to 11,000 ordinary shares of the Company, according to the terms of the employee stock option plan adopted by the Company.

In addition, the senior officers of the Company and of certain other companies in the Group were granted options pursuant to a share option plan adopted in January 2008. For further information regarding the share option plan granted to senior officers, see “Item 6.E. - Share Ownership”, and Note 11b of our consolidated financial statements contained elsewhere in this Annual Report.

The Board of Directors decided on March 23, 2010, to pay a special bonus to the retiring CEO, Mr. Avi Brener, in the sum of NIS 5.0 million on account of promoting strategic projects of the company.

On November 24, 2009, the Company's Board of Directors approved the employment agreement of Mr. Ofer Bloch, the Company's CEO and Chairman of the Company's subsidiaries, who assumed his position on January 1, 2010. The main employment terms include 3 months advanced notice, monthly salary in the aggregate amount of NIS 100,000, linked to the CPI, a tax rebate will be provided to cover the value of the company car and telephone. The annual bonus of the CEO will be equal to a sum of six to nine paychecks, according to the discretion of the Company's Board of Directors and provided that the Company has recorded a net profit during the relevant year. In the event that the Company did not record net profit during the residents here, the CEO will not be eligible for a bonus, unless otherwise decided by the Board of Directors, according to its discretion. The CEO is also entitled to related benefits as customary for senior employees in the Company, including a company car (including tax rebate), additional 13th bonus salary, directors' insurance, continuing education fund, annual vacation, convalescence pay, sick pay, social benefits, clothing, reimbursement of telephone expenses, reimbursement of per diem and entertainment expenses. In addition, commencing 180 days of January 1, 2010 (the date of commencement of employment), the Board of Directors of the Company will establish a share option plan for the CEO, which will be subject to the principles of the existing compensation plan in the Company, in the amount acceptable for a CEO of the Company. As of the report, the said options have yet to be allocated to the CEO, and the Company is working to formulate a stock option plan as aforesaid. In addition, as of the date of assuming office, in respect of his position as CEO, Mr. Bloch is covered by the Company's existing executives insurance liability policy (as it shall be from time to time) and has also receive a letter of indemnification from the Company, which is identical to the letters of indemnification granted to officers of the Company.

Remuneration of Directors

Pursuant to regulations under the Companies Law, each external director of the Company must receive the same annual compensation, which must be between NIS 45,000 and NIS 73,200, plus an additional fee for each meeting attended which must be between NIS 1,590 and NIS 2,820.

On June 3, 2008, the Audit Committee and Board of Directors resolved to adjust the annual compensation and the compensation for participation in Board of Directors and committee meetings granted to all the directors in the Company, including external directors and directors who are, or their family members are, controlling shareholders of the Company, for the year 2008 up to a sum equal to the "Fixed Amount", according to the second and third supplements to the Israeli Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director) 2000, as amended in March 2008, and as such would be fixed at NIS 59,100 plus an additional NIS 2,200 for each meeting attended. On June 8, 2009, the Audit Committee and Board of Directors resolved that the annual compensation for the year 2009 would remain the same as was approved on July 10, 2008, except for linkage to the CPI, which totaled, as of the date of this Annual Report, subject to the approval of the general meeting, NIS 63,326 plus an additional NIS 2,357 for each meeting attended.

On June 6, 2010, pursuant to the resolutions of the Audit Committee and Board of Directors, the Company announced that the annual compensation for the year 2010 would remain at a sum equal to the "Fixed Amount", according to the second and third supplements to the Israeli Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director) 2000, linked to the CPI. On March 7, 2011, pursuant to the resolutions of the Audit Committee and Board of Directors, the Company announced that the annual compensation for the year 2011 would remain at a sum equal to the "Fixed Amount", according to the second and third supplements to the Israeli Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director) 2000, linked to the CPI.

Pursuant to the resolutions of the general meetings of the Company dated July 14, 2004 and June 21, 2006, the Company issued letters of indemnification to all the directors and officers of the Company, including directors that may be considered controlling shareholders in the Company (Mr. Zvi Livnat and Mr. Issac Manor), from time to time.

On July 27, 2010, following the approval of the Company's Audit Committee and Board of Directors, the Company's shareholders' meeting approved the Company's engagement with Clal Insurance Company Ltd. for the acquisition of an officers' and directors' liability insurance policy for the period commencing June 1, 2010 until November 30, 2011. The volume of coverage of the policies $6.0 million, while the annual premium is $37,000 ($55,500 for 18 months), after conducting a tender for insurance services by addressing the different insurers to receive a proposal for renewing insurance. The Audit Committee and Board of Directors of the Company have stated that the policy was issued under market conditions, in accordance with the standards in such transactions The amount of insurance coverage under said policy is identical to the amount of coverage of previous policies for the years 2009 and 2008. The annual premium part of the policy ($37,000) is lower than the premium that was paid in 2009 ($51,800) and lower than the premium paid in 2008, that included an expansion of liability on account of a shelf prospectus. As of 2009, insurance coverage was expanded to include position holders and the directors of Carmel and its subsidiaries.

6.C Board Practices

The directors of the Company, except for the external directors (see below), retire from office at the annual general meeting of shareholders and are eligible for re-appointment at such annual general meeting.

Notwithstanding the foregoing, if no directors were appointed at any annual general meeting, the directors appointed at the previous annual general meeting would continue in office. Directors, except for the external directors, may be removed from office earlier by a resolution at an annual general meeting of shareholders.

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

There are no contracts which give the current directors of the Company any benefits upon termination of office.

In reliance upon Section 801(a) of the NYSE Amex Company Guide, as a “controlled company”, the Company has elected not to follow the requirement that a majority of the members of our Board of Directors be independent, pursuant to Sections 121 and 802 of the NYSE Amex Company Guide. The Company is considered a “controlled company” under the NYSE Amex Company Guide as over 50% of the voting power in the Company is held by Clal. According to Section 801(a) of the NYSE Amex Company Guide, a controlled company is not required to comply with board independence requirements under Section 802. Additionally, as a foreign private issuer, the Company has elected not to hold executive sessions without the presence of non-independent directors and management.

External Directors

Under the Companies Law, the Company (as a public company) is required to have at least two external directors as members of its board of directors. An external director may not have any financial or other substantial connection with the Company and must be appointed at the annual general meeting of shareholders. Our external directors serve for three years, which may be renewed for one additional three year term (and, commencing on May 14, 2011, for a second additional three year term), if both the audit committee and the board of directors confirm that in light of the expertise and contribution of the external director, the extension of such external director’s term would be in the interest of our Company.

Ms. Rotbard and Ms. Arad are the external directors of the Company. For the period of time each director served in her respective position, see “Item 6.A - Directors and Senior Management.”

None of the Group’s directors are entitled to benefits upon termination of their employment.

Audit Committee

Under the Companies Law, members of the audit committee are elected from members of the Board of Directors of the Company by the Board of Directors. The audit committee must be comprised of at least three directors, including all of the external directors, but excluding: (i) the Chairman of the Board of Directors; (ii) any director employed by the Company or who provides services to the Company on a regular basis; or (iii) a controlling shareholder of the Company or his relative. In addition, according to the rules of the NYSE Amex the audit committee must have at least three members, each of whom satisfies the independence standards of Section 803A of the NYSE Amex Company

Guide and Rule 10A-3 under the Securities Exchange Act of 1933, as amended, must not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years and is able to read and understand fundamental financial statements. Additionally, the audit committee must have at least one member who is financially sophisticated.

The Audit Committee is responsible for assisting the board of directors in fulfilling its responsibility of oversight of the quality and integrity of accounting, auditing and financial reporting practices of the Company. In addition, as described in Item 16, the Audit Committee is responsible for the approval of all audit and non-audit services provided to the Company by Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu and to oversee the qualifications, independence, appointment, compensation and performance of the Company's independent auditors. The functions of the Audit Committee according to Israeli Law are to approve related party transactions, and to locate and monitor deficiencies in the management of the Company, including in consultation with the independent auditors and the internal auditor, and to advise the board of directors on how to correct such deficiencies. The Audit Committee operates under a charter adopted by the Board of Directors.

The Company's Audit Committee members are currently: Atalya Arad, Chairman, Amos Mar-Haim and Aliza Rotbard, all of whom to, the Company's best knowledge, meet the independence requirements of the NYSE Amex Company Guide and Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

The Company's Audit Committee also serves as a balance sheet committee to supervise the completeness of the financial statements and the work of the CPAs and to offer recommendations regarding the approval of the financial statements and the discussion thereof prior to said approval.

Nominating Committee

In reliance upon Section 801(a) of the NYSE Amex Company Guide, as a controlled company in which over 50% of the voting power is held by Clal, the Company has elected not to follow the requirement that a listed company have a nominating committee of the board of directors that is responsible for recommending nominations to the Company's Board of Directors, pursuant to Section 804 of the NYSE Amex Company Guide.

Compensation Committee

As a controlled company, the Company has elected not to follow the requirement that a listed company have a compensation committee of the Board of Directors comprised entirely of independent directors that is responsible for recommending the compensation of the chief executive officer of all other officers, pursuant to Section 805 of the NYSE Amex Company Guide. The Company has a Compensation Committee that is comprised of two independent directors, namely, Amos Mar-Haim and Aliza Rotbard and one non-independent director, namely, Zvi Livnat. As such the Company has only a majority of independent directors on its Compensation Committee. In addition, the compensation of the CEO is determined by a majority of the Board of Directors.

6.D Employees

As of February 28, 2011, the Group had 3,305 employees in Israel, of which the Company and its subsidiaries had 1,886 employees in Israel. Of the Company employees in Israel, 246 were engaged in the office supplies activities, 819 in the packaging paper and recycling division, 793 in the corrugated board containers activities (and 28 were management and clerical personnel at the Company's headquarters in Hadera. The associated companies had 1,419 employees in Israel, of whom 1,111 were engaged in the household paper activities (in addition, KCTR had 373 employees in Turkey engaged in household paper activities) and 308 in the printing and writing paper activities.

Some of the employees are subject to the terms of employment of collective bargaining agreements. The parties to such collective bargaining agreements are the Company and the employees, through the union. The Company believes that the relationship between the Company and the union are good.

6.E Share Ownership

In 2001, the Board of Directors of the Company approved two option plans (share option plan for Group employees and share option plan for Group senior officers), whereby it granted 275,755 share options to Group employees and senior officers. As of the date of this Annual Report, all options granted in conjunction with said plans have been exercised or have expired.

On January 14, 2008, following the approval of the Audit Committee, the Board of Directors approved a bonus plan for senior employees in the Company and/or in subsidiaries and/or in associated companies, under which up to 285,750 options (158,038 share options of at the date of this Annual Report), each exercisable into one ordinary share of the Company, will be allotted to senior employees and officers in the Group, including the CEO of the Company

(the “Plan”). On the date of approval of the bonus plan, the number of shares to be allotted accounted for 5.65% of the issued share capital of the Company. The offerees in the said bonus plan are not interested parties in the Company, except for the CEO who is an interested party by virtue of his position. Pursuant to the conditions of the said options, the offerees who will exercise the option will not be allocated all of the shares derived therefrom, but only a quantity of shares that reflects the sum of the financial benefit that is inherent to the option at the exercise date only. The options vest in four yearly installments. The vesting period of the first installment is one year, commencing on the date of grant, and the next three installments vest on the second, third and fourth anniversary of the grant date. The first installment is exercisable for three years from the vesting date. Each installment of the next three installments is exercisable for two years from the vesting date of such installment. For further information regarding the 2008 bonus plan, see Note 11 of our consolidated financial statements contained elsewhere in this Annual Report.

Of the 284,500 options under the bonus plan, 40,250 options were allotted to the former CEO of the Company. The date of grant of the options was set for the months of January-March 2008, subject to the restrictions of Section 102 (Capital Route) of the Israeli Income Tax Ordinance. In the course of the first quarter of 2008, a sum of 250,500 share options were granted, and on January 8, 2009, a sum of 34,000 share options were granted, out of 35,250 share options that were allocated to the trustee, as a reservoir for future granting. The balance of options warrants held by the trustee were deleted by the Board on August 9, 2009. In the course of 2010, a total of 103,462 option warrants were exercised into 24,009 shares. As of December 31, 2010, a total of 158,038 options had not yet been exercised or had expired.

In the course of 2011 (until March 28, 2011), a total of 26,560 option warrants were exercised into 4,930 shares and the total of 131,478 options had not yet been exercised or had expired.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A Major shareholders

The following table sets forth, as of March 28, 2011, the number of ordinary shares of the Company beneficially owned by (i) all those persons who, to the Company's knowledge, were the beneficial owners of more than 5% of such outstanding shares, and (ii) all officers and directors of the Company as a group:

| Name and Address: | Amount Beneficially Owned Directly or Indirectly* | | Percent of Class Outstanding | |
|---|---|---|---|---|
| Clal Industries and Investments Ltd. ("Clal") 3 Azrieli Center, the Triangle Tower, Tel Aviv, Israel | 3,007,621 | (1) | 59.09 | %(1) |
| Clal Insurance Holdings Ltd. ("Clal Holdings") | 230,819 | (2) | 4.53 | %(2) |
| Clal Finance Ltd. ("Clal Finance") | 35,213 | (3) | 0.69 | %(3) |
| All officers and directors as a group | ** | | ** | |

*Beneficial ownership is calculated in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

**The officers and directors of the Company own, in the aggregate, less than 1% of the Company's outstanding ordinary shares, except for, Isaac Manor and Zvi Livnat whose ownership is set forth in footnote (1) below.

(1) Clal is a public company. To the best of the Company's knowledge, as of the date of this Annual Report, IDB Development Co., Ltd., or IDB Development, a reporting company is a wholly owned (directly and indirectly) subsidiary of IDB Holding Company Ltd., ("IDB Holdings"). To the best of our knowledge, IDB Development Corporation Ltd. owns of 60.54% of Clal.

To the best of the Company's knowledge, IDB Holdings is a public company whose shares are listed for trade on the TASE, whose shareholders are:

- Ganden Holdings Ltd., ("Ganden Holdings"), a private company incorporated in Israel, which holds directly and via Ganden Investments IDB Ltd., ("Ganden"), a private company incorporated in Israel wholly owned by it (indirectly), 54.72% of the equity and voting rights of IDB Holdings (approximately 54.36%, on a fully diluted basis), as follows: Ganden holds 37.22% of the equity and voting rights of IDB Holdings(approximately 36.98%, on a fully

diluted basis), and Ganden Holdings directly holds 17.50% of the equity and voting rights of IDB Holdings (approximately 17.38%, on a fully diluted basis). The controlling shareholders of Ganden Holdings are as described below. In addition, Shelly Bergman (one of the controlling shareholders of Ganden Holdings) holds, via a wholly-owned private company incorporated in Israel, approximately 4.17% of the equity and voting rights of IDB Holdings (approximately 4.14%, on a fully diluted basis).

- Manor Holdings B.A. Ltd., ("Manor Holdings"), a private company incorporated in Israel, which holds directly and via Manor Investments - IDB Ltd., ("Manor"), its subsidiary which is a private company incorporated in Israel, 13.30% of the equity and voting rights of IDB Holdings (approximately 13.22%, on a fully diluted basis), as follows: Manor holds 10.25% of the equity and voting rights of IDB Holdings (approximately 10.18%, on a fully diluted basis) and Manor Holdings directly holds 3.05% of the equity and voting rights of IDB Holdings (approximately 3.03%, on a fully diluted basis). The controlling shareholders (and other material shareholders) of Manor Holdings are as described below.

- Avraham Livnat Ltd., a private company incorporated in Israel, holds directly and via Avraham Livnat Investments (2002) Ltd. ("Livnat"), a wholly-owned private company incorporated in Israel, approximately 13.31% of the equity and voting rights of IDB Holdings (approximately 13.23%, on a fully diluted basis), as follows: Livnat holds 10.20% of the equity and voting rights of IDB Holdings (approximately 10.13%, on a fully diluted basis), and Avraham Livnat Ltd. directly holds 3.11% of the equity and voting rights of IDB Holdings (approximately 3.09%, on a fully diluted basis). The controlling shareholders (and other material shareholders) of Avraham Livnat Ltd. are as described below.

To the best of the Company's knowledge, Ganden, Manor and Livnat jointly hold, by virtue of a shareholders' agreement to which they are party with regard to their holdings and shared control of IDB Holdings, effective through May 2023 (the "IDB Shareholders' Agreement"), approximately 51.70% of the issued capital of IDB Holdings, as follows: (i) Ganden - 31.02%; (ii) Manor - 10.34%; and (ii) Livnat - 10.34%.

The IDB Shareholders' Agreement includes, inter alia, a pre-coordination agreement on uniform voting at shareholder meetings of IDB Holdings; exercise of voting power to achieve maximum representation of candidates supported by Ganden, Manor and Livnat on IDB Holdings' and the Company's boards of directors as well as representation on boards of major subsidiaries; determination of persons holding office of chairman of the board and vice chairman of IDB Holdings and its major subsidiaries; non-disclosure of all matters concerning the business of IDB Holdings and its investees; restrictions on transactions in shares of IDB Holdings which form part of the controlling interest; setting up a mechanism for right of first refusal, tag-along right for sale or transfer of IDB Holdings shares and Ganden's right to require Manor and Livnat to sell, concurrently with the former, shares in the controlling stake to a third party, should certain circumstances occur; agreement by Ganden, Manor and Livnat, among themselves, to make their best efforts, subject to all legal provisions, to cause IDB Holdings to distribute to its shareholders, annually, at least one half of the distributable annual income; and for all investees of IDB Holdings (including the Company) to adopt a policy aimed at distributing to its shareholders, annually, as dividend, one half or more of distributable annual income, provided that no significant impact is caused to the cash flows or to plans approved and adopted from time to time by their boards of directors; the right of each of Ganden, Manor and Livnat to purchase surplus shares of IDB Holdings which are not part of the controlling interest, subject to the requirement to offer the other parties to the IDB shareholders' agreement to purchase a part thereof based on their holdings stake in IDB Holdings; commitment by Ganden, Manor and Livnat to avoid any action or investment which may terminate or materially deteriorate terms of regulatory approvals or permits granted to Ganden, Manor and Livnat, to IDB Holdings or to its investee companies. The shareholder agreement in IDB is valid for 20 years starting in May 2003. The aforementioned additional holdings in IDB Holdings, held by Ganden Holdings (approximately 17.5%), by Ganden (approximately 6.2%), by Manor Holdings (approximately 2.96%), by Avraham Livnat Ltd. (approximately 2.97%) and by Shelly Bergman, via its wholly-owned subsidiary (approximately 4.17%), are excluded from the "controlling interest" as defined in the IDB Shareholders' Agreement.

Ganden Holdings is a private company whose controlling shareholders are Nochi Dankner, who holds, directly and via a company controlled by him, 56.30% of the issued share capital and voting rights in Ganden Holdings, and Shelly Bergman (Nochi Dankner's sister), who holds 12.41% of the issued share capital and voting rights in Ganden Holdings; these controlling shareholders are deemed to jointly hold 68.71% of the issued share capital and voting rights in Ganden Holdings, inter alia, by virtue of a cooperation and pre-coordination agreement between them. Nochi Dankner's control of Ganden Holdings is also based on an agreement signed or joined by all shareholders of Ganden Holdings, whereby Nochi Dankner was granted, inter alia, veto rights on Board of Directors and General Meetings of Ganden Holdings and its subsidiaries. Nochi Dankner serves as Chairman of the Board of Directors of IDB Holdings and IDB Development.

Hashkaa Mutzlachat Ltd., ("Hashkaa Mutzlachat"), a company wholly owned by Mr. Tzur Dabush, holds 1.67% of the issued capital and voting rights of Ganden Holdings; for the sake of caution and in view of Tzur Dabush' commitment towards Nochi Dankner to vote using all of the former's shares of Ganden Holdings together with the latter, in accordance with the voting and instructions of Nochi Dankner, Hashkaa Mutzlachat and Tzur Dabush may, for as long as said commitment remains in force, be deemed to hold together with Nochi Dankner means of control over Ganden Holdings, and may therefore also be deemed to be controlling shareholders of Ganden Holdings.

Other material corporate shareholders of Ganden Holdings are as follows: (i) Nolai BV (a private company indirectly owned by The L.S. Settlement, which is held in trust by a law firm based in Gibraltar, whose beneficiaries are descendants of Ms. Anna Schimmel, including Yaakov Schimmel who serves as a director of IDB Holdings and IDB

Development) holds approximately 9.9% of the capital and voting rights in Ganden Holdings; and (ii) Avi Fisher, who serves, inter alia as Deputy CEO of IDB Holdings and as Deputy Chairman of IDB Development, holds in person and via a company controlled by him and by his wife, holds, directly and indirectly, 9.1% of the capital and voting rights in Ganden Holdings.

Manor is a company controlled by Itzhak Manor and his wife, Ruth Manor. Yitzhak Manor and Ruth Manor, along with their four children - Dori Manor, Tamar Manor Morel, Michal Topaz and Sharon Vishnia hold all Manor shares via two private companies which are registered in Israel: Manor Holdings and Euro Man Automotive Ltd., ("Euro Man"), as follows: Ruth and Yitzhak Manor hold all shares of Manor Holdings, which holds 60% of Manor shares; in addition, Ruth and Yitzhak Manor and their aforementioned children hold all shares of Euro Man, which holds 40% of Manor shares, as follows: Ruth Manor and Yitzhak Manor each hold 10% of Euro Man shares; Dori Manor, Tamar Manor Morel, Michal Topaz and Sharon Vishnia each hold 20% of Euro Man shares. Note also that Yitzhak Manor serves as Vice Chairman of the IDB Holdings Board of Directors and as member of the IDB Development Board of Directors; Dori Manor serves as member of the Boards of Directors of IDB Holdings and of IDB Development.

Avraham Livnat Ltd. is a company controlled by Avraham Livnat, which is wholly owned by Avraham Livnat and his three sons, Ze'ev Livnat, Zvi Livnat and Shai Livnat, as follows: Avraham Livnat holds 75% of the voting rights in Avraham Livnat Ltd. and Zvi Livnat holds 25% of the voting rights in Avraham Livnat Ltd., and Ze'ev Livnat, Zvi Livnat and Shai Livnat each hold 33.3% of the capital of Avraham Livnat Ltd. Furthermore, Zvi Livnat serves as board member and Deputy CEO of IDB Holdings, and as Deputy Chairman of the Board of IDB Development, and Shai Livnat serves as board member of IDB Development.

(2) Clal Insurance Holdings Ltd., a public company whose shares are listed for trading on the TASE, which is controlled, as of the date of this Annual Report, by IDB Development. To the best of the Company's knowledge, Clal Holdings is an interested party in the Company since it is controlled by IDB Development, the controlling shareholder of Clal.

(3) Clal Finance Ltd., a public company whose shares are listed for trading on the TASE, which is controlled, as of the date of this Annual Report, by Clal Holdings. To the best of the Company's knowledge, Clal Finance is an interested party in the Company, since it is controlled by IDB Development, the controlling shareholder of Clal.

All the shareholders of the Company have the same voting rights. The Company's major shareholders who beneficially own 5% or more of the Company's ordinary shares outstanding do not have voting rights different from other holders of ordinary shares.

To our knowledge, the significant changes in the percentage of ownership held by our major shareholders during the past three years have been: (i) the increase in the percentage of ownership held by Psagot Investment House Ltd. to 5.3% of the issued and outstanding share capital of the Company as of October 21, 2010 (holding an aggregate amount of 279,940 of our ordinary shares after the purchase of 32,674 of our ordinary shares on such date), and the decrease in the percentage of ownership held by Psagot Investment House Ltd. to 4.94% of the issued and outstanding share capital of the Company as of March 27, 2011 (holding an aggregate amount of 251,187 of our ordinary shares after the sale of 25,366 of our ordinary shares on such date); and (ii) the sale of all the DIC holdings in the Company to Clal, whereby DIC ceased being a controlling shareholder of the Company, with Clal increasing its holdings in the Company accordingly. For further information regarding Clal, see "Item 4.C – Organizational Structure".

As of March 28, 2011, our ordinary shares were held by 690 registered holders. Based on the information provided to us by our transfer agent, as of March 28, 2011, 596 registered holders were U.S. holders and held approximately 8.37% of outstanding ordinary shares.

7.B Related Party Transactions

The information is included in our consolidated financial statements contained elsewhere in this Annual Report. For loans to associated companies, see Note 5b of our consolidated financial statements contained elsewhere in this Annual Report. For transactions and balances with related parties, see Note 20 of our consolidated financial statements contained elsewhere in this Annual Report.

On November 3, 2008, the general meeting of the Company approved the validity of a lease agreement signed on September 18, 2008 between the Company and Gav-Yam Lands Ltd. ("Lessor"), a public company indirectly controlled by the controlling shareholder of the Company, pursuant to which the Company rented a plot in Modi'in, with a space of 74,500 square meters, and buildings that the lessor plans to build for the Company, covering a total space of 21,300 square meters, which will be used as a center for the purposes of logistics, industry and office ("Logistic Center") for subsidiaries and associated companies of the Company and in part will substitute existing lease agreements. The term of the lease will be 15 years from the date of the transfer of possession of the leased property. In addition the Company will have an option to extend the lease for an additional 9 years and 11 months. The cost of the annual lease amounts to NIS 13.6 million linked to the Consumer Price Index of July 2008. In the course of 2010, an aggregate amount of NIS 2.0 million was paid pursuant to the terms of this agreement.

On June 6, 2010, pursuant to the approval of the Audit Committee and the Board of Directors and shareholder of the Company, the Company approved the annual remuneration and participation remuneration for directors at the Company (who are not external directors) for 2010, at the level of the "regular amount" stipulated in the Companies Regulations (Directives Regarding Remuneration and Expenses For External Directors), 2000 ("Remuneration Directives"), subject to the meeting regulation 1a(2) to the Companies Ordinance (Relief in Transactions with Interested Parties), 2000 ("Relief Directives") with respect to directors who are not controlling shareholders or related thereto, and directive 1b(3) to the Relief Directives with respect to directors who are not controlling shareholders or related thereto.

On March 7, 2011, pursuant to the approval of the Audit Committee and the Board of Directors and shareholder of the Company, the Company approved the annual remuneration and participation remuneration for directors at the Company (who are not external directors) for 2011, at the level of the "regular amount" stipulated in the Companies Regulations (Directives Regarding Remuneration and Expenses For External Directors), 2000 ("Remuneration Directives"), subject to the meeting regulation 1a(2) to the Companies Ordinance (Relief in Transactions with Interested Parties), 2000 ("Relief Directives") with respect to directors who are not controlling shareholders or related thereto, and directive 1b(3) to the Relief Directives with respect to directors who are not controlling shareholders or related thereto.

On June 1, 2010, the Company entered into an agreement for the sale of its rights to a plot of land with an area of approximately 7,600 square meters in Totseret Ha'Aretz Street in Tel Aviv, that was leased by the Company from the Tel Aviv municipality in consideration of NIS 64 million, plus VAT. The purchasing parties were Gav-Yam Property and Building Group Ltd., ("Gav Yam"), a company indirectly controlled by IDB Development Company Ltd., the controlling shareholder of the Company and by Amot Investments Ltd. ("Amot"), with holdings in the land of 71% and 29%, respectively. On March 27, 2011, the Company announced that the sale of a plot of land in the Totseret Ha'Aretz street in Tel Aviv have been fulfilled according to agreement that the Company signed with Gav-Yam and with Amot. As a result of the closing transaction, the Company will record net gain capital, of approximately NIS 30 million.

For information regarding the acquisition of an officers' and directors' liability insurance policy for the period commencing June 1, 2010 until November 30, 2011 from Clal Insurance Company Ltd. see "Item 6.B Compensation – Remuneration of Directors."

In the course of 2010, the Company, its subsidiaries and associated companies, paid to Cellcom Israel Ltd., a company controlled by the controlling shareholder of the Company, the sum of NIS 2.7 million on account of the purchasing of cellular telephone services, by virtue an agreement entered into in 2009.

On February 28, 2011 and March 6, 2011 the Audit Committee and the Board of Directors, respectively, approved an agreement to lease the rooftop space located atop the Company's productions facilities in Hadera to Clal P.V. Projects Ltd., a private company held and controlled indirectly by Clal Industries and Investments, in an overall area of up to 19,200 square meters (out of which the Company was granted an option not to lease a portion of this area, in the scope of up to approx. 14,300 square meters), to be utilized for generation of solar energy. The annual rent for the leased property is comprised of a basic rental fee and an additional rental fee. The basic rental fee will be set at an aggregate amount ranging between NIS 90 thousands and NIS 802 thousands, to be determined according to the actual space leased and the production tariff for kWh of electricity approved for Clal P.V. Projects Ltd. under its license. Additionally, under the terms of the agreement, the Company will receive an additional rental fee up to NIS 70 thousands, to be paid in the case of excess production of electricity, if any. The term of the lease will commence upon the passing of right of possession in the leased property and will terminate upon the passage of 20 years of the date of the Commercial Operation of the Leased Property (as such term is defined in the agreement). Under the terms of the agreement, the lessee is granted an option to extend the term of the lease for an additional period, provided that in any case the total lease period shall not exceed 24 years and 11 months. The agreement is subject to the fulfillment of various prerequisites within 15 months from the date of signing, including, inter alia, obtaining permits, authorization and licenses to construct the installations, obtaining the consent of the general meeting of the Company shareholders to be convened for the purpose of approving this engagement as well as additional conditions.

7.C Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A Consolidated Statements and Other Financial Information

See the financial statements included under Item 18 of this Annual Report.

Export Sales

In 2010, the Company had approximately NIS 175 million of export sales, which represents approximately 15.6% of the NIS 1,121 million total sales volume of the Company.

Legal Proceedings

From time to time, we and our subsidiaries and affiliated companies may be involved in lawsuits, claims, investigations or other legal or arbitral proceedings that arise in the ordinary course of our business. These proceedings may include general commercial disputes and claims regarding intellectual property.

In November 2006, the Environmental Protection Ministry ("Ministry") announced that, even though the Company's plant in Hadera has made considerable investments in sewage treatment and environmental protection issues, an

investigation may be launched against it to review deviations from certain emission standards into the air. Based on the opinion of its legal advisors, the Company anticipates that the investigation will not materially impact its operations.

In September 2008, the Municipality of Hadera submitted a request for a land betterment levy in the amount of NIS 1.4 million in respect to a change in the use of land which is designated for the construction of a new manufacturing line for packaging papers. The Company contested the levy amount with a counter assessment in the amount of NIS 28 thousand. The Company created a provision in the amount of NIS 900 thousands in its financial statements, in light of an expected settlement between the parties.

A demand to pay purchasing tax of NIS 1.46 million was submitted by the Israeli Tax Authorities to the Company in respect to the extension of the lease on a plot of land located in Totzeret Haaretz Street in Tel Aviv (formerly the Shafir plant). A decision was handed down by the appeals committee pursuant to which the Company was required to pay a total of NIS 1.39 million, which the Company has already paid. Both the Company and the Israeli Tax Authorities have appealed this decision to the Israeli Supreme Court.

In December 2006 Israel Natural Gas Lines Ltd. (or Natural Gas Lines), informed the Company that owners of lands close to the gas transportation lines initiated a damages claim against Natural Gas Lines in regard to impairment. It should be noted that the agreement between the Company and Natural Gas Lines addresses the indemnification of Natural Gas Lines as part of the payment of compensation due to damages caused to adjacent land. The proceeding was conducted before the appeals committee and the Company was not a party to the proceedings. On February 25, 2010, the Company received the committee's decision to set the damages at NIS 2.67 million. Natural Gas Lines and the land owners appealed the committee's decision. On December 10, 2010, these appeals were rejected. The Company received a payment demand from Natural Gas Lines and recorded a provision on its financial statements as of December 31, 2010.

During 2009, as part of a formal tax inspection of the Turkish Tax Authorities, the Financial Reports for the years 2004-2008 of KCTR, a Turkish subsidiary of the associated company Hogla- Kimberly Ltd, were examined. On February 16, 2010, KCTR received a tax inspection report, following the aforementioned inspection, according to which KCTR is required to an additional tax payment for two matters audited, as detailed below, on the total amount of YTL 135 million (approximately USD 89 million) including interest and penalty. Regarding the first matter (stamp tax), KCTR, paid YTL 264 thousands, (approximately USD 106 thousands) in July 2010. Regarding the second matter, which is the essential part of the tax demand (tax on capital injection from Hogla- Kimberly to KCTR), KCTR, based on its tax consultant opinion, estimates that the likelihood that it will be demanded for the additional tax payment, is rather low, and therefore it has not provided a provision at its Financial Reports for December 31, 2010, with regards to this matter. Also note that, regarding the second matter described above, based on the opinion of its tax consultants in Turkey, KCTR appealed to the Turkish courts. As of the date of these financial statements, the proceedings are on-going at the first instance of the Turkish court system.

On June 15, 2010 a petition was filed against Hogla-Kimberly Ltd. (H-K), an affiliated company (49.9%) and against another competitor company (the "Competitor"), for the approval of a class action.According to the petition, the Competitor and H-K has misled the public by presenting plastic bags as oxo biodegradable and therefore environmentally friendly, while the products are breaking down into fragments. The plaintiff estimates the scope of the petition, if approved as class action, to be approximately NIS 111 million. H-K estimates, based on its legal advisors opinion, that at this stage the probability of the request for approval of a class action lawsuit is not higher than the probability that it will be rejected, therefore H-K did not provide a provision at its financial statements for this petition.

On January 30, 2011 the Ministry held a hearing for the Company regarding suspicion of polluting water by discharging low quality waste water into the Hadera river. During the hearing, the positions of the Ministry and the Company were heard. The Company presented its position that the decline in the quality of the treated waste water was the result of the use of a new raw material. Upon discovery of the source of the problem, the Company ceased the use of that raw material. As the Company works in full transparency with the authorities, it independently provided a report to representatives of the Ministry with respect to the deterioration in the quality of the waste water. On February 8, 2011, the Company received the summary of the hearing according to which, inter alia, the Company had a duty to improve the quality of the waste water, and to report, on a weekly basis, to the Ministry regarding the quality of the treated waste water. The Ministry further noted in this summary that if the Company does not fulfill the requirements stated in the permit regarding the discharge of waste water into the Hadera river, given on August 11, 2010, within one month from the date of the hearing, the Ministry Director of the Haifa District will issue, under his authority, an order to cease operations of Machine 8 which the Company operates, without requiring any advance warnings or additional hearings. Under Section 20 to the Business Licensing Law; 1968 (the "Business Law"), the aforesaid order remains in effect for 30 days from the date of issue. The Company has been acting for some time for the improvement of the treated waste water by the performance of a number of measures, and as a result of these measures, an improvement may already be seen in the quality of the treated waste water discharged into the river. However, the Company at this stage cannot estimate the rate or timetable for improvement of the treated waste water,

and cannot at this stage estimate the impact of the above in the event of failure to fulfill the required values.

Dividend Policy

The Company does not have a defined policy for distributing dividends.

8.B Significant Changes

The following significant changes occurred since December 31, 2010, the date of the most recent annual financial statements contained elsewhere in this Annual Report:

On February 23, 2011, an associated company, H-K, declared a dividend out of retained earnings amounting to NIS 30 million. This dividend is payable in the second quarter of 2011, subject to nonexistence of material negative developments with respect to the tax event in Turkey, as set forth in Note 14k of the most recent annual financial statements contained elsewhere in this Annual Report. The Company's share of this dividend is NIS 15 million.

On January 30, 2011 the Ministry for the Protection of the Environment held a hearing for the Company regarding suspicion of polluting water by discharging low quality waste water into the Hadera Stream. During the hearing, the positions of the Ministry and the Company were heard. The Company presented its position that the decline in the quality of the treated waste water was the result of the use of a new raw material. Upon discovery of the source of the problem, the Company ceased the use of that raw material. As the Company works in full transparency with the authorities, it independently provided a report to representatives of the Ministry with respect to the deterioration in the quality of the waste water.

On February 8, 2011, the Company received the summary of the hearing according to which, inter alia, the Company had a duty to improve the quality of the waste water, and to report, on a weekly basis, to the Ministry regarding the quality of the treated waste water. The Ministry further noted in this summary that if the Company does not fulfill the requirements stated in the permit regarding the discharge of waste water into the Hadera river, given on August 11, 2010, within one month from the date of the hearing, the Ministry Director of the Haifa District will issue, under his authority, an order to cease operations of Machine 8 which the Company operates, without requiring any advance warnings or additional hearings. Under Section 20 to the Business Law, the aforesaid order remains in effect for 30 days from the date of issue. The Company has been acting for some time for the improvement of the treated waste water by the performance of a number of measures, and as a result of these measures, an improvement may already be seen in the quality of the treated waste water discharged into the river. However, the Company at this stage cannot estimate the rate or timetable for improvement of the treated waste water, and cannot at this stage estimate the impact of the above in the event of failure to fulfill the required values.

On February 28, 2011 and March 6, 2011 the Audit Committee and the Board of Directors, respectively, approved an agreement to lease the rooftop space located atop the Company's productions facilities in Hadera to Clal P.V. Projects Ltd., a private company held and controlled indirectly by Clal Industries and Investments, in an overall area of up to 19,200 square meters (out of which the Company was granted an option not to lease a portion of this area, in the scope of up to approx. 14,300 square meters), to be utilized for generation of solar energy. The annual rent for the leased property is comprised of a basic rental fee and an additional rental fee. The basic rental fee will be set at an aggregate amount ranging between NIS 90 thousands and NIS 802 thousands, to be determined according to the actual space leased (which may range from 19,200 square meters to 4,900 square meters) and the production tariff for kWh of electricity approved for Clal P.V. Projects Ltd. under its license. Additionally, under the terms of the agreement, the Company will receive an additional rental fee up to NIS 70 thousands, to be paid in the case of excess production of electricity, if any. The term of the lease will commence upon the passing of right of possession in the leased property and will terminate upon the passage of 20 years of the date of the Commercial Operation of the Leased Property (as such term is defined in the agreement). Under the terms of the agreement, the lessee is granted an option to extend the term of the lease for an additional period, provided that in any case the total lease period shall not exceed 24 years and 11 months. The agreement is subject to the fulfillment of various prerequisites within 15 months from the date of signing, including, inter alia, obtaining permits, authorization and licenses to construct the installations, obtaining the consent of the general meeting of the Company shareholders to be convened for the purpose of approving this engagement as well as additional conditions.

On March 6, 2011, the Board of Directors of the Company approved the incorporation of a foreign entity ("Foreign Entity"), wholly-owned by the Company, which is to be incorporated for entering into agreement ("Agreement") with an overseas business partner (an unrelated third party) for operations in removal of paper and cardboard waste and recycling operations overseas under a Joint Venture ("JV"). The Company's share of this operation is expected to be 65%. This operation shall require an initial investment, to be made in stages based on JV needs, amounting to USD 5.2 million, by way of owners loan or guarantee, 80% of which would be invested by the Company. The Agreement is expected to include restrictions on partner rights: (i) to transfer their JV shares; (ii) to grant the foreign entity the right to appoint two thirds of the JV Board members as well as its CEO; (iii) to grant the Company the right to purchase up to 75% of the paper and cardboard waste collected by JV at market prices, and; (iv) to include certain non-compete

provisions. The Company is acting to conclude this Agreement, but it is uncertain that the foregoing with regard to feasibility of the JV and final agreement on the aforementioned understandings would materialize, in full or in part.

On March 27, 2011, the Company announced that the sale of a plot of land in the Totseret Ha'Aretz street in Tel-Aviv have been fulfilled according to agreement that the Company signed with Gav-Yam and with Amot Investments Ltd. As a result of the closing transaction, the Company will record net gain capital of approximately NIS 30 million.

ITEM 9. THE OFFER AND LISTING

9.A LISTING DETAILS

The following table sets forth the high and low market prices of the Company's ordinary shares on the NYSE Amex and TASE for the periods indicated:

| | NYSE Amex | | Tel Aviv Stock Exchange | | | |
|---|---|---|---|---|---|---|
| | High | Low | High | Low | High | Low |
| | $ | | NIS | | $* | |
| Yearly Highs and Lows | | | | | | |
| 2010 | 86.0 | 67.42 | 317.90 | 252.50 | 87.38 | 67.80 |
| 2009 | 71.5 | 29.6 | 272.00 | 117.30 | 71.64 | 29.73 |
| 2008 | 80.80 | 26.55 | 270.20 | 104.50 | 83.58 | 26.98 |
| 2007 | 67.50 | 41.90 | 259.40 | 185.00 | 65.60 | 43.65 |
| 2006 | 52.12 | 38.50 | 237.00 | 168.50 | 53.01 | 38.42 |
| | | | | | | |
| Quarterly Highs and Lows | | | | | | |
| 2011 | | | | | | |
| Second Quarter (until April 10, 2011) | 74.01 | 73.80 | 261.10 | 254.60 | 75.35 | 73.78 |
| First Quarter | 84.39 | 68.01 | 300.30 | 248.20 | 84.95 | 69.68 |
| | | | | | | |
| 2010 | | | | | | |
| Fourth Quarter | 86.00 | 76.51 | 317.90 | 272.70 | 87.38 | 75.94 |
| Third Quarter | 79.00 | 67.60 | 290.00 | 258.40 | 76.88 | 67.96 |
| Second Quarter | 83.00 | 67.42 | 309.90 | 260.20 | 83.03 | 67.60 |
| First Quarter | 82.25 | 68.53 | 311.30 | 252.50 | 82.40 | 67.80 |
| | | | | | | |
| 2009 | | | | | | |
| Fourth Quarter | 71.50 | 54.19 | 272.0 | 206.2 | 71.64 | 55.18 |
| Third Quarter | 58.36 | 41.25 | 218.90 | 165.60 | 57.67 | 41.86 |
| Second Quarter | 44.30 | 35.00 | 177.80 | 147.70 | 45.17 | 35.11 |
| First Quarter | 39.48 | 29.62 | 164.0 | 117.3 | 39.16 | 29.73 |
| | | | | | | |
| Monthly Highs and Lows | | | | | | |
| April 2011(until April 10, 2011) | 74.01 | 73.80 | 261.10 | 254.60 | 75.35 | 73.78 |
| March 2011 | 77.52 | 68.01 | 278.90 | 248.20 | 77.52 | 69.68 |
| February 2011 | 78.30 | 73.05 | 286.40 | 262.40 | 79.27 | 71.15 |
| January 2011 | 84.39 | 76.50 | 300.30 | 271.10 | 84.95 | 73.07 |
| December 2010 | 82.70 | 76.82 | 301.80 | 277.00 | 83.88 | 75.58 |
| November 2010 | 84.05 | 77.44 | 308.20 | 276.00 | 84.97 | 75.00 |
| October 2010 | 86.00 | 76.51 | 317.90 | 272.70 | 87.38 | 75.94 |

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

9.B Plan of Distribution

Not applicable.

9.C Markets

The Company's ordinary shares have been listed on NYSE Amex since 1959. The ordinary shares have also been listed on TASE since 1961. The trading symbol for the ordinary shares on NYSE Amex is "AIP".

9.D Selling Shareholders

Not applicable.

9.E Dilution

Not applicable.

9.F Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A Share Capital

Not applicable.

10.B Memorandum and Articles of Association

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

Objects and Purposes of the Company

As indicated in Article 5 of the Articles, the Company may, at any time, engage in any kind of business in which it is, expressly or by implication, authorized to engage in accordance with the objects of the Company as specified in the Company Memorandum of Association. According to the Company's Memorandum of Association, the Company's objectives are paper manufacturing and any other legal objective.

Director's Personal Interest

The Companies Law requires that a director and an officer in a company disclose to the Company any personal interest that he may have, and all related material information, in connection with any existing or proposed transaction by the Company. The disclosure is required to be made promptly and in any event no later than the date of the meeting of the board of directors in which the transaction is first discussed. The Companies Law defines a "personal interest" as a personal interest of a person in an action or transaction by the company, including a personal interest of a relative and of a corporation in which he or his relative are interested parties, excluding a personal interest stemming solely from ownership of shares in the company.

If the transaction is an extraordinary transaction, the approval procedures are as described below. Under the Companies Law, an extraordinary transaction is a transaction that is not in the ordinary course of business, a transaction not on market terms or a transaction that is likely to have a material impact on the Company's profitability, assets or liabilities.

Subject to the restrictions of the Companies Law, a director is entitled to participate in the deliberations and vote with regard to the approval of transactions in which he has a personal interest. A director is not entitled to participate and vote with regard to the approval of an extraordinary transaction in which he has a personal interest, the approval of indemnity, exemption or insurance of the directors or the approval of the directors' compensation. If a majority of the directors have a personal interest in a certain decision, they may participate and vote but the issue must be approved also by the Audit Committee and by the shareholders. If the controlling shareholder has a personal interest in an extraordinary transaction, the transaction must be approved by the audit committee, board of directors and by shareholders at a general shareholders meeting by the affirmative vote of the holders of a majority of the voting power represented at the meeting in person or by proxy, provided that either (i) such a majority includes at least one third of the total votes of shareholders who are not controlling shareholders or on their behalf, present at the meeting in person or by proxy (votes abstaining shall not be taken into account in counting the above-referenced shareholder votes); or (ii) the total number of shares of the shareholders mentioned in clause (i) above that are voted against does not exceed one percent (1%) of the total voting rights in the Company.

With respect to a recently enacted change to the Companies Law which would affect such requirement, see "Item 10.B - Memorandum and Articles of Association - Amendment no. 16 to the Companies Law."

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

Powers and Function of Directors

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

According to the Companies Law, compensation to directors is subject to approval of the audit committee, the board of directors and the general meeting of shareholders. There are no provisions in the Company's Articles regarding an age limit for the retirement of directors.

Pursuant to regulation promulgated under the Companies Law, the remuneration of directors does not require the approval of the general meeting if it does not exceed the maximum amount permissible by applicable law with respect to remuneration of external directors. Nevertheless, if a shareholder (one or more) who holds at least 1% of the share capital or the voting rights in the Company objects, not later than 14 days from the filing of a report by the Company with the Israeli Securities Authority then a resolution of the audit committee, and the board of directors regarding the remuneration of the directors would require approval of the general meeting by a simple majority. If the resolution is regarding the remuneration of directors who are deemed to be controlling shareholders of the Company it requires the approval of the audit committee and the board of directors, as well as the approval of the general meeting, by a simple majority, provided that the majority of the votes cast approving such resolution includes (a) at least 1/3 of the votes of shareholders (or any one on their behalf) voting at the general meeting who do not have a personal interest in the approval of the transaction (the votes of abstaining shareholders will not be taken into account as part of the majority votes); or (b) the votes of the shareholders mentioned in section (a) above, who object to such resolution constituted no more than 1% of all voting rights in the Company.

With respect to a recently enacted change to the Companies Law which would affect such requirement, see "Item 10.B - Memorandum and Articles of Association - Amendment no. 16 to the Companies Law."

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

As described in Item 6.C "Board Practices", all directors, except external directors, stand for election annually at the general meeting. The directors need not be shareholders of the Company in order to qualify as directors.

The Shares – Rights and Restrictions

All of the Company's shares are ordinary shares, NIS 0.01 par value per share. Every ordinary share in the capital of the Company has equal rights to that of every other ordinary share, including the right to dividends, to bonus shares and to participation in the surplus assets of the Company upon liquidation proportionately to the par value of each share, without taking into consideration any premium paid in respect thereof. All the aforesaid is subject to the provisions of the Articles.

Each of the ordinary shares entitles the holder thereof to participate at and to one vote at any general meeting of the Company.

Subject to the provisions of the Companies Law, the board of directors may decide whether or not to distribute a dividend. When deciding on the distribution of a dividend, the board of directors may decide that the dividend shall be paid, in whole or in part, in cash or by way of the distribution of assets in specie, including securities or bonus shares, or in any other manner at the discretion of the board of directors.

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

The Company may, by resolution adopted at a general meeting by an ordinary majority, decrease the capital of the Company or any reserve fund from redemption of capital.

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

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

Under the Companies Law, each shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations toward the Company and other shareholders and to refrain from abusing his power in the Company.

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

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

Modification of Rights of Shares

If the share capital is divided into different classes, the Company may by resolution adopted at a general meeting by a special majority of 60% of the votes of shareholders voting at the general meeting (except if the terms of the issuance of the shares of such class otherwise provide) annul, convert, expand, supplement, restrict, amend or otherwise modify the rights of a class of shares of the Company, provided that the consent, in writing, of all the shareholders of such class thereto shall be received or that the resolution shall have been approved by a general meeting of the shareholders of such class by special majority, or in the event that it was otherwise provided in the terms of the issuance of a particular class of the shares of the Company, as may have been provided in the terms of issuance of such class, provided that the quorum at the class meeting shall be the presence, in person or by proxy, at the opening of the meeting of at least two shareholders who own at least twenty five percent (25%) of the number of the issued shares of such class.

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

Shareholders Meeting

The Company shall hold an annual general meeting each year not later than fifteen months after the previous annual meeting, at such time and place as may be determined by the board of directors. Any other general meeting is referred to as a “special meeting”.

A notice of a general meeting shall be published in at least two widely distributed daily newspapers published in Israel in Hebrew. The notice shall be published at least fourteen days prior to the meeting date. In addition, the Company provides a notice of the meeting and related proxy statement in English to the holders of its ordinary shares listed on the records of the Company’s registrar and stock transfer agent in the United States.

Apart from the notices as to the general meeting described above, the Company is not required by the Articles and the Companies Law to give any additional notice as to the general meeting, either to the registered shareholders or to shareholders who are not registered. The notice as to a general meeting is required to include the place, the day and the hour at which the meeting will be held, the agenda as well as a summary of the proposed resolutions, and any other details required by law.

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

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

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

According to the Articles, one or more shareholder who holds at least one percent of the voting rights at the general meeting is entitled to request that the board include in the agenda any issue, provided that this issue is suitable to be discussed in a general meeting.

No business shall be transacted at any general meeting unless a quorum is present at the time the meeting begins consideration of business. A quorum shall be constituted when two shareholders, holding collectively at least twenty five percent (25%) of the voting rights, are present in person or by proxy within half an hour from the time provided in the meeting notice, unless otherwise determined in the Articles.

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

If a quorum is not present at the adjourned meeting, the meeting shall be canceled.

Voting and Adopting Resolutions at General Meetings

A shareholder who wishes to vote at a general meeting shall prove to the Company his ownership of his shares in the manner required by the Israeli Companies Law 5759-1999. The Board of Directors of the Company may issue directives and procedures relating to the proof of ownership of shares of the Company.

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

Any person entitled to shares of the Company may vote at a general meeting in the same manner as if he were the registered holder of such shares, provided that at least forty eight hours before the time of the meeting or of the adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the board of directors of his right to vote such shares (unless the Company shall have previously recognized his right to vote the shares at such meeting).

The instrument appointing a proxy shall be in writing signed by the principal, or if the principal is a corporation, the proxy appointment shall be in writing and signed by authorized signatories of the corporation. The board of directors is entitled to demand that prior to the meeting, there shall be produced to the Company a confirmation in writing of the authority of signatories to bind the corporation to the satisfaction of the board of directors. The board of directors may also establish procedures relating to such matters.

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

A voting proxy is entitled to participate in the proceedings at the general meeting and to be elected as chairman of the meeting in the same manner as the appointing shareholder, unless the proxy appointment otherwise provides. The proxy appointment shall be in a form customary in Israel or any other form which may be approved by the board.

According to an amendment to the Israeli Companies Law, a shareholder is also entitled, in certain issues, to vote by a proxy card.

Each ordinary share entitles the holder thereof to participate at a general meeting of the Company and to one vote on each item that comes before the general meeting.

Right of Non-Israeli Shareholders to Vote

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

Change of Control

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

For purposes of shareholders' approval, unless a court rules otherwise, in the vote by the shareholder meeting of a merging company whose shares are held by the other merging company, the merger will not be deemed approved if a majority of the shares held by shareholders voting at the general meeting, other than the shareholders who are also shareholders in the other merging company or any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors in the other merging company, vote against the merger. Upon the request of a creditor of either party to the proposed merger, a court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the merger obligations. In addition, a merger may not be completed unless at least 30 days have passed from the date that the merger was approved at the general meetings of any of the merging companies and at least 50 days have passed from the date that a proposal of merger was filed with the Israeli Registrar of Companies.

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

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

Under the Israeli Securities Law, 5728-1968, any major shareholder who is the beneficial owner of more than 5% of the Company's equity capital or voting securities is required to report this fact, and any change in his holdings, to the Israeli Securities Authority.

Amendment no. 16 to the Companies Law

On March 7, 2011 amendment no. 16 ("Amendment 16") to the Companies Law was enacted by the Israeli Knesset. Amendment 16, which will come into effect on May 14, 2011, places a special emphasis on the autonomy of the board of directors and the external directors and on the composition and responsibilities of the audit committee.

Under Amendment 16, among others: (i) the approval of certain interested party transactions will require the affirmative vote of a majority of the shares and in addition either that (a) the majority (rather than one third) of the shares held by shareholders who do not have a personal interest in the transaction attending in person or represented by proxy have voted in favor of the proposal (shares held by abstaining shareholders shall not be considered) or (b) that the total number of disinterested shares voted against the proposal does not exceed 2% (rather than 1%) of the aggregate voting rights; (ii) the approval of the appointment of an external director will require the affirmative vote of a majority of the shares and in addition either that (a) the majority (rather than one third) of the shares held by shareholders who are not controlling shareholders attending in person or represented by proxy have voted in favor of the proposal (shares held by abstaining shareholders shall not be considered) or (b) that the total number of disinterested shares voted against the proposal does not exceed 2% (rather than 1%) of the aggregate voting rights; (iii) the majority of members of the audit committee shall be independent directors (as defined under Amendment 16), and the audit committee chairman shall be an external director (which is currently the composition of our audit committee); (iv) the quorum required to determine a decision of the audit committee shall be not less than a majority of the independent directors, including at least one external director; and (v) the audit committee shall determine whether certain related party transactions are considered extraordinary transactions for the purpose of the Companies Law and should be approved as such.

Transfer Agent and Registrar

We have appointed American Stock Transfer & Trust Co. as the transfer agent and registrar for our ordinary shares.

Listing

Our ordinary shares are listed on both the NYSE Amex and on the TASE under the symbol "AIP".

10.C Material Contracts

Pursuant to the resolutions of the general meetings of the Company dated July 14, 2004 and June 21, 2006, the Company issued letters of indemnification to all its directors and officers, including directors that may be considered controlling shareholders in the Company. The amount of indemnification pursuant to all the letters of indemnification that have been provided and/or will be provided to the offers and employees of the Company, shall not exceed a cumulative sum equal to 25% of the Company's shareholders' equity in accordance with the last consolidated financial statements published prior to the actual provision of indemnification.

On July 29, 2005 the Company signed an agreement in London, with the Yam Tethys Sea Group (Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Avner Oil Exploration Limited Partnership and Delek Investment and Assets Ltd.), for the purchase of natural gas. The gas that will be purchased is intended to fulfill the Company's requirements. The overall financial volume of the transaction totals $33 million over the term of the agreement from the initial supply of gas and until the earlier of: (i) the point at which the Company will have purchased an aggregate of 0.43 BCM of natural gas; or (ii) July 1, 2011. On July 2011, the gas supply agreement with Yam Tethys is scheduled to terminate and the Company is currently examining alternatives from other gas suppliers. According to Company estimates, and based on the prevailing market prices, upon the signing of a new agreement with any of the potential suppliers, the price of gas is expected to rise in relation to the gas prices pursuant to the current agreement.

On July 11, 2007, the Company entered into an agreement with Israel Natural Gas Routes Ltd. for transportation of natural gas to its facility in Hadera for a six-year term, with an optional extension for another two-year. Consideration, pursuant to the agreement includes payment of a non-recurring connection fee upon connection based on the actual cost of connection to the Company's facility, as well as monthly payments based on two components: (a) a fixed amount for the gas volume ordered by the Company; and (b) an additional amount based on the actual gas volume delivered to the facility. As of the date of this Annual Report, the Company is dependent on Gas Routes, since in the agreement the Company undertook to pay a set annual payment of NIS 2 million even if it does not actually make use of Gas Routes' transportation services. Owners of lands close to the gas transportation lines initiated a damages claim against Natural Gas Lines in regard to impairment. It should be noted that the agreement between the Company and Natural Gas Lines addresses the indemnification of Natural Gas Lines as part of the payment of compensation due to harm to adjacent land. The proceeding was conducted before the appeals committee and the Company was not a party to the proceedings. On February 25, 2010, the Company received the committee's decision to set the damages at NIS 2.67 million. Natural Gas Lines and the land owners appealed the committee's decision. On December 10, 2010, these appeals were rejected. The Company received a payment demand from Natural Gas Lines and recorded a provision on its financial statements as of December 31, 2010.

On November 3, 2008, the general meeting of the Company approved the validity of a lease agreement signed on September 18, 2008 between the Company and Gav-Yam Lands Ltd. ("Lessor"), a public company indirectly controlled by the controlling shareholder of the Company, pursuant to which the Company rented a plot in Modi'in, with a space of 74,500 square meters, and buildings that the lessor plans to build for the Company, covering a total space of 21,300 square meters, which will be used as a center for the purposes of logistics, industry and office ("Logistic Center") for subsidiaries and associated companies of the Company and in part will substitute existing lease agreements. The term of the lease will be 15 years from the date of the transfer of possession of the leased property. In addition the Company will have an option to extend the lease for an additional 9 years and 11 months. The cost of the annual lease amounts to NIS 13.6 million linked to the Consumer Price Index of July 2008. In the course of 2010, an aggregate amount of NIS 2.0 million was paid pursuant to the terms of this agreement.

On June 1, 2010, the Company entered into an agreement for the sale of its rights to a property of 7,600 square meters in Tel Aviv, which was leased from the Tel Aviv Municipality and served in the past as one of the Company's paper manufacturing plants, in return for the sum of NIS 64 million, subject to certain conditions. The transaction was finalized in March 2011.

On July 25, 2010, Amnir, a wholly owned subsidiary of the Company, sold to an unrelated third party a plot of land of 9,200 square meters in Bnei Brak. This property served as a waste paper and cardboard collection and recycling plant. Consideration paid was in the amount of NIS 20 million, paid in installments until March 31, 2011.

On October 4, 2010, the Company completed a full tender offer for the acquisition of all of the holdings of the public in Carmel, at a price of $22.5 per share in cash, at a total consideration of approximately $4.2 million. As of October 4, 2010, the Company holds 100% of the issued and outstanding share capital and voting rights of Carmel, which has become a privately owned subsidiary of the Company.

On December 31, 2010 the Company acquired 25.1% of the issued and outstanding share capital of Hadera Paper Printing from a subsidiary of the Mondi Group. Total consideration for the purchase transaction stood at 10.364 million euro, paid from the Company's own resources. Following the closing of the transaction, true to the date of this Annual Report, the Company holds 75% of the shares of Hadera Paper Printing, which was consolidated within the financial statements of the Company, while a subsidiary of the Mondi Group holds the remaining shares.

On March 6, 2011 the Company's Board of Directors approved the establishment of a foreign company to be established for the purpose of engaging with a business partner overseas (an unrelated third party) for operation in the

field of removal of paper and cardboard waste and recycling operations overseas, as a joint venture. The Company's portion in the operations is expected to stand at 65%. Operations will require an initial investment, to be performed in stages, according to the joint venture's needs, of some $5.2 million, by shareholder loans or shareholder guarantees, out of which the Company will invest some 80% of the amount. The agreement is expected to include the following restrictions regarding the partners' transfer of shares in the joint venture: (i) to grant the foreign company the right to appoint two-thirds of the members of the board of directors and the joint venture's CEO; (ii) to grant the Company the right to purchase up to 75% of the paper and cardboard waste collected by the joint venture at market prices, and; (iii) certain noncompetition clauses. The Company is working towards forming this agreement, and there is no certainty that any part or all of the above regarding the probability of the joint venture and final agreements on understandings, will be realized.

10.D Exchange Controls

Foreign exchange regulations

There are no Israeli governmental laws, decrees or regulations that restrict or that affect the export or import of capital, including but not limited to, foreign exchange controls on remittance of dividends on ordinary shares or on the conduct of the Group's operations, except as otherwise set forth in the paragraph below regarding taxation.

10.E Taxation

The following is a summary of the current tax regime, which is applicable to companies in Israel, with special reference to its effect on us. The following also contains a discussion of material Israeli and U.S. tax consequences to our shareholders. In addition. the following contains a discussion of certain Israeli and U.S. tax consequences to persons purchasing our ordinary shares. To the extent that the discussion is based on new tax legislation, which has yet to be subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will accord with any such interpretation in the future. Investors are advised to consult their tax advisors with respect to the tax consequences of the purchase, ownership and sale of our shares, including the consequences under any applicable state and local law and federal estate and gift tax law, and the application of foreign laws or the effect of nonresident status on United States taxation. This tax summary does not cover all of the potential tax consequences applicable to the investors upon purchasing, owning or disposing of our ordinary shares.

For further information regarding the inspection and the demand for payment of the Turkish Tax Authorities in respect to KCTR, see Item 8.A "Legal Proceedings".

General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax at the rate of 24% in 2011 (25% in 2010) The Israeli corporate tax rate is scheduled to be gradually reduced to 18% by the year 2016 (23% in 2012, 22% in 2013, 21% in 2014; 20% in 2015 and 18% in 2016 and thereafter). Nevertheless, income attributed to an Approved Enterprise/ BenefittedBenefitted Enterprise/Preferred Enterprise under the Law for Encouragement of Capital Investments, 1959 may be taxed at a lower rate. Capital gain derived after January 1, 2010 are subject to tax at a corporate rate.

Taxation of Shareholders

Capital Gains

Capital gain tax is imposed on the disposal of capital assets by an Israeli resident, and on the disposal of such assets by a non- Israel resident if those assets are either (i) located in Israel; (ii) are shares or a right to a share in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to assets located in Israel. The Israeli Income Tax Ordinance distinguishes between "Real Gain" and the "Inflationary Surplus". The Real Capital Gain is the excess of the total capital gain over Inflationary Surplus computed generally on the basis of the increase in the Israeli CPI between the date of purchase and the date of disposal.

The Real Capital Gain accrued by individuals upon the sale of our ordinary shares purchased on or after January 1, 2003 will be taxed at the rate of 20%. However, if the individual shareholder is a "Controlling Shareholder" (i.e., a person who holds, directly or indirectly, alone or together with another, 10% or more of one of the Israeli resident company's means of control) at the time of sale or at any time during the preceding 12 months period, such gain will be taxed at the rate of 25%. The Real Capital Gain generated by an individual on the sale of an asset purchased prior to January 1, 2003 will be subject to a tax at a weighted rate. The marginal tax rate for individuals (up to 45% in 2011)

will be applied to the portion of the gain amount which bears the same ratio to the total gain realized as the ratio which the holding period commencing at the acquisition date and terminating on January 1, 2003 bears to the total holding period. The remainder of the gain realized will be subject to capital gains tax at the rates applicable to an asset purchased after January 1, 2003. In addition, capital gain derived by an individual claiming deduction of financing expenses in respect of such gain will be taxed at the rate of 25%. As mentioned above, the real capital gain derived by corporations will be generally subject to a corporate tax rate (24% in 2011).

Individual and corporate shareholder dealing in securities in Israel are taxed at the tax rates applicable to business income (24% tax rate in 2011 for a corporation and a marginal tax rate of up to 45% in 2011 for individual). Notwithstanding the foregoing, capital gain generated from the sale of our ordinary shares by a non-Israeli shareholder may be exempt under the Israeli Income Tax Ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the ordinary shares were purchased upon or after the registration of the securities on the stock exchange (this requirement generally does not apply to shares purchased on or after January 1, 2009) , (ii) the seller does not have a permanent establishment in Israel to which the generated capital gain is attributed, and (iii) if the seller is a corporation, less than 25% of its means of control are held, directly and indirectly, by Israeli resident shareholders. In addition, the sale of the ordinary shares may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. Thus, the Convention between the Government of the United States of America and the Government of Israel with respect to Taxes on Income (the "U.S.-Israel Double Tax Treaty") , exempts U.S. residents from Israeli capital gain tax in connection with such sale, provided that: (i) the U.S. resident owned, directly or indirectly, less than 10% of an Israeli resident company's voting power at any time within the 12 – month period preceding such sale; (ii) the seller, being an individual, is present in Israel for a period or periods of less than 183 days (in the aggregate) during the taxable year; and (iii) the capital gain from the sale was not generated through a permanent establishment of the U.S. resident in Israel.

Either the purchaser of the securities, the stockbrokers who effected the transaction or the financial institution holding the traded securities through which the payment to the seller is made are obligated, subject to the above mentioned exemptions, to withhold tax upon the sale of securities from the real capital gain at the rate of 24% in respect of a corporation and 20% in respect of an individual.

A detailed return, including a computation of the tax due, should be filed and an advanced payment should be paid on January 31 and June 31 of every tax year in respect of sales of securities traded on a stock exchange (including our ordinary shares) made within the previous six months. However, if all tax due was withheld at source pursuant to applicable provisions of the Israeli Income Tax Ordinance and regulations promulgated thereunder the aforementioned return does not need to be filed and no advance payment should be made. Capital gain is also reportable on the annual income tax return.

Dividends

A distribution of dividend by our company from income, which is not attributed to an Approved Enterprise/Privileged Enterprise to an Israeli resident individual, will generally be subject to income tax at a rate of 20%. However, a 25% tax rate will apply if the dividend recipient is a "Controlling Shareholder" at the time of distribution or at any time during the preceding 12 months period. If the recipient of the dividend is an Israeli resident corporation, such dividend will be exempt from Israeli income tax provided that the income from which such dividend is distributed was derived or accrued within Israel.

Under the Israeli Income Tax Ordinance, a non-Israeli resident (either individual or corporation) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 20% (25% if the dividends recipient is a "Controlling Shareholder", at the time of distribution or at any time during the preceding 12 months period); those rates are subject to a reduced tax rate under the provisions of an applicable double tax treaty. Thus, under the U.S.-Israel Double Tax Treaty the following rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and not more then 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends – the tax rate is 12.5%, (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an Approved Enterprise/

Benefitted Enterprise/Preferred Enterprise – the tax rate is 15%, and (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the Israel-U.S. Double Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

Our Company is obligated to withhold tax, upon the distribution of a dividend (distributed from an income which is not attributed to an Approved Enterprise/Privileged Enterprise), at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 20% (iii) non-Israeli resident - 20%, subject to a reduced tax rate under the provisions of an applicable double tax treaty.

10.F Dividends and Paying Agents

Not applicable.

10.G Statement by Expert

Not applicable.

10.H Documents on Display

A copy of each document (or a translation thereof to the extent not in English) concerning the Company that is referred to in this Annual Report on Form 20-F is available for public view at our principal executive offices at Hadera Paper Ltd., 1 Meizer Street, Industrial Zone, Hadera 38100, Israel. We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission (the "SEC").

Copies of our securities filing, including this Annual Report and the exhibits hereto may be inspected and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330.

As a foreign private issuer, we are exempt from the rules under the Exchange Act relating to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Due to its operations, the Company is exposed to market risks consisting primarily of changes in interest rates – on both short and long-term loans, changes in exchange rates and changes in raw material and energy prices. These changes in interest rates affect the Company's financial results.

The Company's Board of Directors determines the Company's policy in regard to addressing these risks, according to which financial instruments are employed, and defines the objectives to be attained, taking into account the Group's linkage balance sheet and the impact of changes in various currencies and in the CPI, on the Company's cash flows and financial statements.

The Company conducts calculations of its exposure every month and examines the compliance with the policy determined by the Board of Directors.

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

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

As of December 31, 2010 the Company owned CPI-linked long-term loans and notes in the total amount of approximately NIS 298.1 million. The interest on such loans is not higher than the market interest rate. In the event

that the inflation rate rises significantly a loss may be recorded in the Company's financial statements due to the surplus of CPI-linked liabilities.

In early 2010, the Company entered into hedging transactions for a period of one year to protect itself against a rise in the CPI in the amount of NIS 30 million, pursuant to previous transactions that were made in early 2009 and terminated at the end of 2009.

The Company continues to regularly monitor hedging prices for covering its exposure and in the event that these will be reasonable the Company will enter into the relevant hedging transactions.

Through our normal operations, we are exposed principally to the market risks associated with changes in the Consumer Price Index which our notes are linked to. We manage our exposure to these market risks through our regular financing activities and, when deemed appropriate, we hedge these risks through the use of derivative financial instruments. We use the term hedge to mean a strategy designed to manage risks of volatility movements on certain liabilities. The gains or losses on derivative instruments are expected to offset the losses or gains on these liabilities. We use derivative financial instruments as risk hedging tools and not for trading or speculative purposes. Our risk management objective is to minimize the effect of volatility on our financial results exposed to these risks and appropriately hedge them with forward contracts.

| | Maturity In NIS thousands | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012-13 | 2013-14 | More than 5 years | Total book value | Total fair value |
| Series 2 debentures | 33,673 | 67,347 | - | - | 101,020 | 104,144 |
| Series 3 debentures | 22,481 | 44,962 | 44,962 | 67,443 | 179,848 | 184,231 |
| Series 4 debentures | 39,260 | 78,518 | 78,518 | - | 196,296 | 212,453 |
| Series 5 debentures | - | 36,304 | 72,608 | 72,608 | 181,520 | 197,494 |

Credit Risks

The Company's and its subsidiaries' cash and cash equivalents and the short-term deposits as of December 31, 2010 are deposited mainly with major Israeli banks. The Company and its subsidiaries consider the credit risks in respect of these balances to be immaterial.

Most of these companies' sales are made in Israel, to a large number of customers. The exposure to credit risks relating to trade receivables is consequently generally limited due to the relatively large number of customers. The Group makes use of credit insurance services at some of the Group companies, as needed. The Group also performs ongoing credit evaluations of its customers to determine the required amount of allowance for doubtful accounts. The Company believes that an appropriate allowance for doubtful debts is included in the financial statements.

Fair Value of Financial Instruments

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

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as of December 31, 2010:

All other Company's market risk sensitive instruments are instruments entered into for purposes other than trading purposes.

| Sensitive Instruments | Sensitivity to Interest Rates | | | | |
|---|---|---|---|---|---|
| | Profit (loss) from changes | | Fair value as of | Profit (loss) from changes | |
| | Interest rise 10% | Interest rise 5% | December 31, 2010 | Interest decrease 5% | Interest decrease 10% |
| | In NIS thousands | | | | |
| Series 2 Debentures | 772 | 387 | (104,144) | (390) | (782) |
| Series 3 Debentures | 2,547 | 1,281 | (184,231) | (1,296) | (2,607) |
| Series 4 Debentures | 1,865 | 936 | (212,453) | (944) | (1,896) |
| Series 5 Debentures | 3,256 | 1,638 | (197,494) | (1,657) | (3,333) |
| Loan A - fixed interest | 74 | 37 | (16,052) | (37) | (75) |
| Loan B - fixed interest | 1,165 | 585 | (99,647) | (591) | (1,189) |
| Loan C- fixed interest | 110 | 55 | (18,112) | (55) | (111) |

The fair value of the loans is based on a calculation of the present value of the cash flows, according to the generally-accepted interest rate on loans with similar characteristics (4% in 2010).

Regarding the terms of the debentures and other liabilities – See Note 10 to the annual financial statements dated December 31, 2010.
Regarding long-term loans and capital notes granted - See Note 5 to the annual financial statements dated December 31, 2010.

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| Sensitive Instruments | Sensitivity of €-linked instruments to changes in the € exchange rate | | | | |
|---|---|---|---|---|---|
| | Profit (loss) from changes | | Fair value as of December 31, 2010 | Profit (loss) from changes | |
| | Rise in € 10% | Rise in € 5% | | Decrease in € 5% | Decrease in € 10% |
| | In NIS thousands | | | | |
| Cash and cash equivalents | 4,892 | 2,446 | 48,920 | (2,446) | (4,892) |
| Other accounts receivable | 1,014 | 507 | 10,140 | (507) | (1,014) |
| Accounts payable and credit balances | (10,686) | (5,344) | (106,883) | 5,344 | 10,688 |
| Forward | 1,548 | 625 | (311) | (1,220) | (2,143) |

| Sensitive Instruments | Sensitivity to the U.S. Dollar Exchange Rate | | | | |
|---|---|---|---|---|---|
| | Profit (loss) from changes | | Fair value as of December 31, 2010 | Profit (loss) from changes | |
| | Rise in $ 10% | Rise in $ 5% | | Decrease in of $ 10% | Decrease in $ 5% |
| | In NIS thousands | | | | |
| Cash and cash equivalents | 2,776 | 1,388 | 27,756 | (1,388) | (2,776) |
| Other accounts receivable | 3,628 | 1,814 | 36,277 | (1,814) | (3,628) |
| Accounts payable and credit balances | (10,665) | (5,333) | (106,654) | 5,333 | 10,665 |
| NIS/US$ forward transaction | 547 | 175 | (29) | (571) | (943) |

Other accounts receivable reflect primarily short-term customer debts.

| Sensitive Instruments | Sensitivity to the Consumer Price Index | | | | |
|---|---|---|---|---|---|
| | Profit (loss) from changes | | Fair value as of December 31, 2010 | Profit (loss) from changes Decrease in CPI 1% | Decrease in CPI 2% |
| | Rise in CPI 2% | Rise in CPI 1% | | | |
| | In NIS thousands | | | | |
| NIS-CPI forward transactions | 600 | 300 | (240) | (300) | (600) |
| Series 2 debentures | (2,083) | (1,041) | (104,144) | 1,041 | 2,083 |
| Series 3 debentures | (3,685) | (1,842) | (184,231) | 1,842 | 3,685 |
| Other accounts receivable | 39 | 20 | 1,950 | (20) | (39) |

See Note 19c to the financial statements dated December 31, 2010.

| Sensitive Instruments | Sensitivity to the exchange rate of the yen | | | | |
|---|---|---|---|---|---|
| | Profit (loss) from changes | | Fair value as of December 31, 2010 | Profit (loss) from changes | |
| | Rise in the yen 10% | Rise in the yen 5% | | Decrease in the yen 5% | Decrease in the yen 10% |
| | In NIS thousands | | | | |
| Accounts Payable | (367) | (184) | (3,672) | 184 | 367 |

| Sensitive Instruments | Sensitivity to other currencies (GBP) | | | | |
|---|---|---|---|---|---|
| | Profit (loss) from changes | | Fair value | Profit (loss) from changes | |
| | Rise of 10% | Rise of 5% | as at Dec-31-10 | Decrease of 5% | Decrease of 10% |
| | In NIS thousands | | | | |
| Other accounts receivable | 86 | 43 | 864 | (43) | (86) |

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Quantitative Information Regarding Market Risk

The following are the balance-sheet components by linkage bases at December 31, 2010:

| NIS millions | Unlinked | CPI-linked | In foreign currency, or linked thereto (primarily US$) | €-linked | Non-Monetary Items | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and cash equivalents | 44.3 | | 27.8 | 48.9 | | 121.0 |
| Other accounts receivable | 564.1 | 2.0 | 37.1 | 9.8 | 9.0 | 622.0 |
| Inventories | | | | | 343.5 | 343.5 |
| Investments in Associated Companies | 19.2 | | | | 218.3 | 237.5 |
| Deferred taxes on income | | | | | 2.2 | 2.2 |
| Fixed assets, net | | | | | 1,358.6 | 1,358.6 |
| Investment property (real estate) | | | | | 24.5 | 24.5 |
| Intangible Assets | | | | | 35.7 | 35.7 |
| Land under lease | | | | | 24.8 | 24.8 |
| Financial assets available for sale | | | | | 1.6 | 1.6 |
| Other assets | | | | | 1.4 | 1.4 |
| Assets on account of employee benefits | 0.8 | | | | | 0.8 |
| Total Assets | 628.4 | 2.0 | 64.9 | 58.7 | 2,019.6 | 2,773.6 |
| Liabilities | | | | | | |
| Short-term credit from banks | 144.6 | | | | | 144.6 |
| Accounts payable and credit balances | 318.4 | | 110.3 | 106.9 | 6.6 | 542.2 |
| Current tax liabilities | 20.0 | | | | | 20.0 |
| Deferred taxes on income | | | | | 45.3 | 45.3 |
| Long-Term Loans | 313.6 | 18.3 | | | | 331.9 |
| Notes (debentures) – including current maturities | 378.0 | 279.8 | | | | 657.7 |
| Liabilities on account of employee benefits | 46.7 | | | | | 46.7 |
| Put option to holders of non-controlling interests | 31.5 | | | | | 31.5 |
| Shareholders' equity, reserves and retained earnings | | | | | 953.6 | 953.6 |
| Total liabilities and equity | 1,252.8 | 298.1 | 110.3 | 106.9 | 1,005.5 | 2,773.6 |
| Surplus financial assets (liabilities) as at December 31, 2010 | (624.4) | (296.1) | (45.4) | (48.2) | 1,014.1 | 0.0 |

* As to hedging transactions associated with surplus CPI-linked liabilities, see Section E(2), above.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we performed an evaluation of the effectiveness of our disclosure controls and procedures that are designed to ensure that the material financial and non-financial information required to be disclosed in the report that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in our reports. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based on our evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d) -15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report are effective at such reasonable assurance level.

(b) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;

- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

—

provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements. Also, projection of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2010 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In conducting the management's evaluation of the effectiveness of its internal control over financial reporting, the Company's management determined that the purchase, by the Company, of 25.1% of the issued and outstanding share capital of Hadera Paper Printing, which occurred on December 31, 2010, would be excluded from the 2010 internal control assessment, as permitted by the Securities and Exchange Commission. Accordingly, as of December 31, 2010 approximately 22% and 17% of the consolidated net and total assets, respectively, were excluded from management's evaluation of the effectiveness of internal control over financial reporting.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting concluded that, as of December 31, 2010, the Company's internal control over financial reporting was effective.

(c) Attestation report of the registered public accounting firm

Our independent auditors, Brightman Almagor Zohar & Co. a member firm of Deloitte Touche Tohmatsu and registered public accounting firm, has audited the consolidated financial statements in this Annual Report on Form 20-F, and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting as of December 31, 2010.

(d) Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the year end period covered by this Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Amos Mar-Haim, a member of the Company's Audit Committee, meets the criteria of an Audit Committee Financial Expert under the applicable rules and regulations of the SEC and his designation as the Audit Committee's Financial Expert has been ratified by the Board of Directors. Amos Mar-Haim is "independent", as that term is defined in the NYSE Amex's listing standards. Additionally, Aliza Rotbard, an external director and member of the Company's Audit Committee also meets the criteria of an Audit Committee Financial Expert under the applicable rules and regulations of the SEC and her designation as the Audit Committee's Financial Expert has been ratified by the Board of Directors. Aliza Rotbard is "independent", as that term is defined in the NYSE Amex's listing standards.

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

from the Company's management a list of all services, including audit, audit-related, tax and other services, proposed to be provided during the current fiscal year to the Company and its subsidiaries by Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tohmastu (on July 27, 2010, at a general meeting the shareholders approved the appointment of Brightman Almagor Zohar & Co. as the Company's external auditors for the year 2010. Brightman Almagor Zohar & Co. replaced Kesselman & Kesselman & Co. who served as the Company's external auditors since 1954 until 2006). After reviewing and considering the services proposed to be provided during the current fiscal year and, where appropriate in order better to understand their nature, discussing them with management, the Audit Committee approves prior to the accountant being engaged such of the proposed services, with a specific pre-approved budget, as it considers appropriate in accordance with the above principles. Additional services from Brightman Almagor Zohar and any increase in budgeted amounts will similarly be approved during the year by the Audit Committee prior to the accountant being engaged on a case-by-case basis.

All audit-related and non-audit-related services performed by Brightman Almagor Zohar during 2010 were proposed to and approved by the Audit Committee prior to the accountant being engaged, in accordance with the procedures outlined above.

The following table provides information regarding fees we paid to Brightman Almagor Zohar for all services, including audit services, for the years ended December 31, 2010 and 2009, respectively.

| | U.S. $ in thousands | |
|---|---|---|
| | 2010 | 2009 |
| Audit fees | | |
| Audit of financial statements (including special audit jobs) | 206 | 135 |
| Audit-related Fees | | |
| ICFR audit | 67 | 66 |
| Tax Fees | - | - |
| All Other Fees | | |
| Differentials | 7 | 19 |
| Total | 280 | 220 |

“Audit Fees” are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that the independent accountant generally provides, such as statutory audits, consents and assistance with and review of documents filed with the SEC.

“Audit-Related Fees” are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under Audit Fees. These fees include mainly accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time.

“Tax Fees” are the aggregate fees billed for professional services rendered for tax compliance, tax advice, other than in connection with the audit of the financial statements. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

“All Other Fees” are the aggregate fees billed for products and services provided other than those included in “Audit Fees,” Audit-Related Fees,” or “Tax Fees.”

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Neither the Company nor any affiliated purchaser purchased any of the Company’s equity securities during 2010.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT.

None.

ITEM 16G. CORPORATE GOVERNANCE

There are no significant ways in which the corporate governance of our Company, as a foreign private issuer, differ from those followed by domestic companies listed on the NYSE Amex, except with respect to a requirement to hold executive  For further information regarding this requirement and regarding the structure of our Board of Directors and its committees and the exemptions available to our Company as a "controlled company and as a Foreign Private Issuer", see "Item 6.C. - Board Practices."

PART III

ITEM 17. FINANCIAL STATEMENTS

In lieu of responding to this item, we have responded to Item 18 of this Annual Report.

ITEM 18. FINANCIAL STATEMENTS

The information required by this item is set beginning on page F-1 of this Annual Report.

ITEM 19. EXHIBITS

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

(i)Consolidated Audited Financial Statements of the Company for the year ended December 31, 2010 (including Reports of Independent Registered Public Accounting Firms).

(ii)Financial statements of Hadera Paper Printing and Writing Paper Ltd. for the year ended December 31, 2010.

(iii)Financial statements of Hogla-Kimberly Ltd. for the year ended December 31, 2010.

(b)For additional documents filed with this report see Exhibit Index.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

HADERA PAPER LTD.

By: /s/ Shaul Gliksberg
Shaul Gliksberg
Chief Financial and Business Development Officer

Dated: April 10, 2011

EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 1.1 | Memorandum of Association of the Company (incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 1987). |
| 1.2 | Articles of Association of the Company (incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 2008). |
| 3.1 | Voting Agreement dated February 5, 1980 by and among Clal Industries Ltd., PEC Israel Economic Corporation and Discount Bank Investment Corporation Ltd. (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 20-F for the year ended December 31, 1987). |
| 12.1 | Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act.* |
| 12.2 | Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act.* |
| 13.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act.* |
| 13.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act.* |

*Filed herein.

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

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Report of Independent Registered Public Accounting Firm

To the shareholders of

Hadera Paper ltd.

We have audited the accompanying consolidated statements of financial position of Hadera Paper Ltd. ("the Company") and subsidiaries as of December 31, 2010 and 2009, and the related, consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 15% and 12% of consolidated total assets as of December 31, 2010 and 2009, respectively, and total revenues constituting approximately 45%, 41% and 25% of consolidated total revenues for the years ended December 31, 2010, 2009 and 2008, respectively.
Likewise we did not audit the financial statements of certain associated companies, in whichthe Company's share in their profits or losses is a net amount of 1,440 Thousands NIS, for the year ended December 31, 2008. The financial statements of those companies were audited by other Auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, such consolidated statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2010 and 2009, and the results of their operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2010, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the

Treadway Commission (COSO) and our report dated April 10, 2011 expressed an unqualified opinion on the company's internal control over financial reporting based on our audit and the report of the other auditors.

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

Israel
April 10, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders of
Hadera Paper Ltd

We have audited the internal control over financial reporting of Hadera Paper Ltd and subsidiaries (the "Company") as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.
We did not examine the effectiveness of internal control over financial reporting of subsidiaries, whose financial statements reflect total assets and revenues constituting 15% and 45%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010. The effectiveness of the subsidiaries companies' internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as they relate to the effectiveness of the subsidiary company's internal control over financial reporting, are based solely on the report of the other auditors.
As describe in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Mondi Hadera Paper Ltd, which was acquired on December 31, 2010 (the "Acquisition"), and whose aggregated financial statements constitute 17% of total assets and 22% of net assets of the consolidated financial statements amounts of the company as of December 31, 2010. Accordingly, our audit didn't include the internal control over financial reporting at the acquisition.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with international financial reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit

preparation of financial statements with international financial reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB), , and that receipts and expenditures of the company are being made only in accordance with authorizations of directors and management of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, material misstatements may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the report of the other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited,in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the company as of December 31 2010 and for the year ended December 31, 2010 of the Company and our report dated April 10, 2011 expressed an unqualified opinion on those financial statements based on our audit and the report of the other auditors.

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

Israel
April 10, 2011

HADERA PAPER LTD

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | December 31 2010 | 2009 |
|---|---|---|---|
| | | NIS in thousands | |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | 2f | 120,992 | 26,261 |
| Designated deposits | 2f | - | 127,600 |
| Trade receivables | 15a | 564,929 | 323,882 |
| Other receivables | 15a | 57,059 | 98,897 |
| Inventories | 15b | 343,519 | 175,944 |
| Total Current Assets | | 1,086,499 | 752,584 |
| | | | |
| Non-Current Assets | | | |
| | | | * |
| Fixed assets, net | 6 | 1,358,619 | 1,134,234 |
| Investments in associated companies | 5 | 237,498 | 340,975 |
| Deferred tax assets | 13 | 2,165 | ** 2,096 |
| Prepaid expenses in respect of an operating lease | 7 | 24,836 | * 29,756 |
| Other intangible assets | 9 | 35,714 | 27,084 |
| Investment property | 8 | 24,500 | - |
| Financial assets - available for sale | 15a | 1,646 | - |
| Other assets | | 1,364 | 1,298 |
| Employee benefit assets | 11 | 793 | 649 |
| Total Non-Current Assets | | 1,687,135 | 1,536,092 |
| | | | |
| Total Assets | | 2,773,634 | 2,288,676 |

| | | |
|---|---|---|
| Z. Livnat<br>Chairman of the Board of Directors | O. Bloch<br>Chief Executive Officer | S. Gliksberg<br>Chief Financial and Business Development Officer |

Approval date of the financial statements: April 10, 2011

*Retroactively adjusted in respect of implementation of amendment to IAS17, see note 3a
** Reclassified, see note 23

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | December 31 2 010 | 2 00 9 |
|---|---|---|---|
| | | NIS in thousands | |
| Liabilities and Equity | | | |
| Current Liabilities | | | |
| Credit from banks and others | 10b, 15c | 144,622 | 131,572 |
| Current maturities of long-term notes and long term loans | 10a, b | 175,936 | 149,940 |
| Trade payables | 15d | 370,065 | 255,895 |
| Other payables | 15d | 172,295 | 112,745 |
| Short term employee benefit liabilities | 11 | 27,586 | 22,421 |
| Financial liabilities at fair value through profit and loss | 2t(2) | - | 11,982 |
| Current tax liabilities | | 19,951 | 2,760 |
| Total Current Liabilities | | 910,455 | 687,315 |
| | | | |
| Non-Current Liabilities | | | |
| Loans from banks and others | 10b | 251,283 | 225,802 |
| Notes | 10a | 562,348 | 471,815 |
| Deferred tax liabilities | 13 | 45,302 | *30,404 |
| Employee benefit liabilities | 11 | 19,132 | 14,911 |
| Financial liability with respect to Put option granted to the non-controlling interests | 2t2 | 31,512 | - |
| Total Non-Current Liabilities | | 909,577 | 742,932 |
| | | | |
| Capital and reserves | 12 | | |
| Issued capital | | 125,267 | 125,267 |
| Reserves | | 298,258 | 307,432 |
| Retained earnings | | 506,445 | 399,346 |
| capital and reserves attributed to shareholders | | 929,970 | 832,045 |
| | | | |
| Non-controlling Interests | | 23,632 | 26,384 |
| | | | |
| Total capital and reserves | | 953,602 | 858,429 |
| | | | |
| Total Liabilities and Equity | | 2,773,634 | 2,288,676 |

* Reclassified, see note 23

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

HADERA PAPER LTD

CONSOLIDATED INCOME STATEMENTS

| | Note | Year ended December 31 2010 | 2009 | 2008 |
|---|---|---|---|---|
| | | NIS in thousands | | |
| Revenue | 15e | 1,121,008 | 891,995 | 673,484 |
| Cost of sales | 15f | 945,422 | 765,677 | 542,387 |
| Gross profit | | 175,586 | 126,318 | 131,097 |
| Selling, marketing, general and administrative expenses | 15g | | | |
| Selling and marketing expenses | | 87,201 | 71,998 | 45,674 |
| General and administrative expenses | | 59,603 | 58,967 | 54,970 |
| Other income, net | 15l | (32,513) | (20,234) | (4,898) |
| Total expenses | | 114,291 | 110,731 | 95,746 |
| Profit from ordinary operations | | 61,295 | 15,587 | 35,351 |
| Finance income | 15j | 9,314 | 4,727 | 12,069 |
| Finance expenses | 15k | 54,079 | 22,992 | 27,112 |
| Finance expenses, net | | 44,765 | 18,265 | 15,043 |
| Profit (loss) after financial expenses | | 16,530 | (2,678) | 20,308 |
| Share in profit of associated companies, net | 5b | 81,132 | 87,359 | 51,315 |
| Profit before taxes on income | | 97,662 | 84,681 | 71,623 |
| Taxes on income | 13d1 | (2,950) | (7,067) | 3,663 |
| Profit for the year | | 100,612 | 91,748 | 67,960 |
| Attributed to: | | | | |
| Company shareholders | | 100,728 | 91,230 | 69,710 |
| Non-controlling interests | | (116) | 518 | (1,750) |
| | | 100,612 | 91,748 | 67,960 |
| Earning for regular share of NIS 0.01 par value (see note 16): | | | | |
| Primary attributed to Company shareholders | | 19.84 | 18.03 | 13.77 |

| | | | |
|---|---|---|---|
| Fully diluted attributed to company shareholders | 19.68 | 18.03 | 13.77 |
| Number of share used to compute the primary earnings per share | 5,078,156 | 5,060,788 | 5,060,774 |
| Number of share used to compute the fully diluted earnings per share | 5,118,416 | 5,060,788 | 5,060,774 |

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

HADERA PAPER LTD

CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Comprehensive Income | 100,612 | 91,748 | 67,960 |
| | | | |
| Other Comprehensive Income | | | |
| Profit (loss) on cash flow hedges, net | 1,044 | 5,191 | (2,306) |
| Allocation to the income statement on account of cash flow hedging transactions, net | - | (1,128) | - |
| Actuarial profit (loss) from defined benefit plans, net | 115 | 477 | (1,501) |
| Revaluation from step acquisition | - | - | 17,288 |
| Share in Other Comprehensive Income of associated companies, net | (11,711) | (507) | (29,111) |
| Share in other comprehensive income associated companies, which allocated to the income statements, net | 446 | 1,163 | 1,017 |
| Total Other Comprehensive Income for the period, net | (10,106) | 5,196 | (14,613) |
| | | | |
| Total Comprehensive Income for the period | 90,506 | 96,944 | 53,347 |
| | | | |
| Attributed to: | | | |
| Company shareholders | 90,605 | 96,428 | 55,115 |
| Non-controlling interests | (99) | 516 | (1,768) |
| | 90,506 | 96,944 | 53,347 |

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

HADERA PAPER LTD

CONSOLIDATED
FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Premium of share | Share based payments reserves | Capital reserves resulting from tax benefit on exercise of employee options | Capital reserve from revaluation from step acquisition | Hedging reserves | Foreign currency translation reserves | Retained earnings | Total for Company shareholders | Non - controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | | | | | | |
| Balance - December 31, 2009 (Audited) | 125,267 | 301,695 | 10,531 | 3,397 | 14,164 | 517 | (22,872) | 399,346 | 832,045 | 26,384 | 858,42 |
| Adjustment of retained earnings in respect of implementation of amendment to IAS 17 (see note 3a) | - | - | - | - | - | - | - | 3,590 | 3,590 | - | 3,590 |
| Balance - January 1, 2010 | 125,267 | 301,695 | 10,531 | 3,397 | 14,164 | 517 | (22,872) | 402,936 | 835,635 | 26,384 | 862,01 |
| For the Year ended December 31, 2010: | | | | | - | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | | (10,649) | - | (10,649 ) | - | (10,649 |
| Profit (loss) on cash flow hedges, net | - | - | - | - | - | 606 | - | - | 606 | 18 | 624 |
| Actuarial profit (loss) from defined benefit plans, net | - | - | | | - | - | - | (80 ) | (80 ) | (1 ) | (81 |
| | - | - | - | - | | - | - | 100,728 | 100,728 | (116 ) | 100,61 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Profit for the year | | | | | | | | | | | |
| Total Comprehensive Income for the Year | - | - | - | - | - | 606 | (10,649) | 100,648 | 90,605 | (99) | 90,506 |
| Share purchase from non-controlling interests in subsidiary | - | - | - | - | - | - | - | 1,117 | 1,117 | (17,498) | (16,38 |
| Entry into consolidation (See note 17) | - | - | - | - | - | - | - | - | - | 14,845 | 14,845 |
| Depreciation of capital from revaluation from step acquisition to retained earnings | - | - | - | - | (1,744) | - | - | 1,744 | - | - | - |
| Conversion of employee options into shares | - | 5,156 | (5,156) | - | - | - | - | - | - | - | - |
| Share based payment | - | - | 2,613 | - | - | - | - | - | 2,613 | - | 2,613 |
| Balance – December 31, 2010 | 125,267 | 306,851 | 7,988 | 3,397 | 12,420 | 1,123 | (33,521) | 506,445 | 929,970 | 23,632 | 953,60 |

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

HADERA PAPER LTD

CONSOLIDATED
FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Capital reserves | Share based payments reserves | Capital reserves resulting from tax benefit on exercise of employee options | Capital reserve from revaluation from step acquisition | Cash Flows Hedging reserves | Foreign currency translation reserves | Retained earnings | Total for Company shareholders | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance - January 1, 2009 | 125,267 | 301,695 | 6,227 | 3,397 | 15,908 | (5,092) | (22,186) | 306,097 | 731,313 | 26,316 | 757,62 |
| For the Year ended December 31, 2009: | | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | - | (686) | - | (686) | - | (686 |
| Profit (loss) on cash flow hedges, net | - | - | - | - | | 5,609 | | | 5,609 | (60) | 5,549 |
| Actuarial profit (loss) from defined benefit plans, net | - | - | - | - | - | - | - | 275 | 275 | 58 | 333 |
| Profit for the year | - | - | - | - | - | - | - | 91,230 | 91,230 | 518 | 91,748 |
| Total Comprehensive Income for the Year | - | - | - | - | - | 5,609 | (686) | 91,505 | 96,428 | 516 | 96,944 |
| Purchasing shares of subsidiary company | - | - | - | - | - | - | - | - | - | (448) | (448 |
| Depreciation of capital from revaluation from step | - | - | - | - | (1,744) | - | - | 1,744 | - | - | - |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| acquisition to retained earnings | | | | | | | | | | | |
| Share based payment | - | - | 4,304 | - | - | - | - | - | 4,304 | - | 4,304 |
| Balance – December 31, 2009 | 125,267 | 301,695 | 10,531 | 3,397 | 14,164 | 517 | (22,872) | 399,346 | 832,045 | 26,384 | 858,42 |

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

HADERA PAPER LTD

CONSOLIDATED
FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Capital reserves | Share based payments reserves | Capital reserves resulting from tax benefit on exercise of employee options | Capital reserve from revaluation from step acquisition | Cash Flows Hedging reserves | Foreign currency translation reserves | Retained earnings | Total for Company shareholders | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance - January 1, 2008 | 125,267 | 301,695 | - | 3,397 | - | (635) | 3,810 | 236,437 | 669,971 | - | 669,971 |
| For the Year ended December 31, 2008: | | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | - | (25,996) | - | (25,996) | - | (25,996 |
| Profit (loss) on cash flow hedges, net | - | - | - | - | - | (4,457) | - | - | (4,457) | 360 | (4,097 |
| Revaluation from step acquisition | - | - | - | - | 17,288 | - | - | - | 17,288 | - | 17,288 |
| Actuarial profit (loss) from defined benefit plans, net | - | - | | - | - | - | - | (1,430) | (1,430) | (378) | (1,808 |
| Profit for the year | - | - | - | - | | | | 69,710 | 69,710 | (1,750) | 67,960 |
| Total Comprehensive Income for the Year | - | - | - | - | 17,288 | (4,457) | (25,996) | 68,280 | 55,115 | (1,768) | 53,347 |
| First transfer to consolidation – creating | - | - | - | - | - | - | - | - | - | 28,084 | 28,084 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| minority interests | | | | | | | | | | | |
| Depreciation of capital from revaluation from step acquisition to retained earnings | - | - | - | - | (1,380 ) | - | - | 1,380 | - | - | - |
| Share based payment | - | - | 6,227 | - | - | - | - | - | 6,227 | - | 6,227 |
| Balance – December 31, 2008 | 125,267 | 301,695 | 6,227 | 3,397 | 15,908 | (5,092) | (22,186) | 306,097 | 731,313 | 26,316 | 757,629 |

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

HADERA PAPER LTD

CONSOLIDATED CASH FLOWS STATEMENTS

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Cash flows – operating activities | | | |
| Net Profit for the year | 100,612 | 91,748 | 67,960 |
| Taxes on income recognized in profit and loss | (2,950) | (7,067) | 3,663 |
| Finance expenses recognized in profit and loss, net | 44,765 | 18,265 | 15,043 |
| Capital profit on sale of fixed assets | (19,556) | (73) | (284) |
| Gain from revaluation of prior holding at fair value due to achieving control | (5,760) | - | - |
| Share in profit of associated companies | (81,132) | (87,359) | (51,315) |
| Dividend received from associated company | 70,319 | 61,814 | - |
| Income from repayment of capital note to associated company | - | (16,418) | - |
| Depreciation and amortization | 88,047 | 78,552 | 59,784 |
| Income from revaluation of investment property | (151) | - | - |
| Share based payments expenses | 2,104 | 3,762 | 4,913 |
| Gain from negative goodwill | - | - | (14,664) |
| | 196,298 | 143,224 | 85,100 |
| | | | |
| Changes in assets and liabilities: | | | |
| Decrease (Increase) in trade and other receivables | (51,546) | 22,373 | 66,805 |
| Increase in inventories | (5,926) | (7,189) | (19,868) |
| Increase (Decrease) in trade and other payables | 47,999 | 24,407 | (16,923) |
| Increase (Decrease) in financial liabilities at fair value through profit and loss | 872 | (1,922) | 10,003 |
| Increase (Decrease) in employee benefit | 6,678 | 4,089 | (3,063) |
| | (1,923) | 41,758 | 36,954 |
| | | | |
| Tax Payments | (1,293) | (5,754) | (8,182) |
| | | | |
| Net cash generated by operating activities | 193,082 | 179,228 | 113,872 |

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

HADERA PAPER LTD

CONSOLIDATED CASH FLOWS STATEMENTS (Cont.)

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Cash flows – investing activities | | | |
| Acquisition of property plant and equipment and Prepaid expenses in respect of a financing lease | (219,124) | (352,455) | (232,675) |
| Acquisition of subsidiaries | 13,111 | - | (70,567) |
| Acquisition of other assets | (2,956) | (752) | (2,770) |
| Proceeds from sales of fixed assets | 18,277 | 1,960 | 825 |
| Decrease (Increase) in designated deposits | 127,600 | 124,614 | (255,244) |
| Interest received | 1,829 | 1,565 | 7,764 |
| Associated companies: | | | |
| Granting of loans to an associated company | (978) | (1,068) | (422) |
| Repayments of loans to an associated company | - | - | 2,851 |
| Net cash used in investing activities | (62,241) | (226,136) | (550,238) |
| | | | |
| Cash flows – financing activities | | | |
| Proceeds from issuing notes (less issuance expenses) | 179,886 | - | 424,617 |
| Short-term bank credit – net | (79,802) | 53,917 | (111,444) |
| Borrowings received from banks | 93,500 | 159,674 | 39,448 |
| Repayment of borrowings from banks and from others | (56,804) | (37,830) | (11,801) |
| Repayment of capital note | - | (32,770) | - |
| Interest Paid | (58,538) | (42,012) | (20,360) |
| Redemption of notes | (94,994) | (40,427) | (38,904) |
| Share purchase from non-controlling interests in subsidiary | (15,703) | - | - |
| Net cash generated by (used in) financing activities | (32,455) | 60,552 | 281,556 |
| | | | |
| Increase (decrease) in cash and cash equivalents | 98,386 | 13,644 | (154,810) |
| Cash and cash equivalents beginning of the year | 26,261 | 13,128 | 167,745 |
| Net foreign exchange differences | (3,655) | (511) | 193 |
| Cash and cash equivalents end of the year | 120,992 | 26,261 | 13,128 |

*Retroactively adjusted in respect of implementation of amendment to IAS17, see note 3a

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

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

### 1. Description Of Business

Hadera Paper Limited (former - American Israeli Paper Mills Limited) and its subsidiaries (hereafter – the Company) are engaged in the production and sale of packaging paper, in paper recycling activities, in the production and sale of printing and writing paper, in the production of packaging and cardboard products and in the marketing of office supplies. The Company also has holdings in associated companies that are engaged in sale of household paper products and the handling of solid waste (the Company and its investee companies – hereafter – the Group). Most of the Group's sales are made on the local (Israeli) market. For segment information, see note 21.

### 2. Definitions:

| | |
|---|---|
| The Company | - Hadera Paper Limited. |
| The Group | - the Company and its Subsidiaries. |
| Related Parties | - as defined by IAS 24. |
| Interested Parties | - as defined in the Israeli Securities law and Regulations 1968. |
| Controlling Shareholder | - as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010. |
| NIS | - New Israeli Shekel. |
| CPI | - the Israeli consumer price index. |
| Dollar | - the U.S. dollar. |
| Subsidiaries | - companies in which the Company control, (as defined by IAS 27) directly or indirectly, and whose financial statements are fully consolidated with those of the Company. |
| Associated Companies | - companies in which the Group has significant influence. |
| Affiliated Companies | - Subsidiaries and associated companies. |
| Other companies | - Group investees over which the Group has no control or material influence. |

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Applying International Accounting Standards (IFRS)

Statement regarding the implementation of International Financial Reporting Standards (IFRS)

The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (hereinafter – IFRS), and interpretations to them, that were published by the International Accounting Standards Board (IASB).

The principal accounting policies described in the following notes were applied in a manner consistent with previous reporting periods presented in these consolidated financial statements, except for changes in the accounting policy arising from the implementation of standards, amendments to standards and interpretation that entered into effect on the date of the financial statements, as specified in Note 3 below.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

B. The financial statements are drawn up in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010 (hereinafter – "Financial Statements Regulations").

C. Presentation format of the statement on financial position

The Group presents assets and liabilities on the statement of financial position separately under current and non-current items.

D. Basis of preparation

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the exchange rate of the U.S. dollar. As of December 31, 2003 when the economy ceases to be hyper-inflationary and the Company no longer adjusted its financial statements to the U.S. dollar, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

- The following assets and liabilities measured under fair value: financial assets available for sale financial instruments measured at fair value through profit or loss, investment property, financial derivatives and liabilities for share-based payment arrangements.
- Inventories are stated at the lower of cost and net realizable value.
- Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.
- Liabilities to employees as described in note 2 AA below.

E. Analysis format of expenses recognized on income statement

Company expenses on the income statement are stated based on the nature of activity related to expenses by the entity.

F. Foreign currencies

(1) Functional currency and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in the New Israeli Shekel ("NIS"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements, see note 2CC (3) as follows with regard to the exchange rate and the changes in them during the reported period.

(2) Translation of transactions that are not in the functional currency

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost are retranslated at the rates of exchange prevailing at the date of the transaction in respect of the non- monetary item.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

F. Foreign currencies (cont.)

(3) Method of recognizing exchange rate differentials

Exchange differences are recognized in profit or loss in the period which they were created, except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (Hedge accounting details are set out in Note 2u below) and for Exchange rate differences with respect to loans denominated in a currency other than NIS which are directly attributable to acquisition, construction or manufacturing of qualifying assets (see note 2q below).

(4) Translation of financial statements of affiliated companies whose functional currency is not the New Israeli Shekel (NIS).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations of associated company (mainly because of it's investment in a subsidiary company that presents it's financial statements in foreign currency) are expressed in NIS using exchange rates prevailing for the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used and related translation differences, are recognized on other comprehensive income under "Share of comprehensive loss of associates, net of tax" and are charged to the income statement upon net realization of foreign operations with respect to which these translation differences were created.

G. Cash and cash equivalents

Cash and cash equivalents include deposits that can be withdrawn anytime as well as short-term bank deposits that are not restricted in use, with a maturity of three months.

Deposits that are restricted in use or whose maturity at the time of investment is greater than three months but less than one year are classified under designated deposits, under current assets.

H. Consolidated Financial Statements

(1) General

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

H. Consolidated Financial Statements (cont.)

(2)Non –controlling interests

Non –controlling interests in net assets excluding goodwill of consolidated subsidiaries are presented separately under the Group's shareholders' equity. Non –controlling interests include the sum of these interests on the date of the business combination (see below) as well as the share of minority Non –controlling interests in the changes that occurred in the capital of the consolidated company subsequent to the date of the business combination.

Losses of subsidiaries, applicable to non-controlling interests that exceed the non-controlling interests in the subsidiary's equity, are allocated to non-controlling interest, while ignoring the obligations and abilities of those minority-interest holders to make additional investments in the subsidiary. The results of transactions with non-controlling interests, concerning the partial divestiture of the group's investment in the subsidiary, while control is retained, are attributed to equity of the owners of the parent company.

In transactions with non-controlling interests, where additional shares in the subsidiary are acquired after control is obtained, the excess cost of acquisition over the carrying value of the non-controlling interests on the acquisition date is attributed to the equity of the owners of the parent company.

Where a put option is granted to non-controlling interests, the option is measured at present value of expected future payments. The put option is charged against non-controlling interest.

I. Business combinations

Acquisition of activities and subsidiaries that constitute a business combination, are measured by using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (on the date of exchange) of the assets given, the liabilities incurred or assumed, the equity instruments issued by the group in exchange for obtaining control in the acquire, the fair value of the group's holdings in the acquired entity prior to the business combination

Transaction costs that are directly related to the business combination, are recognized in profit or loss as incurred.

The acquirer's identifiable assets and liabilities, which satisfy the recognition conditions in accordance with IFRS 3 (Revised) "Business Combinations" are recognized at fair value on the acquisition date, except for several types of assets, which are measured in accordance with the provisions of the relating standards.

Goodwill arising from the acquisition of a subsidiary is measured as the excess of the cost of acquisition, over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, that were recognized on the acquisitions date. If, after revaluation, the group's net interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination is immediately recognized in profit or loss.

Non-controlling interests in the acquire are initially measured at their acquisition-date fair value of the assets, liabilities and contingent liabilities of the acquired entity, excluding their share in the goodwill. Regarding the accounting treatment of non-controlling interests, see Note 2h 2.

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HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

I. Business combinations (Cont.)

In business combinations, where control is obtained after several acquisitions (acquisition in stages), the acquiree's assets, liabilities and contingent liabilities are measured at fair value on the date control is obtained, while the difference between the carrying value of the company's holdings in the acquired entity prior to the business combination and their fair value on the business combination date is recognized in the statement of income, in the section of "other income" under profit from ordinary operation.

Regarding the effect of the initial implementation of IFRS 3 (Revised) "Business Combinations" on the Group's financial statements, see Note3a.

Regarding the publication of IFRS 3 (Revised) "Business Combinations" as part of the IASB's 2010 Annual Improvements Project, see Note 3c.

J. Investment in associated companies

An associated company is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The financial statements of the associated companies adapted to the accounting policies of the group.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition change in the Group's share of the net assets, including capital reserves, of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interests in that associate (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a group entity transacts with an associate of the Group material, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

As for revision to IAS 28 "Investments in associates", in conjunction with the effective start date of IAS 27 (Revised) "Consolidated and separate financial statements", see Note 3b.

K. Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Company’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized.

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then, the remaining impairment loss is allocated to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

K. Goodwill (Cont.)

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss of disposal.

Regarding the amendment of IAS 36 as part of the IASB's annual improvements project for 2009, with respect to allocation of goodwill for the purpose of impairment, see note 3b, below.

As to the publication of IFRS 3 (amended) "Business Combinations" see note 3a below.

L. Property, plant and equipment

1) General

Property, plant and equipments are tangible items, which are held for use in the manufacture or supply of goods or services, or leased to others, which are predicted to be used for more than one period. The Company presents its property, plant and equipments items according to the following method:

Under the cost method - a property, plant and equipment are presented at the balance sheet at cost (net of any investment grants), less any accumulated depreciation and any accumulated impairment losses. The cost includes the cost of the asset's acquisition as well as costs that can be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of qualifying assets also includes borrowing costs that should be capitalized as stated in Note 2q, below.

2) Reduction of fixed assets

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. The depreciation starts once the asset is ready for use and takes into consideration of the anticipated scrap value at the end of the asset's useful lives.

Spare parts which are not used on a current basis are designated for use in the context of items of fixed assets, where necessary. The reason for holding them is to prevent delays in the manufacturing process and to avoid a shortage in spare parts in the future. The spare parts that are not used on a current basis have not been installed on items of fixed assets and are, therefore, not available for use in their present state. In the light of this, spare parts that are not being used currently are presented with fixed assets and are depreciated at the date that they are installed on the items of fixed assets.

Assets leased under financial leases are amortized over their expected useful life on the same basis as owned assets, or over the term of the lease - whichever is shorter.

| The annual depreciation and amortization rates are: | Useful life length |
|---|---|
| Buildings | 10-50 |

| | |
|---|---|
| Machinery and equipment | 7-20 |
| Motor vehicles | 5-7 |
| Office furniture and equipment | 3-17 |

Scrap value, depreciation method and the assets useful lives are being reviewed by management in the end of every financial year. Changes are handled as a change of estimation and are applied from here on.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income statement.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

M. Investment property

Investment property is property ( land or building or a part of building or both) held by the group and leased to an associate company for the purpose of its activities and not for use in the production or supply of goods or services or for administrative purposes, or sale during the ordinary course of business. The Group's investment property includes buildings and lands under financial lease. Real estate for investment is initially recognized at a cost that includes the transaction costs. In periods subsequent to initial recognition, investment property is measured at fair value. Profits or losses arising from changes in the fair value of investment property are recognized in the statement of income in the period in which they are created, under "Other income (expenses), net".

N. Intangible assets, except for goodwill

Intangible assets are identifiable, non-monetary assets which have no physical essence.

Intangible assets with a definite useful life are amortized using the straight line method over the estimated useful life of the assets subject to an impairment test. The accounting treatment of the change in the estimated useful life of an intangible asset with a finite life is carried out prospectively.

As to the accounting treatment of goodwill see note 2k, above.

The useful life which is used to amortize intangible assets with a finite useful life is as follows:

| | |
|---|---|
| Customer relations | 5-10 years |
| Software | 3 years |

The group's intangible assets are recognized and measured in accordance with the manner in which they were created and were all acquired as part of a business combination.

Intangible assets acquired under a business combination are identified and recognized separately from goodwill when the meet with the definition of intangible asset and their fair value can be measured reliably. The cost of these intangible assets is their fair value on the date of the business combination.

In subsequent periods to the initial recognition, intangible assets acquired under a business combination are presented at cost less any accumulated amortization and subsequent accumulated impairment loss. The amortization of intangible assets with a finite life is calculated based on the straight line method over the estimated useful life of these assets. The estimated useful life and method of amortization are tested at the end of each reporting year while the effect of changes in the estimates useful life is accounted for prospectively.

As to the publication of IFRS 3 (amended) "Business Combinations" see note 3A below.

O. Impairment of value of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the Group examines the book value of its tangible and intangible assets, other than inventory for the purpose of determining whether there are any indications that point towards losses from

impairment of value of these assets. Should there be any such indications, the recoverable amount of the asset is estimated for the purpose of determining the amount of the loss from impairment of value that was created, if at all. If it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash- generating unit to which the asset is relevant. Shared assets are also allocated to individual cash generating units to the extent that a reasonable and consistent basis can be identified for such allotment. Should allocating the shared assets to individual cash generating units on the above basis not be feasible, the shared assets are allocated to the smallest groups of cash generating units as to which a reasonable and consistent basis for allocation can be identified.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

O. Impairment of value of tangible and intangible assets, excluding goodwill (Cont.)

Intangible assets with an indefinite useful life and intangible assets that are still not available for use are tested for impairment once a year or more frequently if indications exist that there may a decline in the value of the asset.

The recoverable amount is the higher of the sales price of the asset, less selling costs, and of its utility value. In estimating utility value, an approximation of future cash flows is discounted to their present value, using a pre- tax discount rate which reflects the current market estimates of the value of money over time and the specific risks for the asset for which the estimate of future cash flows has not been adjusted.

If the carrying value of the asset (or of the cash generating unit) exceeds recoverable amount, the book value of the asset (or of the cash generating unit) is reduced to its recoverable amount. The impairment loss is recognized immediately to as an expense in the statement of income.

If an impairment loss that was recognized in previous periods is reversed, the book value of the asset (or of the cash generating unit) will be restored back to the estimate of the up to date recoverable value but not to exceed the book value of the asset (or of the cash generating unit) that would have existed, had a related impairment loss not been recognized in prior periods. The reversal of the loss from impairment of value is immediately recognized in the statement of income.

As to the impairment of goodwill see note 2k, above.

As to the impairment of investment in an associated company, see note 2p, below.

P. Impairment of equity-accounted investments

The Group reviews existence of indications of impairment of equity-accounted investments. Such impairment occurs when objective evidence indicates that expected future cash flows from such investment have been negatively impacted.

Review for impairment of an investment is conducted with reference to the investment as a whole. Therefore, recognized impairment loss from the investment is not attributed to assets comprising the investment account, including goodwill, but is attributed to the investment as a whole; therefore, the Group recognizes reversal of recognized loss with respect to equity-accounted investments, if their recoverable amount has increased.

Q. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are assed to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale. Exchange rate differences with respect to loans denominated in currencies other than NIS are capitalized to the cost of said assets to such extent as to be deemed as adjustments to interest cost.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

The rest of the borrowing costs are recognized in the income statement on the date they were incurred.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

R. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production over heads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories that purchased on differed settlement terms, which contains a financing element, are stated in purchase price for normal credit terms. The difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of the financing.

Cost determined as follows:

| | |
|---|---|
| Raw, auxiliary materials and others | - Based on weighted-average basis. |
| Finished products and products in process | - Based on overhead absorption costing. At cost, calculated based on the absorption pricing of production costs incurred during the production of finished goods |
| Products | - Based on weighted –average basis. |

The spare parts that are in continuous use, are not associated with the specific fixed assets. Some of these spare parts are even sold to the Group's associated companies, as needed, and are part of the inventory. Based on the experience accumulated by the Company, these spare parts are held for no longer than 12 months. In light of the above, the spare parts that are in continuous use are presented in inventory clause, and recognized in the profit and loss report when used.

S. Financial assets

(1) General

Financial assets are recognized in the statement of financial position of the Company when the Company becomes a party to the contractual terms of the instrument. Investments are recognized and derecognized on trade date (the date on which the Group has a commitment to buy or sell an asset) where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into loans and receivables, financial assets through profit and loss and financial assets available for sale. The classification of those categories arises from the reason of the financial asset holding and it is

determined at its initial recognition.

Regarding the amendment of IFRS7, Financial Instruments: Disclosures", see note 3c below.

Regarding the amendment of IAS39 "Financial Instruments: Recognition and Measurement", as part of the IASB's annual improvements project for 2009 regarding the date of implementation of the standard, see Note 3b, below.

As to the publication of IFRS 9 "Financial assets" see note 3C below.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

S. Financial assets (Cont.)

(2) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(3) Financial assets at Fair Value through Profit and Loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

It has been acquired principally for the purpose of selling in the near future; or
It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
It is a derivative that is not designated and effective as a hedging instrument.

The Company has derivatives that are not designated and effective as hedging instruments, and which are presented at fair value. Each profit or loss arising from changes in the fair value, including those originating from changes in exchange rates, is recognized in the statement of income in the period in which the change occurred.

(4) Financial assets available for sale

Investments in non-marketable equity instruments (shares), which are not derivative financial instruments and which were not classified as financial assets at fair value through profit and loss, as investments held for maturity or as loans and receivables, are classified as available-for-sale financial assets, and are presented at their fair value.

Profit or losses arising from changes in fair value are recognized in other comprehensive income as "profit (losses) in respect of available-for-sale financial assets", except for impairment losses which, under certain conditions, are recognized in the statement of income.

Upon the disposal of investments in, or impairment of financial assets, the profits or losses which have accumulated until the date of disposal or impairment, as the case may be, and which were recognized in other comprehensive income, are reclassified to profit and loss in the period in which the disposal or impairment occurred.

Income from dividends in respect of investment in available-for-sale equity instruments are recognized in the statement of income when the group becomes entitled to receive payments in respect thereof.

(5) Impairment of financial assets

Financial assets, except for financial assets classified as at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For investments in equity instruments classified as available-for-sale, a significant or prolonged decline in fair value below cost is an indication of impairment. For other financial instruments, indications of impairment may include:

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

S. Financial assets (Cont.)

(5) Impairment of financial assets (cont.)

Significant financial difficulty of the issuer or counterparty; or

Default or delinquency in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain financial assets, such as customers as to which no indications of value impairment have been identified, the company evaluates value impairment on a specific basis, in reliance on past experience for groups of receivables with similar attributes and changes in the level of delinquency in payments, as well as economic changes related to the sector and the economic environment in which it operates.

When there is objective evidence of such impairment, for available-for-sale financial assets, the cumulative loss recognized under other comprehensive income due to impairment of fair value of these financial assets, is re-classified to the income statement. Impairment loss thus recognized on the income statement with respect to investment in equity instruments classified as available for sale, are not reversed on the income statement. Any increase in fair value of investments in equity instruments classified as available for sale in periods subsequent to the period in which impairment loss was recognized, is charged to other comprehensive income.

With the exception of equity instruments classified as available for sale, if in a subsequent period the impairment amount of a financial asset decreases, and said decrease is objectively related to an event which occurred after impairment had been recognized, then the previously recognized impairment loss is reversed, in full or in part, on the income statement. The carrying amount of the investment in the asset upon reversal of impairment loss shall not exceed the amortized cost of said asset as of that date had no impairment been previously recognized.

Impairment loss on financial assets is allocated to reduce the carrying amount of the financial asset, except for impairment losses of accounts receivable and trade receivables, which is carried to a provision account. The write-off of uncollectible debt is carried to the provision account.

Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized the income statement.

T. Financial liabilities and equity instruments issued by the Group

(1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities "at FVTPL" or "Other financial liabilities".

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

T.Financial liabilities and equity instruments issued by the Group (Cont.)

(2) Options to sell shares of an associated company

Until December 31, 2010, the company had a liability, which stems from an option that was given for the sale of shares of an associated company, which provide the holder thereof with the right to sell its holdings in the associated company in consideration of a variable amount of cash.

The value of the option was computed according to the economic value of the option and it was presented with current liabilities, and was classified as a liability at fair value through profit and loss.

Any gain or loss that results from changes in the fair value of the option was recognized in the income statement.

On December 31, 2010, upon the rise in the holding in shares in 25.1% of the associate and its initial consolidation as set forth in Note 17, the option to non-controlling interests remained in effect and was adjusted for the new holding structure. This option is blocked for 36 months after the acquisition date.

The option is measured as a liability at the present value of the payment amount of the option, and is presented under long-term liabilities. Changes in its value are recognized in the income statement.

For additional details on the terms of the options, see note 17 below.

(3) CPI-linked liabilities

The group has liabilities that are linked to the Consumer Price Index (hereinafter – the CPI), which are not measured at fair value under the statement of income. The Company determines the effective interest rate in respect of these liabilities as a real rate with the addition of linkage differences in line with actual changes in the CPI until the end of the reporting period.

(4) Extinguishing Financial liabilities

A financial liability is extinguished when, and only when. It is settled- i.e. when the obligation defined in the contract is settled, cancelled or expires.

U. Derivative financial instruments and Hedge Accounting

(1) General

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts on exchange rate, options on exchange rate and contracts on the CPI due to notes.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently premeasured to their fair value at the end of each period. The resulting gain or loss is recognized in profit or loss

immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship, as detailed in section 2 below.

The classification of derivative financial instruments used for hedging purposes in the statement of financial position is determined based on the contractual term of the derivative financial instrument.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months other derivatives are presented as current assets or current liabilities.

Regarding the amendment of IFRS7, "Financial Instruments: Disclosures", see note 3c below.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

U. Derivative financial instruments and Hedge Accounting (Cont.)

(2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The classification in the statement of financial position of hedging instruments is determined in accordance with the remaining life of the hedging relationship, at the end of the reporting period – if at the end of the reporting period the remaining life of the hedging relationship exceeds 12 months, the hedging instrument is recognized in the statement of financing position as a non-current asset or liability. If at the end of the reporting period the remaining life of the hedging relationship does not exceed 12 months, the hedging instrument is classified in the statement of financial position as a current asset or liability.

The Group implements cash flow hedge accounting both in respect of future transactions, foreign currency deposits and options transactions on foreign currency that are designed to secure payments for the acquisition of fixed assets in foreign currency in respect of future transactions for the purchase or sale of foreign currency that are designed to secure payments for imports and which are linked to foreign currency and in respect of future transaction on the Consumer Price Index, which are designed to secure payments on CPI-linked bonds.

The effective part of the changes in the value of financial instruments designed for cash flow hedging is in recognized in the other comprehensive income under "Profit (loss) in respect of cash flow hedging" and the non-effective part is immediately recognized in the statement of income.

Hedge accounting for cash flows is discontinued when the hedging instrument expires, sold or realized of when the hedging relations no longer meet the threshold conditions for hedging. After the discontinuation of hedge accounting, the amounts carried to the other comprehensive income are carried to the income statement while the hedged item or the hedged projected transactions are recorded in the income statement.

When hedging a forecasted transaction on non-monetary assets (fixed assets), the profits or losses that were carried in the other comprehensive income, are carried to the initial cost of the hedged item immediately upon the initial recognition of said item and recorded in the income statement over the period of amortization of the fixed assets in respect of which it was recorded.

Regarding the amendment of IAS39 "Financial Instruments: Recognition and Measurement" as part of the IASB's annual improvements project for 2009 regarding the recognition in profit and loss of gains (losses) included in other comprehensive income due to changes in the value of hedging instruments, see Note 3B, below.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

V. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

(1) Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be reliably measured;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

(2) Revenue from recycling services

Recycling services revenue is recognized when all the following conditions are satisfied:

- The amount of revenue can be reliably measured
- It is probable that the economic benefits associated with the transaction will flow to the entity, as well as
- The company performed the service in question
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

(3) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and by using the effective interest rate method.

(4) Dividends

Revenue is recognized when the Group's right to receive the payment is established.

(5) Reporting of revenues on a gross basis or a net basis

The Company's revenues as an agency or intermediary from providing electricity, water, steam, and logistical services to the Group without bearing the risks and returns that derive from the transaction are presented on a net basis.

W. Leasing

(1) General

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risks and rewinds of ownership to the lessee. All other leases are classified as operating leases.

(2) Lease of equipment, land and buildings from the Group

Operating lease
Lease income from an operating lease is recognized on the straight line basis over the leasing period. In operating lease agreements where no lease payments or reduced lease payments are received at the inception of the lease period, and additional benefits are provided to the lessor, the group recognized income on the straight line basis over the lease period.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

W. Leasing (Cont.)

(3) Lease of land, vehicles and buildings by the Group

Financial lease
Lease of land (which is not investment property measured at fair value) from the Israel Land Administration, the payment for which is made periodically, are classified as financial lease. At the commencement of the lease period, the group includes the leased asset in "fixed assets" and recognizes a corresponding liability at the lower of the fair value of the land and the current value of the minimum lease payments. In subsequent periods, the liability is accounted for as stated above and the land is amortized over the remaining period of the lease according to the straight line basis, including the extension option.

Lease of land (which is not investment property measured at fair value) from the Israel Land Administration, with pre-paid lease payments are classified as financial lease. The deferred lease payments, which were paid at the commencement of the lease period, are presented in the statement of financial position in "fixed assets" and amortized at the straight line basis over the remaining period of the lease, including the extension option.

Operating lease
Lease of land from Tel–Aviv municipality, which do not meet the terms of classification as financial lease pursuant to the standard, are classified as operating lease. The deferred lease payments, which were paid at the commencement of the lease period, are presented in the statement of financial position in "prepaid-expenses in respect of an operating lease" and amortized at the straight line basis over the remaining period of the lease, including the extension option.

Lease expenses in respect of an operating lease are recognized at the straight line basis over the lease period.

Regarding the classification of operating leases as investment property assets, which is measured at fair value, see Note 8.

As for the publication of the amendment to IAS17 "leases", as part of the IABS's annual improvements project for 2009, see note 3a below.

X. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Changes due to time value are charged to the income statement.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Y. Share - Based payments

Equity-settled share based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The Group determines the fair value of equity-settled share-based transaction according to the Black-Scholes model. (Details regarding the determination of the fair value of share-based transactions are set out in note 12).

The Group recognizes share-based payment arrangements in the financial statements over the term of the vesting period against an increase in shareholders' equity, under the item "Capital reserve for share-based payment".

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Y. Share - Based payments (Cont.)

At each end of reporting period date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period.

Z. Taxation

(1) General

Income tax expense represents the sum of the tax currently payable and change in deferred tax excluding deferred tax as result of transaction that was attribute directly to the equity.

(2) Current tax

The tax currently payable is based on taxable profit of the company and its subsidiaries for the reporting period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Current tax assets and liabilities are stated with offset, when the entity has an enforceable legal right to offset the recognized amounts, as well as the intention to discharge on net basis, or to realize the asset and discharge the liability concurrently.

(3) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The Group does not generate deferred taxes with respect to temporary differences due to initial recognition of goodwill.

In calculating the deferred taxes, the taxes that would have applied in the event of a realization of investments in investee companies are not taken into consideration, since it is the Group's intention to hold and develop these investments. Deferred taxes on account of the distribution of earnings at these investee companies are also not taken into consideration, since it is the Group's policy not to distribute any dividends that are liable for taxes in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

AA. Employee benefits

(1) Post-Employment Benefits

The Group's post-employment benefits include: benefits to retirees and liabilities for severance and retirement benefits. The Group's post-employment benefits are classified as either defined contribution plans or defined benefit plans. Most of the Group's employees have signed Section 14 to the Severance Law, 1963, pursuant to which the Group's regular deposits with pension funds and/or insurance policies exempt it from any further obligations to the workers, for whom said amounts were deposited. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

AA. Employee benefits (Cont.)

(1) Post-Employment Benefits (Cont.)

Expenses in respect of a Defined Benefit Plan are carried to the income statement in accordance with the Projected Unit Credit Method, while using actuarial estimates that are performed at the end of each reporting period. The current value of the Group's obligation in respect of the defined benefit plan is determined by discounting the future projected cash flows from the plan by the market yields on government bonds, denominated in the currency in which the benefits in respect of the plan will be paid, and whose redemption periods are approximately identical to the projected settlement dates of the plan.

Actuarial profits and losses are carried to the other comprehensive income on the date they were incurred. The Past Service Cost is immediately recognized in the Group's income statement to the extent the benefit has vested.

The Group's liability in respect of the Defined Benefit Plan which is presented in the Group's statement of financial position includes the current value of the obligation in respect of the defined benefit, net of the fair value of the plan's assets

(2) Short term employee benefits

Short term employee benefits are benefits which are going to be paid during a period that does not exceed 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Short term company benefits include the Group's liability for short term absences, vacations, payment of grants, bonuses, double profit and compensation. These benefits are recorded to the income statement, on a non capitalized basis, which the company is expected to pay when created. The benefits are measured on a non capitalized basis. The difference between the amount of the short term benefits to which the employee is entitled and the amount paid is therefore recognized as an asset or liability.

BB. Net income per share

The computation of basic net income per share is generally based on earnings available for distribution to holders of ordinary shares, divided by the weighted average number of ordinary shares outstanding during the period.

In computing diluted net income per share, the weighted average number of shares to be issued, assuming that all dilutive potential shares are converted into shares, is to be added to the average number of ordinary shares used in the computation of the basic income (loss) per share. Potential shares are taken into account, as above, only when their effect is dilutive.

CC. Exchange Rates and Linkage Basis

(1) Foreign currency balance, or balances linked to foreign currency are included in the financial statements according to the exchange rate announced by the Bank of Israel at the end of reporting period.

(2) Balances linked to the CPI are presented according to index of the last month of the report period.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

CC. Exchange Rates and Linkage Basis (Cont.)

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

| As of: | Representative exchange rates of the dollar (NIS per $1) | Representative exchange rates of the Euro (NIS per €1) | CPI "in respect of" (in points) * |
|---|---|---|---|
| December 31, 2010 | 3.549 | 4.738 | 211.67 |
| December 31, 2009 | 3.775 | 5.442 | 206.19 |
| Increase (decrease) during the: | % | % | % |
| Year ended December 31, 2010 | (5.99) | (12.94) | 2.7 |
| Year ended December 31, 2009 | (0.71) | 2.74 | 3.9 |

(*) Based on the CPI for the month ending at the end of each reporting period, on an average basis of 100 = 1993.

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS:

A. New Standards and interpretations that influence this reporting period and/or previous reporting periods:

- Revision of IAS 1 (Revised) - "Presentation of Financial Statements"

The Group has elected early adoption of the revision to IAS 1 (Revised) ("Presentation of Financial Statements") as from 2010. The revision stipulates that other comprehensive income items shall be presented on the statement of changes to equity or in notes, in accordance with Company accounting policy. Therefore, the Company states other comprehensive income items on the statement of changes to equity.

- IFRS 3 (Amended) "Business Combinations"

The new standard stipulates the rules for the accounting treatment of business combinations as detailed below:

- The transaction costs directly connected with the business combination will be recorded to the income statement when incurred.

- As for business combinations where control is achieved after a number of acquisitions (acquisition in stages), the earlier purchases of the acquired company will be measured at the time that control is achieved On that date, equity interests will be premeasured at fair value prior to the date of acquisition, On that date, equity interests will be remeasured at fair value prior to the date of acquisition while recording the difference to the income statement.

The standard applies to business combinations which occur on or after January 1, 2010. As a result of applying the standard, the Company recognized transaction costs amounting to NIS 267 thousand, and gain amounting to NIS 5,760 thousand, due to measurement at fair value of equity rights owned prior to the acquisition date.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (Cont.)

A. New Standards and interpretations that influence this reporting period and/or previous reporting periods: (Cont.)

- Amendment to IAS 17, “Leases"

As part of the annual improvements project, for 2009 ,IAS 17 "Leases" was amended.

Amendment to IAS 17, “Leases”, provides for the classification of land leases as a financing lease or an operating lease in accordance with the general principles of the Standard, taking into consideration the fact that the land is an asset with an infinite economic life. As part of the amendment, the sweeping prohibition to classify land as an operating lease was canceled when the land is not transferred to the lessee or at the end of the leasing period.

The Amendment is to be retroactively applied in annual reporting periods commencing on January 1, 2010 or thereafter.

The Amendment is to be retroactively applied to existing leases for which the required information is available at the initial date of the lease. Land leases for which the required information is unavailable are to be reviewed as for the date of the adoption of the Amendment.

1) The Group has lands and buildings that are leased to an associated company and which, until the amendment of IAS 17, have been presented as an operating lease. In accordance with the Amendment to IAS 17, these leases meet the definition of financing lease and therefore are classified as investment property measured at fair value, in accordance with the Group's policy. Since the information on the fair value of the lands in previous periods is not available, the Company has recognized the property at fair value as of the date of implementation of the amendment. As a result of implementing the amendment, as of January 1, 2010, a sum of NIS 24,349 thousands was recognized in investment property, a sum of NIS 787 thousands was recognized in deferred tax liabilities and a sum of NIS 74 thousands in account payables and accrued expenses (in respect of liability for a financing lease). Pursuant to the transitional provisions of the amendment, the difference in the amount of NIS 3,590 thousands was recognized in retained earnings.

2) The Group has lands (which do not constitute investment property at fair value), which have been leased from the Israel Land Administration and the leasing fees in respect thereof have been paid in full. Following the amendment, amounts in respect of the above leases, which have been presented in the financial statements as of December 31, 2009 under "prepaid expenses in respect of an operating lease" are now presented under "fixed assets".

The effect of the retroactive implementation of the amendment on the statement of financial position in the current and previous periods:

| | December 31 2010 | December 31 2009 |
|---|---|---|
| | NIS in thousands | |
| Increase in fixed assets | 14,573 | 7,534 |
| Decrease in long-term expenses for lease | (14,573) | (7,534) |

3) The Group has lands (which do not constitute investment property measured at fair value) which are held as part of a leasing agreement with the Israel Land Administration, the payment in respect thereof is made periodically. Since the information as of the date the commencement of the leases is not available, the Company recognizes the asset and liability related to the lease of the land, which was recognized again as a financing lease, at fair value as of the date of implementation of the amendment; the difference between the fair value of the asset and the fair value of the related liability was recognized in "retained earnings".

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

A. New Standards and interpretations that influence this reporting period and/or previous reporting periods: (cont.)

- Amendment to IAS 17, “Leases" (cont.)

As a result of implementing the amendment, commencing from 2010, some of the leases that were treated until December 31, 2009 as operating leases, have been reclassified as financing leases.

Following the implementation of the amendment, on January 1, 2010, a sum of NIS 407 thousands was recognized in "fixed assets" and a sum of NIS 73 thousands was recognized in "accounts payable and accrued expenses" (in respect of a liability for a financing lease). In addition, prepaid expenses in respect of a lease have decreased by NIS 334 thousands.

B. New standards and interpretations that are effective and that do not have a material effect on the reporting period and/or previous reporting periods:

The following standards, interpretations and amendments, which entered into effect in the current year, do not have a material impact on the current period and/or previous periods, but their entry into effect could have an impact on future periods.

- IAS 27 (Amended) “Consolidated and Separate Financial Statements “

The new standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively.

- Amendment of IAS 28 "Investment in Associates" (regarding the loss of significant influence in an associated company)

Following the adoption of Amended IAS 27 as aforesaid, certain provisions in IAS 28 "Investment in Associates" have been amended.

This amendment prescribes the accounting for the loss of significant influence in an associated company, while the entity continues to retain some interest in the investee.

The amendment will be implemented prospectively in annual reporting periods commencing on or after January 1, 2010.

- Amendment of IAS 39 "Financial Instruments: Recognition and Measurement" (regarding the designation of exposure to inflationary risks as hedging items).

The amendment, inter alia, determines that changes in cash flows arising from exposure to inflationary risks can be designated as hedging items. Furthermore, pursuant to the amendment, the intrinsic value, unlike the time value of acquired options, qualifies as a hedging instrument of one-party risk arising from a forecast transaction. The

amendment is implemented retroactively for annual accounting periods commencing on or subsequent to January 1, 2010.

- Amendment to IAS 7, “Statements of Cash Flows”

Amendment to IAS 7, "Statements of Cash Flows" Clarifies that only as cash expenditure for an asset recognized in the statement of financial position qualifies for classification as cash flows used in investing activities.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

B. New standards and interpretations that are effective and that do not have a material effect on the reporting period and/or previous reporting periods: (cont.)

- Amendment to IAS 36, “Impairment of Assets”

Amendment to IAS 36, “Impairment of Assets”, stipulates that the cash-generating units or groups of cash-generating units to which goodwill is allocated within the framework of impairment testing shall not be larger than an operating segment, excluding the grouping of segments with similar financial characteristics.

The Amendment is to be applied prospectively in annual reporting periods commencing on January 1, 2010 or thereafter.

- Amendment of IAS 39 "Financial Instruments: Recognition and Measurement" (regarding the scope of the standard, the date of recognition of gains and losses in profit or loss with respect to hedging instruments and an option for early repayment in debt instruments)

Amendment to IAS 39, “Financial Instruments: Recognition and Measurement", stipulates some amendments to the standard provisions. Additionally, the amendment clarifies that gains or losses attributed to a cash flow hedge are to be reclassified to profit or loss during the period in which the hedged anticipated cash flows affect the profit or loss.

The amendment is to be applied prospectively to in annual periods commencing on January 1, 2010 or thereafter.

The amendment further determines a clarification regarding the treatment in case of early repayment option that is embedded in a host debt regarding the separation of an embedded derivative.

The amendment is to be applied prospectively in annual periods commencing on January 1, 2010 or thereafter.

C. Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption that might have or expected to have an effect on future periods:

- IFRS 9: "Financial instruments"

The new standard lays out requirements for classifying and measuring financial assets. The Standard requires that all financial assets be treated as follows:

- Debt instruments are to be classified and measured after initial recognition at amortized cost or at fair value through profit and loss. The measurement model will be determined based on the business model of the entity with respect to the management of financial assets and accordingly, the characteristics of contractual cash flows arising from the same financial assets.

- A debt instrument which, according to tests, is measured at depreciated cost, can be designated through profit and loss only if the designation cancels inconsistency in recognition and measurement that would have been created had the asset been measured at amortized cost.

- Equity instruments are measured at fair value through profit and loss.

- On the date of initial recognition equity instruments can be designated as measured at fair value when profits or losses are recognized in other comprehensive income. Instruments designated as aforesaid will no longer be subject to impairment testing and any profit or loss in respect thereof will not be recognized in profit and loss, including during the disposal thereof.

- Embedded derivatives will not be separated from the host contract which falls under the application of the standard. Instead, compound contracts will be measured as a whole at amortized cost or at fair value, in accordance with the business model tests and contractual cash flow tests.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

C. Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption that might have or expected to have an effect on future periods: (cont.)

- IFRS 9: "Financial instruments"(cont.)

- Debt instruments will be reclassified from depreciated cost to fair value and vice versa only when the entity changes its business model to financial asset management.

- Investments in equity instruments that do not have a quoted price in an active market including derivatives on these instruments will always be measured at fair value. The alternative of measurement at cost under certain circumstances has been cancelled. At the same time, the standard specifies that under specific circumstances cost may constitute a proper estimate of fair value.

The standard stipulates the following provisions regarding financial liabilities:

- The change in the fair value of a financial liability which, upon initial recognition, is designated at fair value through profit or loss, which is attributed to changes in the credit risk of the liability, is directly recognized in other comprehensive income, unless this recognition creates or increases accounting mismatch.

- When the financial liability is settled or extinguished, the fair value amount which was recognized in other comprehensive income, will not be classified in the statement of income.

- All derivatives, whether assets or liabilities, will be measured at fair value, including a derivative financial instruments that constitutes a liability, which is related to an unquoted equity instrument whose fair value cannot be measured reliably.

The provisions of the standard are to be applied retroactively, with exceptions as set forth in the standard, in periods commencing on or after January 1, 2013. Early adoption is permitted. Entities electing to make an early adoption of the standard before January 1, 2012 are permitted not to implement the standard retroactively.

At this stage, the Company's management cannot estimate the effect of implementing the stands on its financial position and operating results.

- Revision to IFRS 3 (Revised) "Business Combinations" (regarding measurement of rights that do not grant control)

The revision stipulates that the possibility of selecting the method of measurement, at the date of business combination, of rights that do not grant control, exists only for rights that do not grant control, that constitute existing ownership rights in the company being acquired. Rights that do not grant control, that do not constitute existing ownership rights, shall be measured at the date of business combination exclusively at fair value. The revision will be implemented prospectively, starting with the adoption date of the directives of IFRS 3 (Revised). At this stage the company's management is unable to estimate the effect of implementing the amendment on its financial condition and operating results.

- Revision of IAS 27 (Revised) - "Consolidated and Separate Financial Statements"

The revision clarifies the transitional provisions of revisions to other standards regarding the adoption of IAS 27 (Revised), namely the revisions of IAS 21 "Impact of changes in foreign currency exchange rates", IAS 28 "Investment and associated companies" and IAS 31 "Rights in Joint Transactions" and it was determined that these revisions to the other standards will be implemented prospectively, commencing on the adoption date of the directives of IAS 27 (Revised). The standard is to be applied for annual accounting periods commencing on or after January 1, 2011. Early adoption is permitted. At this stage, the Company's management cannot estimate the effect of implementing the stands on its financial position and operating results.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

C. Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption that might have or expected to have an effect on future periods: (cont.)

- Amendment to IFRS 7 "Financial Instruments: Disclosure"

The Amendment encourages qualitative disclosure with respect to the quantitative disclosure, which is required to assist the readers of the financial statements in creating an overall picture of the nature and extent of the risks associated with financial instruments.

In addition, the Amendment classifies the required level of disclosure regarding credit risk and collateral and provides disclosure exemptions with respect to loans whose terms were renegotiated. The amendment is to applied retroactively for annual reporting periods commencing on or after January 1, 2011. Early adoption is permitted.

D. New standards and interpretations which have been issued but not yet entered into effect and have not been adopted early by the Group, and are not expected to affect the Group's financial statements

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

The interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation determines that upon the occurrence of such an event, the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity’s profit or loss for the period.

The interpretation will be retroactively period commencing at January 1, 2011, or thereafter. Early adoption is possible.

At this stage, the Company's management cannot estimate the effect of implementing the interpretation on its financial position and operating results.

- Amendment of IFRIC 14: "Prepayments of a Minimum Funding Requirement"

The amendment determines that the measurement of plan assets regarding defined benefit plans, prepayments of a minimum funding requirement will be included under available economic benefits in the form of refunds or reduction of future deposits in a plan. The interpretation is to be applied retroactively for annual reporting periods commencing on or after January 1, 2011. At this stage, the Company's management cannot estimate the effect of implementing the interpretation on its financial position and operating results.

- Amendment to IAS 32 "Financial Instruments: Presentation"

The amendment determines that derivative instruments issued as part of a rights issue to existing shareholders, which allow the holder to purchase a fixed number of equity instruments in exchange for a fixed amount of cash or another financial asset in a currency that is not the company's functional currency, will be classified as equity instruments provided that the rights were offered to all the holders of the entity's equity instruments, pro-rata to their holding rate.

The amendment is to applied retroactively for annual reporting periods commencing on or after January 1, 2011. At this stage, the Company's management cannot estimate the effect of implementing the interpretation on its financial position and operating results.

- Amendment to IFRS 3 (Revised) "Business Combinations" (with respect to share-based payment in the acquired entity)

The amendment stipulates that liabilities and equity instruments generated with respect to share-based payment arrangements of the acquired entity not replaced in conjunction with the business combination shall be measured pursuant to provisions of IFRS 2 "Share-based Payment". Furthermore, the amendment stipulates that when the acquiring entity replaces the share-based payment grants of the acquired entity, all or part of the market-based measurement of the replacement grants of the acquiring entity shall be included in measurement of the consideration given in the business combination, ignoring the acquiring entity's obligation to replace the acquired entity's grants. The amendment shall be applied prospectively as from the adoption date of provisions of IFRS 3 (Revised). Company management is currently unable to estimate the impact of application of the amendment on the Company's financial standing and operating results.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

D. New standards and interpretations which have been issued but not yet entered into effect and have not been adopted early by the Group, and are not expected to affect the Group's financial statements: (cont.)

- IAS 24 (Amended) "Related Party Disclosures"

The new standard eliminates the number of disclosure requirement of an entity related to a government, a government authority or a similar entity with respect to transactions performed with entities related to the same government, government authority or similar entity. In addition, the standard changes the definition of related party. The standard is to be applied retroactively for annual accounting periods commencing on or after January 1, 2011.

- Amendment to IFRS 7 "Financial Instruments: Disclosure"

The Amendment includes disclosure requirements regarding the entity's exposure to risks relating to the transfer of financial assets under which the transferor is left with a certain level of continued exposure to the asset ("continued involvement") and relating to the transfers of fully amortized financial assets, which were carried out close to the end of the reporting period.

The provisions of the Amendment are applied prospectively in annual periods commencing January 1, 2012. Early adoption is permitted. The new disclosures are not required in respect of reporting periods prior to the date of initial implementation.

NOTE 4- CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A. General

In the application of the Group’s accounting policies, which are described in Note 2 above, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

B. Critical judgments in applying accounting policies

The main items in which uncertainty of estimates and critical judgments are involved, and that have the most significant effect on the amounts recognized in the financial statements is:

- Deferred taxes-

The company recognizes deferred tax assets for all of the deductible temporary differences up to the amounts as to which it is anticipated that there will be taxable income against which the temporary difference will be deductible. During each period, for purposes of calculation of the utilizable temporary difference, management uses estimates and approximations as a basis which it evaluates each period.

- Approximation of length of life of items of fixed assets-

Each period, the company's management evaluates salvage values, depreciation methods and length of useful lives of the fixed assets.

- Measuring provisions and contingent liabilities and contingent liabilities- see C(1) below.

- Measuring obligation for defined benefits and employee benefits- see C(2) below.

- Measuring share based payments- see note 11 below.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont.)

B. Critical judgments in applying accounting policies (cont.)

- Measuring the fair value on account of the allocation of the cost of acquisition - see C(3) below.
- Examination of the impairment of cash generating units – see C(4) below.

C. Key factor of estimation uncertainty

1. Provisions for legal proceeding

For purposes of evaluating the legal relevance of these claims, as well as determining the reasonableness that they will be realized to its detriment, the company's management relies on the opinion of legal and professional advisors. After the company's advisors expound their legal position and the probabilities of the company as regards the subject of the claim, whether the company will have to bear its consequences or whether it is will be able to rebuff it, the company approximates the amount which it must record in the financial statements, if at all.

An interpretation that differs from that of the legal advisors of the company as to the existing legal situation, a varying understanding by the company's management of the contractual agreements as well as changes derived from relevant legal rulings or the addition of new facts may influence the value of the overall provision with respect to the legal proceedings that are pending against the company and, thus material affect the company's financial condition and operating results.

See also note 14 as follows.

2. Employee benefits

The present value of the company's obligation for the payment of benefits to pensioners and severance pay to employees that are not covered under Section 14 to the Severance Pay Law is based upon a great amount of data, which are determined on the basis of an actuarial estimation, through the utilization of a large number of assumptions, including the capitalization rate. Changes in the actuarial assumptions could affect the book value of the obligation of the company for employees' benefits payments, vacation and severance pay.

The company approximates the capitalization rate once annually, on the basis of the capitalization rate of government bonds.

Other key assumptions are determined on the basis of conditions present in the market, and on the basis of the cumulative past experience of the company.

3. Measurement at fair value on account of the allocation of the cost of acquisition

For the purpose of allocating the cost of acquisition and determining the fair value of the tangible and intangible assets and the liabilities of the consolidated subsidiaries at the date of consolidation, the Company's management based itself

primarily on valuations prepared by external and independent real-estate appraisers and assessors, possessing the required know-how, experience and expertise.

The fair value was determined according to generally-accepted valuation methods, including: Proposed market prices in active markets, discounting of cash flows and the comparison of selling prices of similar assets and company assets in the immediate proximity. When the discounted cash flows method was employed, the interest rate for discounting the net cash flows expected from the assets possesses a material impact on its fair value.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont.)

C. Key factor of estimation uncertainty (cont.)

3. Measurement at fair value on account of the allocation of the cost of acquisition (cont.)

In determining the fair value, the business/operational risk associated with the company's operations is taken into account, to the extent relevant. Part of the said risk is the risk associated with the nature of the sector wherein the company operates, while part of the risk stems from the Company's specific characteristics.

The Group strives to determine a fair value that is as objective as possible, yet the process of estimating the fair value also includes subjective elements, originating inter alia from the past experience of the Company's management and its understanding of expected events in the market wherein the Group operates at the date when the fair value was determined.

In light of the above, and in view of the aforementioned in the preceding paragraph, the setting of the fair value of the Group calls for employing judgment. Changes in the assumptions that serve for setting the fair value can materially affect the Group's situation and results of operation.

4. Examination of the impairment of cash generating units

To determine whether there may be a need for impairment provision with respect to cash-generating units in accordance with IAS 36, the Company's management has primarily used appraisals performed by external independent land appraisers with the required knowledge, expertise and experience. In light of indications that occurred during 2009 and in accordance with IAS-36, the company examined the need for a provision for impairment of the value of the packaging paper sector as a cash-generating unit.

From the external assessment that was done on the discounting of cash flows using a discount rate of 9.5%, indicates that the expected utilization value of the packaging paper cash-generating unit is higher than its carrying value and in accordance with IAS-36, no recognition is necessary of a loss on account of the impairment of the fixed assets.

The Company strives to determine the fair value of the cash generating units that is as objective as possible, yet the process of estimating the fair value also includes subjective elements, originating inter alia from the past experience of the external assessors and land appraisers and of the Company's management and its understanding of expected events in the market wherein the Group operates at the date when the fair value was determined.

In light of the above, and in view of the aforementioned in the preceding paragraph, the setting of the fair values of the cash generating units of the Group calls for employing judgment. Changes in the assumptions that serve for setting of the fair values of the cash generating units, can materially affect the Group's situation and results of operation.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS IN ASSOCIATED COMPANIES:

A. Details of Subsidiaries and Associated Companies

| | Percentage of direct and indirect holding in shares conferring equity and voting rights at December 31 | | The amount investment in an associated company (*) at December 31 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | % | | NIS in thousands | |
| Main subsidiaries: (**) | | | | |
| Amnir Recycling Industries Limited | 100.00 | 100.00 | 154,146 | 179,669 |
| Graffiti Office Supplies and Paper Marketing Ltd. | 100.00 | 100.00 | (8,590) | (10,619) |
| Hadera Paper –packaging paper and recycling Ltd. | 100.00 | 100.00 | 123,146 | 137,965 |
| Hadera Paper - Development and Infrastructure Ltd. | 100.00 | 100.00 | 145,970 | 161,930 |
| Carmel Container Systems Limited (1) | 100.00 | 89.30 | 160,004 | 144,743 |
| Hadera Paper-printing and writing paper Ltd.(2) | 75.00 | 49.90 | 157,485 | 114,124 |
| Frenkel C.D. Limited(3) | 57.84 | 54.75 | 11,007 | 11,158 |
| Main associated company: | | | | |
| Hogla-Kimberly Ltd. | 49.90 | 49.90 | 239,116 | 227,883 |

* The amount of investment in a directly held entity is calculated as the net amount based on the consolidated financial statements, which is attributed to the shareholders of the Company, of total assets less total liabilities, which present financial information on the investee company in the Company's consolidated financial statements, including goodwill.

** Not including dormant companies.

(1) On October 4 the Company successfully completed its full tender offer to purchase shares of Carmel Container Systems Ltd. ("Carmel") a subsidiary of the Company for $22.50 per share in cash (Subject to withholding tax), for the total amount of approximately $4.2 million, In accordance with the Board decision dated 30, August 2010 regarding the full tender offer, under section 336 of the Companies Law, 1999. Carmel shares are not and were not traded on the Israeli Stock Exchange but were previously listed in the U.S. on American Stock Exchange. In 2005 Camel's shares were delisted from trade by Carmel's initiative. In accordance with the Companies Law, - 1999, the Company automatically acquires the entire number of shares subject to the tender offer, including all shares owned by shareholders who have not responded to the tender offer. The Company is currently completing the process of transferring the payment to shareholders that their shares were forcibly acquired, and it is also working on the completion of the technical procedure with the American stock exchange. Accordingly, when the technical procedure is completed, as of the date of the final expiration of the tender offer, on October 4, 2010, the Company would then own 100% of Carmel’s issued and outstanding share capital and voting rights.

In light of indications that rose as a result of the tender offer to purchase shares as mentioned above, regarding the impairment of the Carmel cash-generating unit, the Company commissioned an external and independent appraiser to examine the need for a provision for impairment. The evaluation was made on the basis of its use value, based on the capitalized cash flows that are expected to be generated by the company, using a discount rate of 10.0% and it was

found that the value of Carmel is actually higher than its book value and no recognition is necessary of a loss on account of impairment.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS IN ASSOCIATED COMPANIES: (cont.)

A. Details of Subsidiaries and Associated Companies (cont.)

(2) For details about the acquisition of Hadera paper writing and printing paper ltd. see note 17 below.

(3) Frenkel C.D. Limited is partly held through the Company in the rate of 28.92% and partly held through Carmel Container Systems Limited (in the rate of 28.92%) the holding in voting shares of C.D. Packaging Systems Limited is 57.72%.

B. Investments in associated companies

The Company has a number of investments in associated companies, which are held either directly or through investee companies on December 31, 2010. The financial statements of significant associated companies (Hadera Paper-printing and writing paper Ltd. formerly Mondi Hadera Paper Ltd), that is consolidated in the company's finance statements as of December 31 2010, and Hogla-Kimberly Ltd) are attached to these financial statements.

1. Composed as follows:

| | December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Investment in Shares: | | |
| Cost | 1,875 | 1,875 |
| Gain on issuance of shares of an associated company to a third party | 40,241 | 40,241 |
| Adjustments from translation of foreign currency financial statements | (33,521) | (22,872) |
| Share in cash flow hedging capital | (1,360) | (940) |
| Share in Actuarial losses | (647) | (451) |
| Initial consolidation of associate | (80,961) | - |
| Share in profits since acquisition, net | 292,692 | 268,670 |
| | 218,319 | 286,523 |
| Long-term loans and capital notes * | 19,179 | 54,452 |
| | 237,498 | 340,975 |

* Classified by linkage terms and rate of interest.

The total amounts of the loans and capital notes are as follows:

| | Weighted average interest rate at December 31, | December 31 |
|---|---|---|

| | 2010 | | 2010 | 2009 |
|---|---|---|---|---|
| | % | | NIS in thousands | |
| Unlinked loans and capital notes | 5.5 | % | 19,179 | 54,452 |
| | | | 19,179 | 54,452 |

As of December 31, 2010, the repayment dates of the balance of the loans and capital notes have not yet been determined.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS IN ASSOCIATED COMPANIES: (cont.)

B. Investments in associated companies (cont.)

2. The changes in the investments during 2010 are as follows:

| | NIS in thousands |
|---|---|
| Balance at the beginning of the year | 340,975 |
| Changes during the year: | |
| Share in profits of associated companies - net | 81,132 |
| Dividend distributed or declared by an associated company | (57,110) |
| Differences from translation of foreign currency financial statements | (10,649) |
| Share in capital surplus of hedging cash flows at associated companies | (420) |
| Share in capital surplus from recording actuarial gains to reserves | (196) |
| Initial consolidation of associate. | (80,961) |
| Decrease in balance of long-term loans and capital notes - net | (35,273) |
| Balance at end of year | 237,498 |

3. Hadera Paper – printing and writing paper Ltd. (hereafter – "printing and writing"; formerly - Mondi Hadera Paper Ltd.)

Until December 31, 2010, "printing and writing" was held to the extent of 49.9% by the Company and also by Mondi Business Paper LTD (hereafter - MBP), As part of an agreement dated November 21, 1999.

On December 31, 2010, the holding stake in "printing and writing" increased by 25.1% to 75%. For details about achievement of control, see Note 17 below.

4. Hogla-Kimberly Ltd. (hereafter – Hogla-Kimberly)

Hogla-Kimberly is held to the extent of 49.9% by the Company and to the extent of 50.1% by Kimberly Clark Corporation (hereafter- KC).

5. Dividends from associated companies

a. On January 20, 2010 a dividend in cash, in the amount of NIS 19.6 million, that was declared on October 22, 2009, was received from an associated company.

b. On February 18, 2010, an associated company declared the distribution of a dividend in the amount of approximately NIS 20 million out of the unapproved retained earnings accumulated as of December 31, 2009. The Company's share in the dividend is approximately NIS 10 million. The dividend was paid during May 2010.

c. On April 22, 2010 an associated company declared the distribution of a dividend in the amount of approximately NIS 40 million from the retained earnings. The Company's share in the dividend is approximately NIS 20 million. The dividend was paid during July 2010.

d. On July 26, 2010 an associated company declared the distribution of a dividend in the amount of EURO 5.9 million. The Company’s share in the dividend is approximately NIS 3.0 million. The dividend was paid during August 2010.

e. On July 27, 2010 an associated company declared the distribution of a dividend in the amount of NIS 40 million from the retained earnings. The timing of the payment is subject to availability of funds and consent of partners. The amount of NIS 35 million was paid during November 2010, and the amount of NIS 5 million will be paid during 2011. The Company’s share in the dividend is approximately NIS 20 million.

f. On December 30, 2010 an associated company declared the distribution of a dividend in the amount of EURO 8.5 million. The company's share in the dividend is approximately NIS 4.3 million. The dividend was paid during January 2011.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - FIXED ASSETS:

A. Composition of assets and the accumulated depreciation thereon, grouped by major classifications, and changes therein during 2010, are as follows:

| | Cost | | | | | | Accumulated depreci | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at beginning of year | Classified under Investment Property as of the start of the year | Additions during the year | Disposals during the year | Entry into consolidation | Balance at end of year | Balance at beginning of year | Classified under Investment Property as of the start of the year | Additions during the year | Disposals during the year | En in consol |
| | NIS in thousands | | | | | | | | | | |
| Land and buildings thereon | 251,332 | (17,931) | 132,029 | 1,500 | 5,958 | 369,888 | 139,971 | (3,834) | 5,090 | 819 | 3,2 |
| Machinery and equipment | 1,221,069 | - | 641,955 | 42,968 | 223,821 | 2,043,877 | 876,124 | | 71,519 | 40,242 | 82, |
| Vehicles | 39,057 | - | 1,493 | 3,934 | 3,781 | 40,397 | 25,387 | | 4,195 | 3,612 | 3,0 |
| Office furniture and equipment (including computers) | 63,858 | - | 3,893 | 708 | 4,608 | 71,651 | 37,662 | | 2,897 | 697 | 3,3 |
| Payments on account of machinery and equipment, net | 616,106 | - | (600,985) | - | 250 | 15,371 | - | | - | - | - |
| Spare parts – not current, net | 21,956 | - | 1,428 | - | - | 23,384 | - | | - | - | - |
| | 2,213,378 | (17,931) | 179,813 | 49,110 | 238,418 | 2,564,568 | 1,079,144 | (3,834) | 83,701 | 45,370 | 92, |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - FIXED ASSETS: (Cont.)

B. Composition of assets and the accumulated depreciation thereon, grouped by major classifications, and changes therein during 2009, are as follows:

| | Cost | | | | Accumulated depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance at beginning of year | Additions during the year | Disposals during the year | Balance at end of year | Balance at beginning of year | Additions during the year | Disposals during the year | Balance at end of year | Depreciated balance December 31 2009 |
| | NIS in thousands | | | | | | | | |
| Land and buildings thereon | 241,194 | 10,138 | - | 251,332 | 135,288 | 4,683 | - | 139,971 | 111,361 |
| Machinery and equipment | 1,280,262 | 47,107 | 106,300 | 1,221,069 | 916,033 | 60,646 | 100,555 | 876,124 | 344,945 |
| Vehicles | 47,861 | 1,980 | 10,784 | 39,057 | 30,760 | 4,701 | 10,074 | 25,387 | 13,670 |
| Office furniture and equipment (including computers) | 98,371 | 2,055 | 36,568 | 63,858 | 75,500 | 3,507 | 41,345 | 37,662 | 26,196 |
| Payments on account of machinery and equipment, net | 238,845 | 377,261 | - | 616,106 | - | - | - | - | 616,106 |
| Spare parts – not current, net | 26,295 | - | 4,339 | 21,956 | - | - | - | - | 21,956 |
| | 1,939,828 | 438,541 | 157,991 | 2,213,378 | 1,157,581 | 73,537 | 151,974 | 1,079,144 | 1,134,234 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - FIXED ASSETS: (Cont.)

C. The item is net of investment grants in respect of investments in “approved enterprises”.

D. Depreciation expenses amounted to NIS 83,701 thousands and NIS 73,355 thousands NIS for the years ended December 31, 2010 and 2009 respectively.

E. As of December 31, 2010 and 2009, the cost of fixed assets includes borrowing costs of NIS 24,228 thousands and NIS 31,918 thousands capitalized to the cost of machinery and equipment for the years ended December 31, 2010 and 2009, respectively.

F. As of December 31, 2010 and 2009, the cost of fixed assets includes payroll costs of NIS 8,545 thousands and NIS 9,052 thousands capitalized to the cost of machinery and equipment for the years ended December 31, 2010 and 2009, respectively.

G. As of December 31, 2010 and 2009, the cost of fixed assets includes running-in stage costs of NIS 8,417 thousands net, capitalized to the cost of machinery after the deduction of the proceeds from the sale of items during the running-in stage in the amount of NIS 69,996 thousands.

H. For details of rights in lands – see note 7 as follows.

NOTE 7 - RIGHTS LANDS:

A. The Company's real estate is partly owned and partly leased and some lease fees have been capitalized. The leasehold rights are for 49-59 year periods ending in the years 2012 to 2059, with options to extend for an additional 49 years.

B. Details as of December 31, 2010:

| | NIS in thousands |
|---|---|
| Land owned | 75,500 |
| Property under capitalized lease | 44,653 |
| Property under non-capitalized lease | 1,648 |
| | 121,801 |

C. Presented in the balance sheets as follows:

| | December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| In Fixed assets | 89,770 | 89,358 |
| In Expenditure for lease | 24,836 | 29,756 |
| In Investment property | 7,195 | - |
| | 121,801 | 119,114 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - RIGHTS LANDS: (cont.)

D. On July 27, 2010 the General meeting approved the company's entering into the agreement from June 1, 2010 for the sale of its rights to a plot of land with an area of approximately 7600 square meters in Totseret HaAretz Street in Tel Aviv, that is currently leased by the Company from the Tel Aviv municipality in consideration of NIS 64 million, plus VAT. The purchasing parties are Gev Yam Ltd., ("Gev Yam"), a company indirectly controlled by IDB Development Company Ltd., the controlling shareholder of the Company and by Amot Investments Ltd. ("Amot"), with holdings in the land of 71% and 29%, respectively. The transaction is subject to a two nullifying conditions. For details about the finalization of the transaction see note 22f as follows.

E. On July 25, 2010 a subsidiary company - Amnir Recycling Industries Ltd. was entered into an agreement for the sale of the leasing rights to a plot of land covering 9,200 m² located in Bnei-Brak, in return for a sum of NIS 20 million. Following the completion of the transaction, the Company's profit was in the amount of approximately NIS 16.3 million.

NATE 8 - INVESTMENT PROPERTY

A. Composition and changes in investment property measured at fair value

| | for the year ended December 31 2010 | | |
|---|---|---|---|
| | Land NIS in thousands | Rental building NIS in thousands | Total NIS in thousands |
| cost | | | |
| Balance - January 1, 2010 | 7,151 | 17,198 | 24,349 |
| | | | |
| Additions during the year | | | |
| Adjustment to fair value | 44 | 107 | 151 |
| Balance – December 31, 2010 | 7,195 | 17,305 | 24,500 |

B. Sums recognized in the statement of income

| | for the year ended December 31 2010 NIS in thousands |
|---|---|
| Rental income from investment property | 2,704 |

C. Determining the fair value of the Group's investment property

Investment property is measured at fair value based on the valuation carried out by reputable external appraisers with experience regarding the location and type of the appraised property. The fair value represents the amount on the date of valuation, which is the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction, in accordance with international valuation standards. Fair value is determined based on:

1) The fair value is measured based on current prices on an active market for similar property in the same location and condition and subject to similar lease and other contracts.

2) The fair value is measured based on recent prices on an active market for similar property, which is subject to similar lease and other contracts, with adjustments to reflect such differences.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATE 8 - INVESTMENT PROPERTY (Cont.)

C. Determining the fair value of the Group's investment property (Cont.)

3) The fair value is measured using discounted cash flow projections, based on reliable estimates of future cash flows, which are supported by the conditions of similar lease and other contract and by external evidence, such as current rental prices for similar property in the same location and condition, as well as by using discount rates, which reflect current market valuations regarding the uncertainty of the amount and timing of the cash flows.

The discount rate used in the calculation of the fair value as at December 31, 2010 was 8.5%.

NOTE 9 – OTHER INTANGIBLE ASSETS:

A. Composition and changes are as follows:

| | Software | Order backlog | Goodwill | Portfolio of Customers | Total |
|---|---|---|---|---|---|
| | | | NIS in thousands | | |
| Cost | | | | | |
| Balance at January 1, 2010 | 1,458 | 3,082 | 599 | 34,992 | 40,131 |
| Additions during the year | 49 | | - | - | 49 |
| Entry into consolidation | - | - | 12,282 | - | 12,282 |
| Disposals | (86) | - | - | (60) | (146) |
| Balance at December 31, 2010 | 1,421 | 3,082 | 12,881 | 34,932 | 52,316 |
| | | | | | |
| Cost | | | | | |
| Balance at January 1, 2009 | 1,377 | 3,082 | 599 | 34,992 | 40,050 |
| Additions during the year | 81 | - | - | - | 81 |
| Balance at December 31, 2009 | 1,458 | 3,082 | 599 | 34,992 | 40,131 |
| | | | | | |
| Accumulation amortization and impairment: | | | | | |
| Balance at January 1, 2010 | 1,327 | 3,082 | 448 | 8,190 | 13,047 |
| Deduction | 112 | - | - | 3,589 | 3,701 |
| Disposals | (86) | - | - | (60) | (146) |
| Balance at December 31, 2010 | 1,353 | 3,082 | 448 | 11,719 | 16,602 |
| | | | | | |
| Accumulation amortization and impairment: | | | | | |
| Balance at January 1, 2009 | 1,081 | 3,082 | - | 4,368 | 8,531 |
| Deduction | 246 | | 448 | 3,822 | 4,516 |
| Balance at December 31, 2009 | 1,327 | 3,082 | 448 | 8,190 | 13,047 |
| Amortized cost: | | | | | |
| December 31, 2010 | 68 | - | 12,433 | 23,213 | 35,714 |
| December 31, 2009 | 131 | - | 151 | 26,802 | 27,084 |

B. Amortization of intangible assets is presented in the statement of income under the following items:

| | Year ended December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Selling and marketing expenses | 2,908 | 2,908 |
| General and administrative expenses | 793 | 1,160 |

C. Additional information:

As for testing the impairment of other intangible assets see note 2o above.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – FINANCIAL LIABILITIES:

A.Notes

| | December 31 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | | | | 2009 | | |
| | NIS in thousands | | | | | | |
| | Series V | Series IV | Series III | Series II | Series IV | Series III | Series II |
| Balance * | 181,519 | 196,298 | 179,847 | 101,020 | 235,557 | 197,815 | 131,689 |
| Less - current maturities | - | 39,260 | 22,481 | 33,673 | 39,260 | 21,979 | 32,922 |
| | 181,519 | 157,038 | 157,366 | 67,347 | 196,297 | 175,836 | 98,767 |

Distribution according to repayment dates as of December 31, 2010:

| | Nis in thousands |
|---|---|
| 1st year - Current maturity | 95,414 |
| 2nd year | 95,414 |
| 3rd year | 131,717 |
| 4th year | 98,044 |
| 5th year | 98,044 |
| 6th year and forward | 140,051 |
| | 658,684 |

*The aforementioned detailed balance does not include deferred issuance expenses in the amount of NIS 921 thousands (as of December 31, 2009 – NIS 915 thousand) which were deducted from the bonds balance.

1) Series II – December 2003

The unpaid balance of the notes bears annual interest of 5.65%, payable annually each December. The notes – principal and interest – are linked to the Israeli known CPI (based CPI of November 2003). The balance of the notes as of December 31, 2010 is redeemable in 3 equal, annual installments due in December of each of the years 2011-2013.

2) Series III July – August 2008

On July 14, 2008 the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008 of a new series of debentures. The Company has offered an aggregate principal amount of NIS 187,500 thousands of debentures issued in return for approximately NIS 187,500 thousands bearing an interest rate of 4.65% and payable annually each on July 10th of the years 2011-2018. The notes-principal and interest – are linked to the Israeli known CPI (base CPI of May 2008)

3) Series IV – July – August 2008

In July-August, 2008 the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008. The company has offered an aggregate principal amount of NIS 235,557 thousands of debentures issued in return for approximately NIS 240,360 thousands bearing an interest rate of 7.45%, and payable annually each on July 10th of the years 2011-2015.

4) Series V – May 2010

On May 23, 2010 the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008 of a new series of debentures. The Company has offered an aggregate principal amount of NIS 181,519 thousands of debentures (Series 5) issued in return for approximately NIS 181,519 thousands bearing an interest rate of 5.85%. The principal is payable in five annual equal payments, each on November 30th of the years 2013-2017. The interest is payable half annually each on May 31st and November 30th of the years 2011-2017.

The net proceed of the offering net of issue expenses is NIS 179,886 thousands.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - FINANCIAL LIABILITIES (cont.)

A. Notes (cont.)

5) As of December 31, 2010 the balance of the notes amounts to NIS 657,762 - thousands, is after deduction of issuance costs. (On December 31, 2009 the amounts was NIS 565,976 thousands).

B. Credit from bank and others

1) Composition:

| | Yearly Interest Rate 31/12/10 | Current Liabilities As of December 31 | | Non-Current Liabilities As of December 31 | | Total As of December 31 | |
|---|---|---|---|---|---|---|---|
| | % | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | | NIS in thousands | | NIS in thousands | | NIS in thousands | |
| Banks: | | | | | | | |
| Short-term credit | 3.25%-4.5 % | 144,622 | 131,572 | - | - | 144,622 | 131,752 |
| Loans: | | | | | | | |
| linked to the CPI | 4.65%-5.15% | 9,140 | 8,218 | 9,110 | 19,925 | 18,250 | 28,143 |
| | | | | | | | |
| Unlinked | 3.3%-6.3 % | 71,382 | 47,561 | 242,107 | 205,877 | 313,555 | 253,438 |
| Total credit from bank and others | | 225,144 | 187,351 | 251,283 | 225,802 | 476,427 | 413,153 |

2) Distribution according to repayment dates as of December 31, 2010:

| | NIS in thousands |
|---|---|
| 1st year - Current maturities of long-term loans | 80,522 |
| 2nd year | 74,406 |
| 3rd year | 59,049 |
| 4th year | 45,043 |
| 5th year | 27,867 |
| 6th year and forward | 44,918 |
| | 331,805 |

3) Borrowing during the reporting period

a. On February 11, 2010 the company assumed a long-term loan from banks in the sum of NIS 70 million, carrying a variable interest rate of prime+1.15%, and to be repaid within 7 years. The principal is to be repaid in quarterly installments, commencing from the second year.

b. Between the months of May through October 2010, a consolidated subsidiary assumed long-term loans from banks for the purpose of acquiring fixed assets at the total sum of approximately NIS 22.7 million, at a variable rate of interest of Prime -0.1%. The loans are for a term of five years, with both principal and interest being paid in quarterly instalments.

C. Financial Parameters and Covenant

A consolidated subsidiary has a financial covenant with regard to long-term loans from bank, with a balance of NIS 13,537 thousand as of December 31, 2010 (at December 31,2009 a total sum of Nis 17,519 thousands), whereby the subsidiary has committed to the bank, that its ratio of tangible equity to total assets shall be no less than 18.5%.

An initially-consolidated subsidiary has a financial covenant with regard to long-term bank loans, with a balance of NIS 13,019 thousand as of December 31, 2010, whereby the subsidiary has committed to the bank, inter alia, that its ratio of tangible equity to total assets shall be no less than 22%.

As of the date of the financial statements the consolidated subsidiaries are in compliance with the required conditions.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFITS

A. Composition

| | As of December 31 | |
|---|---|---|
| | 2010 | 2009 |
| Post Employment Benefits at defined benefit plan: | | |
| Severance pay and retirement liability, net | 2,364 | *2,398 |
| Benefits to retirees | 9,406 | 7,754 |
| | 11,770 | 10,152 |
| Severance pay benefits | 6,569 | *4,110 |
| | 18,339 | 14,262 |
| Short term employee benefits: | | |
| Salaries and wages, payroll and social benefits | 36,116 | 29,081 |
| Profit-sharing and bonus plans | 16,099 | 16,324 |
| Severance and retirement benefits** | - | 2,344 |
| Vacation employee benefits | 27,586 | 20,077 |
| | 79,801 | 67,826 |
| Stated in the statement of financial position as follows: | | |
| Employee benefit assets: | | |
| Non-current assets | 793 | 649 |
| | 793 | 649 |
| Employee benefit liabilities: | | |
| Current liabilities – partly included in other payables -see note 15 d (2) | 79,801 | 67,826 |
| Non-current liabilities | 19,132 | 14,911 |
| | 98,933 | 82,737 |

* Reclassified

** On December 31 2009, the Company's CEO retired from his position. The retirement bonus paid in January 2010 amounted to NIS 2.3 million (gross - before tax effects).

B. Post Employment Benefits

(1) Post Employment Benefits at Defined benefit plan

Plans for Severance pay obligations

Labor laws and the severance pay law in Israel and abroad require companies in the Group to pay severance benefits to employees who are dismissed, resign or retire from their employment under different specific circumstances. Liabilities for employee severance benefits are calculated pursuant to the employment agreement in effect at the time of their employment and based on the employee's wages which, in management's opinion, creates entitlement to the severance benefits, taking into consideration the number of years of employment.

The Company and its subsidiaries have an approval from the Ministry of Labor and Welfare in accordance with Section 14 of the Severance Pay Law, 1963, pursuant to which its regular deposits with pension funds and/or

insurance policies, exempt it from any further obligation to employees, in respect of whom the aforementioned deposits were made. The Group deposits 8.33%-11.33% of the monthly wages of its employees in different benefit plans. The Groups has no legal or implied obligation to make additional payments if the plan will not have sufficient assets to pay the entire employee benefits relating to the employee's service during current and past periods. The total amount of the expenses recognized in the statement of income in respect of defined benefit plans in the year that ended on December 31, 2010 is NIS 35,185 thousands (2009 – NIS 22,803 thousands, 2008 – NIS 15,889 thousands).

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFITS (cont.)

B. Post Employment Benefits (cont.)

(2) Post Employment Benefits at defined deposit Plans

a) General

Severance pay obligation

Labor laws and the severance pay law in Israel and abroad require companies in the Group to pay severance benefits to employees who are dismissed, resign or retire from their employment under different specific circumstances. Liabilities for employee severance benefits are calculated pursuant to the employment agreement in effect at the time of their employment and based on the employee's wages which, in management's opinion, creates entitlement to the severance benefits, taking into consideration the number of years of employment.

The defined benefit liability was measured using actuarial assessments. The present value of the defined benefit liability and the related costs of current service and past service were measured using the projected unit credit method.

Benefits to retirees

Other long-term employee benefits are benefits which are expected to be utilized or which are payable during a period greater than 12 months from the end of the period in which the entitling service was provided.

Other employee benefits in the Company include liabilities in respect of retiree's holiday gift. These benefits are included in the retained earnings in accordance with the Projected Unit Credit Method, while using actuarial assessments at the end of each reporting period. The current value of the Company's liability for retirees benefits is determined by discounting the projected future cash flows from the plan based on market yields of government bonds, which are stated in the currency in which pensioners benefits will be paid, whose terms to maturity are identical to the projected pensioners benefits payment dates.

Profits and losses are carried to the income statement as incurred. Past service cost is immediately recognized in the Company's financial statements.

b) Changes in the current value of the liability in respect of severance pay

| | For the year ended December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousand | |
| Opening Balance | 23,367 | *23,615 |
| Current service cost | 1,947 | *1,942 |
| Interest rate cost | 966 | 1,229 |
| Actuarial losses (gains) | (141) | 284 |
| Paid-up benefits | (3,688) | (3,118) |
| Liabilities assumed in business combinations | 92 | - |
| Impact of any reduction or disposal | 580 | (585) |

| | | |
|---|---|---|
| Closing balance | 23,123 | 23,367 |

* Reclassified

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFITS (cont.)

B. Post Employment Benefits (cont.)

(2) Post Employment Benefits at defined deposit Plans (cont.)

c) Changes in the fair value of plan assets

| | For the year ended December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousand | |
| Opening balance | 20,969 | *20,054 |
| Projected return on plan assets | 1,006 | 995 |
| Actuarial gains | 466 | 1,445 |
| Deposits by the employer | 1,237 | *1,715 |
| Paid-up benefits | (3,477) | (2,316) |
| Impact of any reduction or disposal | 558 | (924) |
| Closing balance | 20,759 | 20,969 |

* Reclassified

d) Changes in the current value of the liability in respect of benefits to retirees

| | As of December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousand | |
| Opening balance | 7,754 | 7,632 |
| Current service cost | 80 | 80 |
| Interest rate cost | 411 | 440 |
| Actuarial losses | 467 | 258 |
| Paid-up benefits | (625) | (656) |
| Liabilities assumed in business combinations | 1,318 | - |
| Impact of any reduction or disposal | 1 | - |
| Closing balance | 9,406 | 7,754 |

C. Main actuarial assumptions as of the end of the reporting period of post employment benefits

| | As of December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | % | % |
| Discount rate | 4.72 % | 4.72 % |
| Projected rates of return regarding asset plans | 5.72 % | 5.08 % |
| Projected rates of salary increases | 2.94 % | 3.57 % |

| | | | | |
|---|---|---|---|---|
| Churn and departure rates | 9.25 | % | 9.25 | % |

Assumptions regarding future mortality rates are based on statistic data and mortality tables published by the Commissioner of the Capital Market in the Ministry of Finance in Pension Circular 2007-3-6, which are adjusted as of December 31, 2010. The average life expectancy for men that retired at the age of 67 is 17.4 while the average life expectancy for women that retired at the age of 62-64 is 22.5-24.3.

The projected rate of return on plan assets is based on a nominal rate of return that varies according to the type of fund.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - EMPLOYEE BENEFITS (cont.)

D. Amounts recognized in the statement of income in respect of post employment benefits

| | For the year ended December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousand | |
| Current service cost | 2,027 | 2,022 |
| Interest rate cost | 1,377 | 1,669 |
| Projected return on the plan's assets | (1,006) | (995) |
| past service cost | 23 | 339 |
| | 2,421 | 3,035 |
| | | |
| The expense were included in the following items: | | |
| Cost of sales | 1,487 | 1,140 |
| Selling expenses | 252 | 476 |
| Administrative and general expenses | 311 | 745 |
| Financing expenses | 371 | 674 |
| | 2,421 | 3,035 |

E. Severance pay benefits

The benefits include only early retirement liability.

NOTE 12 - SHAREHOLDERS' EQUITY

A. Share capital

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

| | | December 31 | |
|---|---|---|---|
| | | 2010 | 2009 |
| | Authorized | Issued and paid | |
| Number of shares of NIS 0.01 | 20,000,000 | 5,084,881 | 5,060,872 |
| Amount in NIS | 200,000 | 50,849 | 50,609 |

The shares are traded on stock exchanges in Tel-Aviv and in the U.S. ("AMEX"). The quoted prices per share, as of December 31, 2010 are NIS 296.0 and $ 82.22 (NIS 291.8), respectively.

B. Employee stock option plans

1) The 2008 plan for senior officers in the Group

In January 2008, the Board of Directors of the Company approved a program for the allotment, for no consideration, of non marketable options to the CEO of the company, to employees and officers of the company and associated

companies. In the context of the program, an allotment of 285,750 options was approved, of which 40,250 options were to the CEO of the company, 135,500 to management of the subsidiaries and 74,750 to management of the associated companies.

The granting date of the options was determined to January-March 2008, pursuant to the restrictions of Section 102 (equity track) of the Income Tax Ordinance.

As of May 11, 2008 , all of the options have been allocated, of which 35,250 allotted to a trustee, as a pool for future grants to officers in associated companies, subject to the approval of the Board of Directors.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - SHAREHOLDERS' EQUITY: (cont.)

B. Employee stock option plans: (cont.)

1) The 2008 plan for senior officers in the Group (cont.)

On January 8, 2009 34,000 options were allocated, each exercisable into an ordinary share of the Company, out of the allocated options to directors in an associated company, so that 1,250 options remain at the trustee, which were cancelled in accordance with the resolution of the Board of Directors of the Company dated August 9, 2009.

Each option is exercisable into one ordinary share of the company with NIS 0.01 par value against the payment of an exercise increment in the amount of NIS 223.965. The options will vest in installments as follows: 25% of the total options will be exercisable from January 14, 2009; 25% of the total options will be exercisable from January 14, 2010; 25% of the total options will be exercisable from January 14, 2011; and 25% of the total options will be exercisable from January 14, 2012. The vested options are exercisable through January 14, 2012, 2013, 2014 for the first and second, third and fourth portions, respectively.

The cost of the benefit embedded in the allotted options as above, on the basis of the fair value as of the date they are granted, was approximated to be the amount of approximately NIS 13.8 million. This amount was charged to the statement of operations over the vesting period. The debt for the grant to officers of the associated companies will be paid in cash.

The fair value of the options granted as aforementioned was estimated by applying the Black and Scholes model. In this context, the effect of the terms of vesting will not taken into account by the company, other than the market condition of fair value of the capital instruments granted.

The parameters which were used for implementation of the model are as follows:

| | | |
|---|---|---|
| Share price (NIS) | 217.10-245.20 | |
| Exercise price (NIS) | 223.965 | |
| Anticipated volatility (*) | 27.04 | % |
| Length of life of the options (years) | 3-5 | |
| Non risk interest rate | 5.25 | % |

(*) The anticipated volatility is determined on the basis of historical fluctuations of the share price of the company. The average length of life of the option was determined in accordance with management's forecast as to the holding period by the employees of options granted to them, in consideration of their functions in the company and past experience of the company with employees leaving.

2) Additional details of options granted to employees

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | No. Of options | Weighted average of the exercise | No. Of options | Weighted average of the exercise |

| | | price | | price |
|---|---|---|---|---|
| Options granted to employees which: | | | | |
| Outstanding at the start of the period | 261,500 | 223.96 | 246,250 | 223.96 |
| Granted | - | - | 34,000 | 223.96 |
| Forfeited | - | - | (17,686 ) | 223.96 |
| Exercised | (103,462) | 223.96 | (1,064 ) | 223.96 |
| Outstanding at the end of the period | 158,038 | 223.96 | 261,500 | 223.96 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - INCOME TAX CHARGE

A. Deferred income taxes

The composition of the deferred taxes assets (liabilities), are as follows:

| | Balance at January 1, 2009 | Recognized in profit and loss | Recognized in equity | Balance at December 31, 2009 | Recognized in profit and loss | Recognized in equity | Entry into consolidation | Balance at December 31, 2010 |
|---|---|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | | | |
| Temporary differences | | | | | | | | |
| Hedging cash flow | (200) | - | 200 | - | - | - | - | - |
| Intangible assets | (7,031) | 2,021 | - | (5,010) | 765 | - | - | (4,245) |
| Fixed assets | (69,410) | 16,367 | - | (53,043) | (17,255) | (830) | (25,255) | (96,383) |
| Employee benefits provisions | 8,493 | (326) | (509) | 7,658 | 378 | (26) | 1,748 | 9,758 |
| Doubtful debts | 5,930 | 1,390 | - | 7,320 | 400 | - | 1,680 | 9,400 |
| Inventory | (169) | 33 | - | (136) | 168 | 112 | - | 144 |
| Total | (62,387) | 19,485 | (309) | (43,211) | (15,544) | (744) | (21,827) | (81,326) |
| | | | | | | | | |
| unutilized losses and tax benefits | | | | | | | | |
| losses for tax purposes | 15,594 | (691) | - | 14,903 | 23,284 | 2 | - | 38,189 |
| | | | | | | | | |
| Total | (46,793) | 18,794 | (309) | (28,308) | 7,740 | (742) | (21,827) | (43,137) |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - INCOME TAX CHARGE (cont.)

A. Deferred income taxes (cont.)

Deferred taxes are presented in the statements of financial position as follows:

| | December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Among non-current assets - Deferred tax assets | 2,165 | 2,096 |
| Among non-current liabilities - Deferred tax liabilities | (45,302) | (30,404) |
| Total | (43,137) | (28,308) |

The Group anticipates the existence of taxable income in future periods apart from profits that will arise from the reversal of taxable temporary differences. The Group also recognized losses for tax purposes, which are expected to be utilized in the next few years against capital gains. As a result of the aforesaid, deferred tax assets were created.

B. Amounts in respect of which deferred tax assets were not recognized

| | For the year ended December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Real losses from securities | 11,786 | 11,786 |
| Capital losses for tax purposes | - | 7,126 |
| Total | 11,786 | 18,912 |

Expiration dates:
in accordance with the tax laws in effect, there is no expiration date for the utilization of losses for tax purposes. The Company does not anticipate any profits in the foreseeable future that will allow it to utilize these losses and has therefore not created deferred tax assets in respect thereof.

C. Taxes that refer to components in the Other Comprehensive Income

| | For the year ended December 31, 2010 | | |
|---|---|---|---|
| | Sums before Tax on income | Tax influence | Sums after tax on income |
| | NIS in thousands | | |
| Other Comprehensive income (net, after reclassification to profit and loss): | | | |
| Profit from cash flow hedging | 1,044 | - | 1,044 |
| Actuarial gain from a defined benefit plan | 140 | (24) | 116 |
| Total | 1,184 | (24) | 1,160 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - INCOME TAX CHARGE (cont.)

C. Taxes that refer to components in the Other Comprehensive Income (cont.)

| | For the year ended December 31, 2009 | | |
|---|---|---|---|
| | Sums before Tax on income | Tax influence | Sums after tax on income |
| | NIS in thousands | | |
| Other Comprehensive income (net, after reclassification to profit and loss): | | | |
| Profit from cash flow hedging | 3,862 | 200 | 4,062 |
| Actuarial gain from a defined benefit plan | 986 | (509) | 477 |
| Total | 4,848 | (309) | 4,539 |

| | For the year ended December 31 2008 | | |
|---|---|---|---|
| | Sums before Tax on income | Tax influence | Sums after tax on income |
| | NIS in thousands | | |
| Other Comprehensive income (net, after reclassification to profit and loss): | | | |
| Loss from cash flow hedging | (1,937) | (369) | (2,306) |
| Actuarial loss from a defined benefit plan | (1,501) | - | (1,501) |
| Capital reserve from revaluation from step acquisition | 17,288 | - | 17,288 |
| Total | 13,850 | (369) | 13,481 |

D. Tax expense (income) on income recognized in profit and loss

1) As follows:

| | | For the year ended December 31 | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | | NIS in thousands | |
| For the reported year: | | | |
| Current | 5,002 | 11,727 | 7,826 |
| Former Years | (212) | - | - |
| Deferred taxes in respect of the reporting period | (7,740) | (18,794) | (4,163) |
| | (2,950) | (7,067) | 3,663 |

Current taxes in 2010 were computed at an average tax rate of 25%, 2009– 26% and 2008- 27%, see 2 below.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - INCOME TAX CHARGE (cont.)

D. Tax expense (income) on income recognized in profit and loss (cont.)

2) Following is a reconciliation of the "theoretical" tax expense, assuming all income is taxed at the regular rate applicable to companies in Israel, as stated in c above, and the actual tax expenses in the income statement, for the reported year:

| | 2010 NIS in thousands | 2009 NIS in thousands | 2008 NIS in thousands |
|---|---|---|---|
| Income (loss) before taxes on income | 97,662 | 84,681 | 71,623 |
| Tax expenses at statutory tax rate | 24,416 | (22,017) | 19,338 |
| Tax increments (savings) due to: | | | |
| Company's share of after-tax income of investees | (20,283) | (22,713) | (13,855) |
| Adjustments due to tax rate changes | (5,186) | (8,571) | (803) |
| Losses for tax purposes on whose account deferred tax assets were not recognized in the past, yet for whom deferred taxes were recognized during the reported period | - | (1,103) | (2,103) |
| Tax expenditures calculated by different tax rate | (2,362) | 3,736 | - |
| Non-taxable income | - | (500) | (3,958) |
| Non-deductible expenses | 772 | 1,135 | 4,629 |
| Other differences, net | (96) | (1,068) | 415 |
| | (2,739) | (6,371) | (1,820) |
| Adjustments performed during the year in respect of prior years current taxes | (211) | - | - |
| Taxes on income as presented in profit and loss | (2,950) | (7,067) | 3,663 |

E. Tax assessments

The Company and most of its subsidiaries have received final tax assessments through the year ended December 31, 2006.

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

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law (Inflation Adjustments) (Amendment 20) (Limitation of Term of Validity) - 2008 (hereinafter: "The Amendment"), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention it is to prevent distortions in tax calculations.

According to the amendment, from tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement.

Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - INCOME TAX CHARGE (cont.)

G. More details

1. In accordance with Amendment No. 147 of the Income Tax Ordinance, 2005, a tax rate of 34% which is applicable to companies was gradually reduced starting from 2006 (for which a tax rate of 31% was determined) until 2010 - for which a tax rate of 25% was determined (the tax rate in the years 2007, 2008 and 2009 is 29%, 27% and 26%, respectively).

2. The Economic Efficiency Law (Legal Amendments to the Implementation of the Economic Program for 2009 and 2010) of2009 was published in July 23, 2009 (hereinafter: "The Settlement Law"). According to the Settlement Law, the tax rates of 26% and 25% that apply to companies in the years 2009 and 2010, respectively, will be gradually reduced starting in fiscal year 2011, for which a company tax rate of 24% was set, through to fiscal year 2016, for which a company tax rate of 18% was determined. Subsequent to this change, the company recognized deferred tax revenues in the amount of NIS 5,186 thousands, and NIS 8,571 thousands in 2010 and 2009, respectively.

3. On December 29, 2010 the KNESSET passed the Economic Policy Act for the years 2011-2012 (Legislative Amendments), 2011 - which was officially published on January 6, 2011. In conjunction with the Economic Policy Act, the Capital Investment Promotion Act, 1959 was amended (hereinafter: "the amendment to the Act"). Pursuant to the amendment to the Act, the different tax tracks have been eliminated and replaced by fixed tax rates for all of the entity's productive revenues. The fixed tax rates are: In 2011-2012- 15% (in Region A, 10% -') in 2013-12.5% 2014 (in Region A 7%) and from 2015 onwards (12% (in Region A( 6% - ' Provisions of the amendment to the Act became effective as from January 1, 2011. The Company may elect whether to be subject to the amendment to the Act and waive the remaining benefits to which it is entitled pursuant to the Act prior to its amendment.

The Company does not anticipate that provisions of the amendment to the Act would significantly affect its taxable revenues.

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES

A. Subsidiaries provided guarantees to various entities, in connection with tenders, in the aggregate amount of approximately NIS 3,470 thousands.

B. In accordance with the Companies Law, 1999, the Company issued new letters of indemnity to its officers in 2004 (with an amendment from 2006), pursuant to which the Company undertakes to indemnify the officers for any liability or expense, for which indemnification may be paid under the law, that may be incurred by the officers in connection with actions performed by them as part of their duties as officers in the Company, which are directly or indirectly related to the events specified in the addendum to the letters of indemnity, provided that the total amount of indemnification payable to the officers, shall not exceed 25% of the Company’s shareholders’ equity as per its latest financial statements published prior to the actual indemnification. The liability of officers in connection with the performance of their duties, as above, is partly covered by an insurance policy.

C. During the years 2008 and 2009, the Company has engaged in a contract with the main equipment suppliers for the new manufacturing facility of packaging papers ("machine no. 8"), for the total sum of €62.3 million. Most of the equipment supplied during 2008 2009 and 2010. Balance at December 31, 2010 is approximately 4 million Euro.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

D. In the second quarter of 2007, the Company signed an agreement with a gas company for the transmission of gas for a period of 6 years with a two-year extension option. The total financial value of the transaction is NIS 13.8 million.

E. In November 3, 2008, the general meeting of the company approved the validity of a lease agreement signed on September 18, 2008 between the Company and Gev-Yam Lands Ltd (hereinafter – "the lessor"), a public company indirectly controlled by the controlling shareholder in the Company, pursuant to which the Company will rent a plot in Modiin, with a space of 74,500 square meters, and buildings that the lessor plans to build for the Company, covering a total space of 21,300 square meters, which will be used as a center for the purposes of logistics, industry and office (hereinafter – "the logistic center") for subsidiaries and associated companies of the Company and in part will substitute existing lease agreements. The term of the lease will be 15 years from the date of delivery of possession in the leased property in addition to which the Company will have an option to extend the lease by a further 9 years and 11 months. The cost of annual lease amounts to NIS 13.6 million linked to the Consumer Price Index for July 2008.

F. In November 2006, the Environmental Protection Ministry announced that, even though the company plant at Hadera has made considerable investments in sewage treatment and environmental protection issues, an investigation may be launched against it to review deviations from certain emission standards into the air. Based on the opinion of its legal advisors, the Company anticipates that the investigation will not materially impact its operations.

G. Against the company and its subsidiaries there are several pending and open claims and financial demands in a total amount of approximately NIS 14,738 thousands (December 31, 2009: NIS 11,550 thousands), in respect of them a provision was credited in a sum of NIS 9,593 thousands (December 31, 2009: NIS 5,345 thousands was recorded. See additional details in sections h-l below.

H. In September 2008 the Municipality of Hadera submitted a request for payment of a land betterment levy in the amount of 1.4 million in respect of a change in the use of land which is designated for the construction of a new manufacturing line for packaging papers. The Company contested the amount of the levy with a counter assessment in the amount of NIS 28 thousands. The Company recorded a provision of NIS 900 thousands in these financial statements in light of an expected settlement between the parties.

I. A demand to pay purchasing tax of NIS 1,460 thousands was submitted to the Company in respect of the extension of the lease on a plot of land located in Totzeret Haaretz Street in Tel Aviv (formerly the Shafir plant). A decision was handed down by the appeals committee pursuant to which the Company was required to pay a total of NIS 1,390 thousands and the Company paid the amount. Both the Company and the Tax Authority have appealed this decision to the Supreme Court.

J. In December 2006 Israel Natural Gas Lines Ltd (hereinafter –"Natural Gas Lines") informed the Company that owners of lands close to the gas production plan have initiated a damages claim against Natural Gas Lines in respect of impairment. It should be noted that the agreement between the Company and Natural Gas Lines addresses the indemnification of Natural Gas Lines as part of the payment of compensation due to harm to adjacent land. The proceeding is conducted before the appeals committee and the Company is not a party to the proceedings. On February 25, 2010, the Company received the Committee decision to set the damages at NIS 2,670 thousand.

Natural Gas Lines and the land owners have appealed the Committee's decision. On December 10, 2010, these appeals were rejected. The Company received a payment demand from Natural Gas Lines and recorded a provision on its financial statements as of December 31, 2010.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

K. During the year of 2009, as part of a formal tax inspection of the Turkish Tax Authorities, the Financial Reports for the years 2004-2008 of KCTR the Turkish subsidiary ("KCTR") of the associated company Hogla- Kimberly Ltd, held by 49.9% were examined.

On February 16, 2010, KCTR received a tax inspection report, following the aforementioned inspection, according to which KCTR is required to an additional tax payment for two matters audited, as detailed below, on the total amount of 135 millions YTL (approximately 89 millions USD) including interest and penalty.

Regarding the first matter (stamp tax), KCTR, paid YTL 264 thousands, (approximately USD 106 thousands) in July 2010.

Regarding the second matter, which is the essential part of the tax demand (tax on capital injection from Hogla-Kimberly to KCTR), KCTR, based on its tax consultant opinion, estimates that the likelihood that it will be demanded for the additional tax payment, is rather low, and therefore it has not provided a provision at its Financial Reports for December 31, 2010, with regards to this matter. Also note that KCTR, based on the opinion of its tax consultants in Turkey, appealed to the Court the demand by the Tax Authority with regard to the second matter. As of the date of these financial statements, the proceedings are on-going at the first instance of the Turkish Court system.

L. On June 15, 2010, an associated company Hogla-Kimberly Ltd. and another competitor company received a petition for the approval of a class action against them.

According to the petition, the Competitor and Hogla-Kimberly Ltd. has misled the public by presenting plastic bags as oxo biodegradable and therefore environmentally friendly, while the products are breaking down into fragments.

The plaintiff estimates the scope of the petition against Hogla-Kimberly, if approved as class action, to be approximately NIS 111 million. Hogla-Kimberly estimates, based on its legal advisors opinion, that at this stage the probability of the request for approval of a class action lawsuit will be approved is not higher than the probability that it will be rejected, therefore Hogla-Kimberly did not provide a provision at its financial statements for this petition.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Statement of financial position:

A.Account Receivables:

| | December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| 1) Trade receivables : | | |
| Open accounts | 516,690 | 293,682 |
| Checks collectible | 48,239 | 30,200 |
| | 564,929 | 323,882 |
| The item is: | | |
| Net of allowance for doubtful accounts | 32,618 | 24,236 |
| Includes associated companies | 11,005 | 12,556 |

| | December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Aging of customers debts: | | |
| Are not in delay | 526,217 | 275,020 |
| Delay till 6 months | 47,859 | 43,543 |
| Delay from 6 months to 12 months | 5,964 | 4,597 |
| Delay from 12 months to 24 months | 1,309 | 3,371 |
| Delay more then 24 months | 16,198 | 21,587 |
| Total | 597,547 | 348,118 |
| Deduction of allowance for doubtful accounts | 32,618 | 24,236 |
| | 564,929 | 323,882 |

| | 2010 | 2009 |
|---|---|---|
| | NIS in thousands | |
| Movement in provision for doubtful debts during the year: | | |
| Balance at beginning of the year | 24,236 | 22,652 |
| Impairment losses recognized on receivables | 4,165 | 2,848 |
| Amounts written off as uncollectible | (1,491) | (261) |
| Amounts recovered during the year | (440) | (340) |
| Reversal of impairment losses in respect of accounts receivable | (848) | (663) |
| Entry into consolidation | 6,996 | - |
| Balance at the end of the year | 32,618 | 24,236 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

Statement of financial position: (cont.)

A. Account Receivables: (cont.)

| | December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| 2) Other receivables: | | |
| Employees and employee institutions | 1,049 | 1,702 |
| Customs and VAT authorities | 180 | 2,036 |
| Associated companies - current debt | 37,539 | 81,460 |
| Prepaid expenses | 5,915 | 4,595 |
| Advances to suppliers | 3,078 | 2,252 |
| Accounts Receivable | 8,607 | 3,310 |
| Others | 691 | 3,542 |
| | 57,059 | 98,897 |

3) Available-for-sale financial assets:

In November 2010, the Company acquired 18.37% (or 16.84% fully diluted) of shares of BONDEX, for consideration of USD 450 thousand. BONDEX is engaged in research and development of BONDER, a biological material intended to provide improved strength and water-resistance features to packaging paper. The other shareholders of BONDEX, as of the date of this report and to the best of the Company's knowledge, are third parties which are not interested parties in the Company, as follows: private investors - 2.49%, founders - 31.75%, R&D facility and other entities - 47.39%. As of the approval date of these financial statements, the Company was diluted to 16.33% (or 13.70% fully diluted), due to acquisition of 11.11% of BONDEX shares by a foreign investor.

B. Inventories:

| | December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| For industrial activities: | | |
| Products in process | 14,066 | 2,603 |
| Finished goods | 84,583 | 67,149 |
| Raw materials and supplies | 140,482 | 65,881 |
| Total for industrial activities | 239,131 | 135,633 |
| For commercial activities - purchased products | 72,880 | 20,799 |
| | 312,011 | 156,432 |
| Maintenance and spare parts * | 31,508 | 19,512 |
| | 343,519 | 175,944 |

* Including inventories for the use of associated companies.

Additional information – the amount of inventory recognized during the period under cost of sale amounted to NIS 431,120 thousand in 2010 (2009 – NIS 345,610 thousand).

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

Statement of financial position: (cont.)

C. Credit from banks:

| | Weighted average Interest rate on December 31, 2010 | December 31 | |
|---|---|---|---|
| | | 2010 | 2009 |
| | % | NIS in thousands | |
| Unlinked | 3.25-4.5 | 144,622 | 131,572 |

See note 10b above

D. Trade payable and accruals - other:

| | | December 31 | |
|---|---|---|---|
| | | 2010 | 2009 |
| | | NIS in thousands | |
| 1) | Trade payables: | | |
| | Open accounts | 365,745 | 250,235 |
| | Checks payable | 4,320 | 5,660 |
| | | 370,065 | 255,895 |
| 2) | Other payables: | | |
| | Payroll and related expenses | 52,215 | 45,405 |
| | Institutions in respect of employees | 20,690 | 21,196 |
| | Accrued interest | 17,809 | 19,194 |
| | Accrued expenses | 18,398 | 14,619 |
| | Income in advance | 6,563 | - |
| | Initial consolidation | 49,368 | - |
| | Others | 7,252 | 12,331 |
| | | 172,295 | 112,745 |

Statements of income:

E.Sales (1)

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Industrial operations (2) | 933,540 | 733,938 | 542,244 |
| Commercial operations | 187,468 | 158,057 | 131,240 |

| | | | | |
|---|---|---|---|---|
| | | 1,121,008 | 891,995 | 673,484 |
| (1) | Including sales to associated companies | 191,222 | 186,410 | 132,375 |
| (2) | Including sales to export | 175,028 | 69,800 | 55,757 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

Statements of income: (cont.)

F.Cost of sales:

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Industrial operations: | | | |
| Materials consumed | 295,184 | 233,520 | 143,392 |
| Expenditure on the basis of benefits to employees (see h below) | 215,102 | 206,903 | 149,212 |
| Depreciation and amortization | 76,856 | 67,497 | 53,144 |
| Other manufacturing costs | 204,743 | 160,383 | 115,027 |
| increase in inventory of finished goods | 18,053 | (14,716) | (11,879) |
| | 809,938 | 653,587 | 448,896 |
| Commercial operations - cost of products sold | 135,484 | 112,090 | 93,491 |
| | 945,422 | 765,677 | 542,387 |

G.Selling, marketing, administrative and general expenses:

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Selling and marketing: | | | |
| Expenditure on the basis of benefits to employees (see h below) | 35,097 | 30,095 | 18,568 |
| Packaging, transport and shipping | 35,372 | 27,843 | 15,670 |
| Commissions | 4,250 | 2,405 | 2,684 |
| Depreciation and amortization | 3,933 | 4,101 | 1,246 |
| Other | 8,549 | 7,554 | 7,506 |
| | 87,201 | 71,998 | 45,674 |
| Administrative and general: | | | |
| Expenditure on the basis of benefits to employees (see h below) | 60,618 | 57,388 | 55,735 |
| Office supplies, rent and maintenance | 4,451 | 3,698 | 2,222 |
| Professional fees | 3,941 | 4,318 | 3,210 |
| Depreciation and amortization | 4,858 | 6,501 | 5,097 |
| Doubtful accounts and bad debts | 1,930 | 2,290 | 233 |
| Other | 12,621 | 12,873 | 15,006 |
| | 88,419 | 87,068 | 81,503 |
| Less - rent and participation from associated companies | 28,816 | 28,101 | 26,533 |
| | 59,603 | 58,967 | 54,970 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

Statements of income: (cont.)

H.Expenses in respect of employee benefits

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Composition: | | | |
| Payroll and bonuses | 277,917 | 271,585 | 201,856 |
| Expenses in respect of a defined deposit plan | 35,185 | 22,803 | 15,889 |
| Expenses in respect of a defined benefit plan | 2,421 | 3,035 | 477 |
| Share-based payment transactions | 2,104 | 2,900 | 5,922 |
| Severance benefits | 2,106 | 3,115 | 1,358 |
| | 319,733 | 303,438 | 225,502 |
| Net of capitalized amounts (see note 6f). | (8,545) | (9,052) | (1,987) |
| | 311,188 | 294,386 | 223,515 |

I.Depreciation and amortization

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Composition: | NIS in thousands | | |
| Depreciation of fixed assets (see note 6) | 83,701 | 73,355 | 53,391 |
| Depreciation of leased land | 514 | 913 | 1,178 |
| Impairment of intangible assets (see note 8b) | 3,701 | 4,068 | 5,215 |
| Depreciation of other assets | 131 | 216 | - |
| | 88,047 | 78,552 | 59,784 |

J.Finance income *

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| (1) interest income | | | |
| | | | |
| Interest income from short-term bank deposits | - | - | 108 |
| Interest income from short-term balances | 2,039 | 3,436 | 3,912 |
| Interest income from short-term loans | - | - | 96 |
| Interest income from long-term loans | 2,468 | 3,763 | 592 |
| Interest income from operational revaluation – net | 11,647 | 813 | 1,204 |
| Total interest income | 16,154 | 8,012 | 5,912 |

| | | | |
|---|---|---|---|
| (2) Other | 148 | 113 | 286 |
| | | | |
| (3) Net Profit (loss) from financial assets, by groups | | | |
| | | | |
| Derivative financial instruments designated as hedging items | - | 6,221 | 5,871 |
| Less: | | | |
| Amounts capitalized to cost of fixed assets (see note 6e) | (6,988 ) | (9,619 ) | - |
| Total Finance income | 9,314 | 4,727 | 12,069 |
| | | | |
| * include financial income of loans to associated companies | 2,468 | 3,763 | 4,790 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

Statement of income: (cont.)

K.Finance expenses

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| 1) interest expenses | | | |
| Interest expenses from short-term bank loans | 1,359 | 894 | 224 |
| Interest expenses from short-term loans | 2,251 | 574 | 3,618 |
| Interest expenses from long-term loans | 16,709 | 10,338 | 4,927 |
| Interest expenses on account of non-convertible bonds net of related hedges | 45,848 | 39,004 | 34,469 |
| Interest expenses from operating monetary balance-net | 1,959 | 10,221 | - |
| Other interest expenses | 1,162 | 1,331 | 8,077 |
| Total interest expenses | 69,288 | 62,362 | 51,315 |
| 2) other | | | |
| Changes in the fair value of derivative financial instruments designated as hedging items | 7,487 | 824 | - |
| Bank commissions | 1,161 | 670 | 501 |
| Interest costs from employee benefits | 371 | 673 | 1,360 |
| Total other finance expenses | 9,019 | 2,167 | 1,861 |
| Less: | | | |
| Amounts capitalized to cost of fixed assets (see note 6e) | (24,228 ) | (41,537 ) | (26,064 ) |
| Total finance expenses | 54,079 | 22,992 | 27,112 |

L. Other income

| | Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Profit from written off a negative cost surplus (1) | - | - | 14,664 |
| Capital gain from sale of fixed assets and spare parts inventory | 18,510 | 73 | 237 |
| Profit (loss) from revaluation PUT option to associated company | (872 ) | 1,922 | (10,003 ) |
| Gain from revaluation of prior holding at fair value due to achieving control (2) | 5,760 | - | - |
| Revenues from unilateral dividend | - | 16,418 | - |

| | | | |
|---|---|---|---|
| Revenues from sale of other assets, net | (131) | 1,321 | - |
| Net allowance, Employer Mutual Fund (3) | 8,529 | - | - |
| Other | 717 | 500 | - |
| Total Other income | 32,513 | 20,234 | 4,898 |

(1) In respect of the acquisition of Carmel the Company recognized, in the year 2008, profit of NIS 14,664 thousands because of negative goodwill which was measured as the difference between the fair value of the assets, liabilities and contingent liabilities of Carmel on the date of acquisition and the cost of acquisition.

(2) With respect to acquiring control of Hadera Paper Printing & Writing Paper, effective as from December 31, 2010, the Company recognized gain from fair value measurement of equity interest in Hadera Paper Printing & Writing Paper, pre-acquisition at 49.9%, amounting to NIS 5,760 thousand.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

Statement of income: (cont.)

L. Other income (cont.)

(3) On December 22, 2010, HADERA PAPER Group was reimbursed contributions amounting in total to NIS 8,529 thousands (hereinafter: "the reimbursement") from the Employer Mutual Fund, as reimbursement of contributions made by the Group to the Fund. The reimbursement was subject to Group commitment to repay these amounts, in whole or in part, in certain cases which the Company believes are unlikely to materialize.

NOTE 16 - NET INCOME PER SHARE

Following are data relating to the profit and the number of shares (including adjustments to such data) used for the purpose of computing the basic and fully diluted net income per ordinary share. (see note 2BB)

| | Net income<br>Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Total profit for the period, as reported in the income statements, used in computation of basic net income per share | 100,728 | 91,230 | 69,710 |
| Total profit for the purpose of computing diluted income per share | 100,728 | 91,230 | 69,710 |

| | Number of shares<br>Year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Weighted average number of ordinary shares used for computing the basic income per share | 5,078,156 | 5,060,788 | 5,060,774 |
| Adjustment in respect of incremental shares of warrants | 40,260 | - | - |
| Weighted average number of ordinary shares used for computing the diluted income per share | 5,118,416 | 5,060,788 | 5,060,774 |

NOTE 17 - ACQUISITION OF SUBSIDIARY

A. Acquisition of additional shares of Hadera paper-printing and writing paper

On September 7, 2010 the company signed an agreement with a subsidiary of Mondi Group ("Mondi Group"), that holds, prior to the transaction, 50.1% of the issued and outstanding share capital of Hadera Paper – Printing and Writing Paper Ltd. - an associated company, formerly "Mondi Hadera Paper Ltd.", (hereinafter – "Printing and Writing

Paper Ltd.") pursuant to which Mondi Group will sell to the Company 25.1% of the issued and outstanding share capital of "Printing and Writing Paper" ("Acquisition Transaction").

Prior to the transaction, the Company held 49.9% of the issued and outstanding share capital of "Printing and Writing Paper". Subsequent to the completion of the Acquisition Transaction effective as of December 31 2010, the Company holds 75% of the issued and outstanding share capital of "Printing and Writing Paper", while Mondi Group will hold the remaining 25%.

In consideration of the shares being sold, the Company payed Mondi Group, from its own resources, upon finalization of the Acquisition Transaction, a sum of approximately EURO 10.364 million, on January 5, 2011.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - ACQUISITION OF SUBSIDIARY (cont.)

A. Acquisition of additional shares of Hadera paper-printing and writing paper (cont.)

The Acquisition Transaction includes, inter alia, the amendment of the existing shareholder agreement between the parties, pertaining to their holdings in "Printing and Writing Paper" that entered into force upon the finalization of the Acquisition Transaction), including also the changes necessary as a result of the modification of the holding percentages, including the protection of minority interests, rules for the continued cooperation between the shareholders and "Printing and Writing Paper", a non-competition clause, dividend distribution policy and the like, all subject to the provisions of the law.

Moreover, the Acquisition Transaction includes the amendment of the existing agreements between the shareholders and "Printing and Writing Paper" that entered into force upon the finalization of the Acquisition Transaction, (effective from December 31, 2010), including a marketing agreement, rental agreement, agreement for the provision of services and the signing of new agreements that entered into force upon the finalization of the Acquisition Transaction (effective from December 31, 2010), including a subletting agreement and an agreement governing the use of the Mondi brand.

As part of the previous agreement between Hadera Paper and Mondi Group dated November 21, 1999, as set forth in Note 5(3) above, MBP was granted an option to sell to the Company its holding stake in "Printing and Writing Paper", at a price 20% below the value (as defined in the agreement) or $20 million less 20%, whichever is higher. The Acquisition Transaction included the amendment of the Put option, stipulating that it may not be exercised during the first three years subsequent to the date of finalization of the Acquisition Transaction (except for specific circumstances outlined in the agreement). Moreover, it was determined that Mondi Group will be subject to the undertaking not to sell its shares in "Printing and Writing Paper" for a period of three years subsequent to the date of finalization of the Acquisition Transaction (except for specific circumstances outlined in the agreement).

On December 28, 2010, the suspending conditions set forth in the acquisition agreement have been fulfilled for the closing of the transaction. The ancillary agreements in the transaction have been signed and the closing date has been scheduled for December 31, 2010. The parties further determined that the consideration of the transaction will be transferred to the Mondi Group no later than January 10, 2011. Following the closing of the transaction, the Company consolidates the financial statements of "Printing and Writing Paper" into its own financial statements, as of December 31, 2010.

Below is the fair value of the consideration as of the acquisition date:

| | NIS in thousands |
|---|---|
| Consideration (1) | 51,813 |
| Value attributed to change in value of Put option | 18,658 |
| Value of non-controlling interests | 14,845 |
| Total consideration | 85,316 |
| Fair value of investment "Printing and Writing Paper" prior to the business combination (2) | 86,721 |
| Total | 172,037 |

(1) The cash consideration in the sum of euro 10,364 millions, was paid subsequent to the reported period, on January 5, 2011.

(2) The Group recognized gain of NIS 5,760 thousand, due to fair value measurement of its 49.9% equity interest in "Printing and Writing Paper", held prior to the business combination. Fair value excludes a 1% control premium attributed in conjunction with attribution of the consideration. This gain was included under Other Revenues on the income statement for the year ended December 31, 2010.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - ACQUISITION OF SUBSIDIARY (cont.)

B. Net cash flow upon acquisition

| | NIS in thousands |
|---|---|
| Total cost of acquisition | 51,813 |
| Less un-paid consideration | (51,813) |
| Consideration paid in cash | - |
| Less cash and cash equivalents acquired | (13,111) |
| Total | (13,111) |

C. Amounts recognized with respect to assets and liabilities upon the acquisition date

| | NIS in thousands |
|---|---|
| Financial Assets | 194,716 |
| Inventory | 161,649 |
| Fixed assets | 146,111 |
| Goodwill | 12,282 |
| Financial Liabilities | (342,721) |
| Total identifiable assets, net | 172,037 |

D. Goodwill

The cost of business combination includes payment of a control premium to acquire "Printing and Writing Paper". Further, the total acquisition cost includes amounts related to expected synergetic benefits (cooperation), revenue growth and future developments in the market in which "Printing and Writing Paper" operates. These benefits are not recognized separately from goodwill, since the future economic benefits there from may not be reliably measured.

Furthermore, the Company has acquired the customer base of " Printing and Writing Paper", which may not be recognized as an intangible asset separate from goodwill, since it cannot be separated from the Group by sale, lease or replacement there of separately or together with a related contract.

All these resulted in goodwill amounting to NIS 12,282 thousand generated by the business combination. It is not expected that any portion of the goodwill recognized would be tax deductible. For further details of the goodwill balance, see Note 9.

E. Non-controlling interests

The amount of non-controlling interests in "Printing and Writing Paper" (25%) recognized upon the acquisition date, amounts to NIS 14,845 thousand. The non-controlling interests were estimated at their share of fair value of assets, liabilities and contingent liabilities of the acquired entity, excluding their share of goodwill, plus adjustment of Put option to holders of non-controlling interests, from fair value measurement to measurement using the present value of expected future payment there for.

F. Cost associated with acquisition

The cost associated with acquisition, with respect to legal consulting, brokerage and professional services, are included on the income statement for the year ended December 31, 2010 under General and Administrative Expenses, amounting to NIS 267 thousand.

G. Impact of acquisition on Group results

Since "Printing and Writing Paper" is consolidated on the Company's financial statements as from December 31, 2010, total revenues and total income for the year ended December 31, 2010 do not include revenues and income attributed to "Printing and Writing Paper". Had the acquisition been made at the start of the year, total Group revenues would have amounted to NIS 1,806,210 thousand, and Group income would have amounted to NIS 106,937 thousand.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - ACQUISITION OF SUBSIDIARY (Cont.)

G. Impact of acquisition on Group results (cont.)

In determining the pro-forma income, the following assumptions have been used:

- Pro-forma information was compiled based on financial information for Hadera Paper Ltd. and "Printing and Writing Paper" The pro-forma information reflects the financial standing and operating results, on consolidated basis, had "Printing and Writing Paper" been acquired on January 1, 2008.

- The gain realized by the Company, amounting to NIS 5,760 thousand, was not included on the pro-forma consolidated financial statements, as it was of a non-recurring nature.

- Financing expenses on the pro-forma consolidated financial statements were calculated based on 5.85% interest with respect to financing obtained for this acquisition. Repayment of the acquisition is in accordance with terms and conditions of the aforementioned financing.

Excess acquisition cost over carrying amount as of the acquisition date, amounting to NIS 12,282 thousand, was classified under goodwill.

- Other revenues include annual adjustment of the financial liability with respect to put option granted to non-controlling interests for the present value of the expected future payment with respect there to, assuming it would not be exercisable for three years. Profit and loss resulting from settled put options have been reversed.

- Inter-company transactions and balances were reversed for the consolidation. Inter-company unrealized gain was not reversed, as it was not material.

NOTE 18 - ACTIVITIES NOT INVOLVING CASH FLOWS:

A. As of December 31, 2010 the acquisition of fixed assets with suppliers credit amounted to NIS 30,805 thousand.

B. As of December 31, 2009 the acquisition of fixed assets with suppliers credit amounted to NIS 70,541 thousands.

C. As of December 31, 2010, the cost of acquisition of additional shares of "Printing and Writing Paper", amounting to NIS 49,368 thousand, has yet to be paid. See Note 17 a(1).

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A. The purpose of financial risk management

The finance division of the Group supplies services to the business operation, provides "printing and writing" access to domestic and international financial markets, monitors and manages the financial risks associated with the Group's activities through internal reports that analyze the level of exposure to risks according to their degree and intensity. These risks include market risks (currency risk, fair value risk in respect of interest rates, price risk and cash flow risk in respect of interest rates), credit risks and liquidity risk.

The Group mitigates the effect of these risks by using deposits in derivative financial instruments in order to hedge the exposure to risks. The use of derivative financial instruments is made in accordance with the Group's policy that was approved by the board of directors, which stipulates principles regarding: currency risk management, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity. Compliance with the policy and levels of exposure is reviewed by the internal auditors of the Company on an ongoing basis and examined from time to time by external advisors that specialize in this area.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

A. The purpose of financial risk management (Cont.)

The financial management division of the Group makes quarterly reports to the Group's management committee, about the risks and the implementation of the policy which be assimilated in order to reduce the risks exposures.

The Group's activity exposes it primarily to financial risks of changes in foreign currency exchange rates (see section e below). The Group holds a range of derivative financial instruments in order to manage its exposure to market risks, including:

- Foreign currency swap contracts to hedge EURO currency risks arising from EURO payments result of imports of equipment for Machine 8 from the EU nations.
- Foreign currency swap contracts to hedge currency risks arising from the purchase of raw materials in dollars according to the company's policy.

B. Market risk

Market risks reflect the risk of changes in value of financial instruments that are affected by changes in interest rates, CPI and exchange foreign currency, and also price changes in world commodity markets.

During the reporting period there was a change in exposure to market risks, primarily as a result of the volatility of global currency markets and due to the global crisis. The Group manages and measures the risks on a current basis in accordance with its business and cash flow operations.

C. Categories of financial instruments

| | | |
|---|---|---|
| Financial assets | | |
| Deposits in the banks | 73,480 | 238,778 |
| Deposits in the banks designated as hedging items | 47,512 | 23,949 |
| Total deposits in the banks | 120,992 | 262,727 |
| Derivative financial instruments designated as hedging items | - | 4,356 |
| Available-for-sale investment | 1,646 | - |
| Loans measured at amortised cost | 573,536 | 372,224 |
| | 696,174 | 639,307 |
| Financial liabilities | | |
| Derivative financial instruments designated as hedging items | - | 1,114 |
| Derivative financial instruments not designated as hedging items | 580 | - |
| Put option on an associated company at Fair – value through profit and loss | - | 11,982 |
| Financial liabilities measured at measured at amortised cost | 1,134,189 | 979,129 |
| PUT option granted to the non controlling interests | 31,512 | - |
| | 1,166,281 | 992,225 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

D. Derivative financial instruments

The Company has limited involvement with derivative financial instruments. The Company uses these instruments as hedges. The Company utilizes derivatives, mainly forward exchange contracts, to protect its expected cash flows in respect of existing assets and liabilities denominated in currencies other than the functional currency of the Company or that are linked to the CPI. As the counter-parties to these derivatives are Israeli banks, the Company considers the inherent credit risks remote.

(1) Forward transactions against increase in the CPI

The Company is exposed to the CPI as a result of CPI-linked bonds that were issued (series 2 and 3). In accordance with the risk management policy, the Company wishes to minimize the CPI risk inherent in this obligation.

In January 2009, the Company entered into additional forward transactions for a period of one year, in order to hedge an amount of NIS 100 million against increases in the CPI, following the termination of the aforementioned transaction.

In January 2010 the company entered into additional forward transactions for a period of one year, in order to hedge an amount of NIS 30 million against increases in the CPI, following the termination of the transaction that was carried out in 2009. As for the accounting policy of the Group concerning cash flow hedges and derivative financial instruments see note 2R.

(2) Foreign currency swap contracts

The Group's policy is to enter into foreign currency swap contracts in order to cover specific foreign currency payables and receivables to reduce the created exposure. In addition, the Group enters into foreign currency swap contracts to manage the risk arising from anticipated selling and buying transactions in a period of up to six months. As for the accounting policy of the Group concerning cash flow hedges and derivative financial instruments see note 2R.

E. Credit risks

Credit risks relate to the risk that the counter party will not fulfill its contractual obligations for payment and cause the Group financial losses. The Group has a policy of entering transactions with parties that have a credit rating and obtaining sufficient collateral, when appropriate, as a means of reducing the risk for financial losses as a result of failures. When this information is not available, the Group draws on available public financial information and its commercial experience in order to grade its main customers. The Group's exposure and the credit ratings of counter parties are examined on a regular basis.

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

See note 14a details of the aging of customers' debts as of December 31, 2010.

F. Foreign currency risks

Approximately half of the Company's sales are nominated in US dollars, while a substantial part of its expenditures and its liabilities are in NIS, and as a result, the Company has an exposure to the changes in the exchange rate of the NIS against the US dollar and the EURO. This exposure includes an economic exposure (resulting from the excess of receipts over payments, in foreign currency or linked to it) and accounting exposure (relating to the excess of dollar linked assets over liabilities).

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

F. Foreign currency risks (cont.)

| | December 31, 2010 | | | | December 31, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | In, or linked to, foreign currency (mainly dollar) | In Euro | Linked to the Israeli CPI | Unlinked | In, or linked to, foreign currency (mainly dollar) | In Euro | Linked to the Israeli CPI | Unlinked |
| | NIS in thousands | | | | NIS in thousands | | | |
| Assets: | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents and designated deposits | 27,780 | 48,920 | - | 44,292 | 4,952 | 25,976 | - | 122,933 |
| Receivables | 37,147 | 9,829 | 1,950 | 564,068 | 13,338 | 5,075 | 1,053 | 398,718 |
| Investments in associated companies - long-term loans and capital notes | - | - | - | 19,178 | - | - | 36,674 | 17,777 |
| | 64,927 | 58,749 | 1,950 | 627,538 | 18,290 | 31,051 | 37,727 | 539,428 |
| Liabilities: | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Short-term credit from banks | - | - | - | 144,622 | - | - | - | 131,572 |
| Accounts payables and accruals | 110,329 | 106,883 | - | 318,584 | 43,437 | 72,583 | - | 277,801 |
| Financial liabilities at fair value through profit and loss | | - | - | 31,512 | 11,982 | - | - | - |
| Long-term liabilities (including current maturities): | | | | | | | | |
| Long –term loans | - | - | 18,250 | 313,555 | - | - | 28,143 | 253,438 |
| Notes | - | - | 279,765 | 377,997 | - | - | 328,069 | 237,907 |
| Other liability | - | - | - | 31,512 | - | - | - | 14,911 |
| | 110,329 | 106,883 | 298,015 | 1,186,270 | 55,419 | 72,583 | 356,212 | 915,629 |
| | (45,402 ) | (48,134 ) | (296,065) | (558,731 ) | (37,129 ) | (41,532 ) | (318,485) | (376,201) |

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

As to sensitivity analyze of foreign currency – see g below.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

F. Foreign currency risks (cont.)

Sensitivity analysis of foreign currency:

The group is primarily exposed to the US dollar and the euro.

The following table illustrates the sensitivity to a decrease of 5% in the NIS vis-à-vis the other currencies. 5% was the rate of sensitivity that was used in reporting to key executives. This index also represents management estimates regarding the reasonable potential change in exchange rates. The sensitivity analysis includes the existing balances of monetary items denominated in foreign currency and adjusts their translation at the end of the period to a change of 5% in the foreign exchange rates.

Impacts of a decrease of 5% in the NIS vis-à-vis the other currencies, after the impact of taxes and net of discounted sums:

| | The influence of the Euro December 31 | | The influence of the US Dollar December 31 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | NIS in thousands | | NIS in thousands | |
| Profit or (loss) | (1,659) | 268 | (1,336) | (1,518) |
| Other sections in the shareholders' equity | - | 995 | - | - |

The following table specifies the existing foreign currency swap agreements as of the reporting date:

| | Average foreign exchange rate | | Foreign currency | | | | Contract value | | Fair value | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | NIS | | Dollar in thousands | | Euro in thousands | | NIS in thousands | | | |
| Hedging cash flow | | | | | | | | | | |
| Purchase EURO till 6 months | 4.82 | 5.55 | | - | 3,895 | 11,674 | 18,756 | 64,745 | (311) | (1,113) |
| Purchase Dollar till 6 months | 3.64 | 3.88 | 2,100 | 1,133 | - | - | 7,651 | 4,400 | 29 | 18 |
| EURO deposit | 4.74 | 5.44 | - | - | 10,028 | 4,041 | 47,512 | 23,949 | - | - |

During the year expenses in amount of NIS 5,506 thousands were recognized in the comprehensive income in respect of cash-flow hedge. During the year an amount of NIS 6,757 thousands was recorded from the cash-flow hedging reserve to the fix assets.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

G. Interest rate and liquidity risk

Liquidity risk management

The Group manages liquidity risks by maintaining suitable funds, banking and loans, ongoing monitoring of actual and anticipated cash flows and adjusting the vesting of financial assets and liabilities.

1. Financial liabilities that do not constitute derivative financial instruments

The following tables specify the remaining contractual repayment dates of the Group in respect of financial liabilities, which do not constitute a derivative financial instrument. These tables were prepared based on the non-discounted cash flows of financial liabilities, based on the earliest date in which the Group may be required to repay them. The tables include cash flows in respect of the interest and the principal.

| | Average effective interest rate % | Till 1 month | 1-3 months | From 3 months to 1 year | From 1 year to 5 years | Above 5 years | Total |
|---|---|---|---|---|---|---|---|
| | | | | NIS in thousands | | | |
| 2010 | | | | | | | |
| Short-term credit | 3.26 | 76,348 | 68,457 | - | - | - | 144,805 |
| Loans from banks | 4.62 | 8,156 | 12,454 | 58,068 | 170,125 | 14,462 | 263,265 |
| Long-term credit from others | 6.30 | 8,052 | - | 8,052 | 64,423 | 33,302 | 113,829 |
| Index linked notes carrying permanent interest | 4.99 | - | - | 69,610 | 184,308 | 72,345 | 326,263 |
| Notes carrying permanent interest | 6.68 | 7,352 | - | 57,111 | 331,284 | 78,990 | 474,737 |
| | | 99,908 | 80,911 | 192,841 | 750,140 | 199,099 | 1,322,899 |
| 2009 | | | | | | | |
| Short-term credit | 2.75 | 44,544 | 67,270 | 20,138 | - | - | 131,952 |
| Loans from banks | 4.27 | 3,364 | 5,327 | 35,380 | 146,996 | 1,083 | 192,150 |
| Long-term credit from others | 6.30 | 8,053 | - | 8,053 | 64,424 | 48,318 | 128,848 |
| Index linked notes carrying permanent interest | 5.05 | - | - | 71,540 | 224,436 | 98,148 | 394,124 |
| Notes carrying permanent interest | 7.45 | 8,847 | - | 47,961 | 198,018 | 42,184 | 297,010 |

| | | | | | |
|---|---|---|---|---|---|
| 64,808 | 72,597 | 183,072 | 633,874 | 189,733 | 1,144,084 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

G. Interest rate and liquidity risk (cont.)

2. Derivative financial instruments

The following table specifies the Group's liquidity analysis with respect to its derivative financial instruments. The table was prepared based on cash payments/ receivables for derivative instruments settled in net and the gross non-discounted cash payments/receivables for these derivatives that require net settlement. When the amount payable or receivable is not fixed, the disclosed amount is determined based on the projected interest rates as described by the interest yield curve at the end of the reporting period.

| | Till 1 month | 1-3 months | From 3 months to 1 year | Total |
|---|---|---|---|---|
| | NIS in thousands | | | |
| 2010 | | | | |
| Derivative financial instruments not designated as hedging items | | | | |
| Foreign currency swap contracts | 272 | 39 | 29 | 340 |
| Forwarded contracts on the CPI | 240 | - | - | 240 |
| | 512 | 39 | 29 | 580 |
| 2009 | | | | |
| Derivative financial instruments designated as hedging items | | | | |
| Foreign currency swap contracts | 1,114 | - | - | 1,114 |

3. Financial assets that do not constitute derivative financial instruments

The following tables present the expected repayment dates of the group on account of financial instruments that are not derivatives. The tables were prepared on the basis of the expected, non-discounted repayment dates of the financial assets, including the interest that will accrue from these assets, except for those cases where the group anticipates that the cash flows will be generated in a different period. The tables were prepared based on cash payments/receipts for derivative instruments settled on a net basis and the gross non-discounted cash payments/receipts for those derivatives that require net settlement. When the amount payable or receivable is not fixed, the disclosed amount was determined based on the projected interest rates as described by the existing interest yield curve as at the end of the reporting period.

| | Till 1 month | 1-3 months | From 3 months to 1 year | Total |
|---|---|---|---|---|
| 2010 | | | | |
| Loans measured at depreciated cost | | | | |
| Loans to related parties | - | - | 675 | 675 |
| Bank Deposits (1) | 120,992 | - | - | 120,992 |

| | | | |
|---|---|---|---|
| 120,992 | - | 675 | 121,667 |

(1)Bank deposits include deposits in foreign currency used for cash flow hedging in amounts of NIS 47,512 thousand and NIS 23,949 thousand at December 31, 2010 and 2009 respectively

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

G. Interest rate and liquidity risk (cont.)

3. Financial assets that do not constitute derivative financial instruments (cont.)

| | Till 1 month | 1-3 months | From 3 months to 1 year | Total |
|---|---|---|---|---|
| | NIS in thousands | | | |
| 2010 | | | | |
| Trade receivables and other receivables | | | | |
| Other accounts | 154,577 | 278,369 | 83,744 | 516,690 |
| Checks collectible | 17,688 | 17,693 | 12,858 | 48,239 |
| Accounts receivable | 3,607 | 5,000 | - | 8,607 |
| | 175,872 | 301,062 | 96,602 | 573,536 |
| | 296,864 | 301,062 | 97,277 | 695,203 |

| | Till 1 month | 1-3 months | From 3 months to 1 year | From 1 year to 5 years | Total |
|---|---|---|---|---|---|
| | NIS in thousands | | | | |
| 2009 | | | | | |
| Loans measured at depreciated cost | | | | | |
| Loans to related parties | 1,004 | 2,008 | 7,195 | 48,012 | 58,219 |
| Deposits in the banks | 154,153 | - | - | - | 154,153 |
| | 155,157 | 2,008 | 7,195 | 48,012 | 212,372 |
| | | | | | |
| Trade receivables and other receivables | | | | | |
| Open accounts | 62,114 | 160,566 | 70,772 | 565 | 294,017 |
| Checks collectible | 10,027 | 16,848 | 3,569 | - | 30,444 |
| Accounts receivable | 258 | 49 | - | - | 307 |
| | 72,399 | 177,463 | 74,341 | 565 | 324,768 |
| | 227,556 | 179,471 | 81,536 | 48,577 | 537,140 |

4. Financial assets that constitute derivative financial instruments

The following table specifies the Group's liquidity analysis with respect to its derivative financial instruments. The table was prepared based on the cash payments/receipts pertaining to derivative instruments not designated for hedging purposes and to financial instruments designated as hedging items. When the amount payable or receivable is not fixed, the disclosed amount was determined based on the projected interest rates as described by the existing interest yield curve as at the end of the reporting period.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

G. Interest rate and liquidity risk (cont.)

4. Financial assets that constitute derivative financial instruments (cont.)

| | Till 1 month | 1-3 months | From 3 months to 1 year | Total |
|---|---|---|---|---|
| | NIS in thousands | | | |
| Derivative financial instruments designated as hedging items: | | | | |
| 2009 | | | | |
| Foreign currency swap contracts | 3,052 | - | - | 3,052 |

5. Interest risk

The group is exposed to interest rate risks due to the fact that the group companies lend and borrow funds at both fixed and variable interest rates. The risk is managed by the group by maintaining a suitable ratio between loans at a variable rate of interest and loans at a fixed rate of interest.

The group's exposure to interest rates on financial assets and liabilities is described in the section regarding liquidity risk management that is presented further below in this Note.

In the course of the year, the exposure to interest rate risk grew by NIS 151,235 thousands.

Disregarding the effect of consolidation of "Printing and Writing Paper", the exposure, grow by NIS 57,203 thousands.

Sensitivity analysis of interest rates:

The sensitivity analysis was determined on the basis of the exposure to the interest rates of both derivative and non-derivative financial instruments at the end of the reported period. The sensitivity analysis regarding liabilities carrying a variable rate of interest was prepared under the assumption that the sum of liabilities at the end of the reported period was the actual sum throughout the entire reported year. For the purpose of internal reporting to key executives regarding interest rate risks, a rate of increase or decrease in base points of 5% was used, representing management estimates regarding the reasonable potential change in interest rates.

Assuming that interest rates would have increased by 5% while all other parameters would have remained constant, the impact after taxes would have been as follows:

- The earnings of the group for the year ended December 31, 2010 would have been reduced by NIS 11,061 thousands (2009: NIS 5,734 thousands). This change originates primarily from the group's exposure to interest rates on account of variable-interest loans.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS\

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

H. Exposure to the Consumer Price Index

The group is exposed to cash flow risks on account of changes in the consumer price index, due to bonds issued by the group, forward contracts on the consumer price index and loans assumed by the group, that are linked to the CPI.

The net carrying value of the balances that are exposed to CPI risks, as at December 31, 2010, totals NIS 296,065 thousands (2009: NIS 356,216 thousands).

The influence of a 2% change in the CPI on the profit and loss after taxes, would have been as follows:

- The earnings for the year ended December 31, 2010 would have been reduced by NIS 3,991 thousands (2009: increase of NIS 888 thousands)

The group's sensitivity to changes in the CPI did not change materially since last year.

The difference in the influence on the income statement stems from the termination of the costs capitalization of machine 8.

I. Fair value of financial instruments

The fair value of financial assets and liabilities were determined as follows:

- The fair value of financial assets and liabilities with customary terms that are traded in active markets is determined based on quoted market prices.

- The fair value of other financial assets and liabilities (except for derivative instruments) is determined through accepted pricing techniques based on the analysis of discounted cash flows, using observed current market prices and traders' quotes for similar instruments.

- The fair value of derivative financial instruments is calculated based on quoted prices. When such prices are not available, a discounted cash flow analysis is utilized, using the appropriate yield curve for the duration of the instruments for derivatives that are not options while for derivatives which are options, option pricing models are used.

The following table specifies the carrying amount and fair value of financial instrument groups that are not presented in the financial statements at their value, the rest of the assets and liabilities are presented in the statement of financial position at their fair value, or approximately:

| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|---|---|---|---|---|
| | December 31, 2010 NIS in thousands | | December 31, 2009 NIS in thousands | |
| Financial Assets | | | | |
| Long term loans and capital note | 675 | 675 | 54,452 | 50,980 |

| | | | | |
|---|---|---|---|---|
| Financial Liabilities | | | | |
| Notes – series 2 * | 100,806 | 104,144 | 131,362 | 136,715 |
| Notes – series 3 * | 178,959 | 184,231 | 196,708 | 207,266 |
| Notes – series 4 * | 197,982 | 212,453 | 237,906 | 235,557 |
| Notes – series 5 * | 180,015 | 197,494 | - | - |
| Financial liability with respect to PUT option granted to the non controlling interests (2) | 31,512 | 31,512 | - | - |
| Long term loans with fixed interest | 125,731 | 133,671 | 149,809 | 159,915 |
| | 815,005 | 863,505 | 715,785 | 739,453 |

(1) The fair value of long-term Assets and Liabilities are based on the calculation of the current value of cash flows at real interest rate of 4%.

(2) The value of the option is determined by economic calculation laid down in the "Acquisition Transaction". For details, see note 17.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

J. Financial instruments that are presented in the statement of financial position at fair value

For the purpose of measuring the fair value of its financial instruments, the group classifies its financial instruments - as measured in the report of the financial situation - at their fair value, on the basis of a system that includes three rating levels:

Level 1: Quoted prices (unadjusted) in active markets for identical financial liabilities and assets.
Level 2: Data other than quoted prices included in Level 1, that are observed directly (i.e.- prices) or indirectly (data derived from prices), regarding financial assets and liabilities.
Level 3: Data regarding financial assets and liabilities that are not based on observable market data.

The classification of the measured financial instruments at fair value is done on the basis of the lowest level that was significantly used for the purpose of measuring the fair value of the instrument in its entirety.

Following below is a detailed account of the financial instruments of the group, measured at fair value, according to levels:

Financial assets at fair – value:

| | December 31 | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Level 2 | Total | Level 2 | Total |
| | NIS in thousands | | NIS in thousands | |
| Financial assets at Fair – value through profit and loss: | | | | |
| Derivatives | - | - | 3,052 | 3,052 |
| Financial assets at Fair – value through OCI: | | | | |
| Shares | 1,646 | 1,646 | - | - |

| | December 31 | | | | |
|---|---|---|---|---|---|
| | 2010 | | 2009 | | |
| | Level 2 | Total | Level 2 | Level 3 | Total |
| | NIS in thousands | | NIS in thousands | | |
| Financial liabilities at Fair – value through profit and loss: | | | | | |
| Derivatives | (580) | (580) | (1,114) | - | (1,114) |
| Put option on an associated company | - | | - | (11,982) | (11,982) |
| Total | (580) | (580) | (1,114) | (11,982) | (13,096) |

(1) The Put option on a consolidated company (in 2009 an associated company) is assessed according to the valuation of an external assessor. The estimation was done in 2009 according to the binomial model. The non-risk

interest rate used for the estimation is 5.63%.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

K. Financial instruments at fair-value that are measured according to level 3:

| | Year ended December 31, 2010 NIS in thousands |
|---|---|
| Balance – January 1, 2010 | (11,982) |
| Recognized in profit and loss | (872) |
| Disposals | 12,854 |
| Balance – December 31, 2010 | - |

NOTE 20 - INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES:

A. General

The interested parties and the related parties of the Company are the Parent Company – "Clal Industries and Investments LTD.", the indirectly Controlling Shareholder - IDB Holdings and their related parties, associated companies, directors and key executives of the Company or the Parent Company, and a close member of the family of any person that was mentioned above (hereinafter - IDB Group).

B. Transactions with interested and related parties

The Company and its subsidiaries perform transactions at market terms with interested parties during their ordinary course of business.

Negligible transactions:

On august 8, 2010, the board of directors of the Company determined, that in the absence of unique quality considerations that arise from the circumstances of the matter, an interested party transaction shall be considered negligible if the relevant criterion for Calculated the transaction is less than 0.5%, And that transaction amount shall not exceed NIS 8 million (adjusted for increase in CPI over the known CPI as of start of 2010).

At every interested party transaction examined classified as a negligible transaction, one or more of the criterions relevant to the specific transaction will be calculated based on the recent annual consolidated financial statements of the Company: (a) Sales ratio – total sales covered by the interested party transaction divided by total annual sales; (b) Sales cost ration – cost of the interested party transaction divided by the total cost of annual sales; (c) Earnings ratio – the actual or projected profit or losses attributed to the interested party transaction divided by the average annual profit or loss in the last three years, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements were published; (d) Assets ratio – the amount of assets covered by the interested party transaction divided by total assets; (e) Liabilities ratio - the liability covered by the interested party transaction divided by total liabilities; (f) Operating expenses ratio – the amount of expenses covered by the interested party transaction divided by the total annual operating expenses.

In cases in which all the quantitative above criteria are not relevant, a transaction shall be considered negligible based on another relevant criterion established by the Company, provided the criterion calculated for said transaction is less than 0.5%, And that transaction amount shall not exceed NIS 8 million (adjusted for increase in CPI over the known CPI as of start of 2010).

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES: (cont.)

B. Transactions with interested and related parties (cont.)

Classified and characterized transactions, as follows:

1. Transactions for purchase of services from interested parties and related parties: communication services, tourism services, services of operating the Company's logistic center, investment consulting services and other financial services.

2. Transactions for the purchase and/or rent of goods from interested parties and related parties: trucks and hauling equipment, vehicles, insurance products.

3. Transactions in connection with marketing campaigns, advertising and discounts with interested parties and related parties or related to the products of interested parties and related parties.

4. Transactions with interested parties and related parties in connection with the purchase of gift coupons of interested parties and related parties.

5. Transactions for rent buildings and real-estate assets.

6. Sale of paper products and cardboard, office equipment and other products to companies in the IDB Group.

The negligibility of the transaction is examined on an annual basis for the purposes of this report, by adding all transactions of the same type that the Company made with the interested party and other corporations controlled thereby.

Below is a general description of transactions made with interested parties in the Company, while except for the transactions specified below, should be viewed as negligible transactions based on the tests specified above:

Income (expenses)

| | Year ended December 31, | | |
|---|---|---|---|
| Interested parties: | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Sales (1) | 56,096 | 27,097 | 33,286 |
| Cost of sales (2) | 23,366 | 10,689 | 3,976 |
| selling, marketing, general and administrative expenses (3) | 6,764 | - | - |
| Financing expenses in respect of bonds | 1,810 | 1,363 | 1,584 |
| | | | |
| Related parties: | | | |
| Sales (1) | 61,944 | 55,833 | 95,448 |
| Cost of sales (2) | 42,762 | 29,521 | 13,607 |
| Selling, marketing, general and administrative expenses (3) | 26,083 | 25,368 | 24,243 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES: (cont.)

B. Transactions with interested and related parties (cont.)

Classified and characterized transactions, as follows: (cont.)

(1) Sales

The Company deals with many companies from IDB group in the sale of paper products, office equipment and other products, in a very large number of transactions, each at a negligible amount. The transactions are made with numerous companies from the IDB Group. The prices and are established through negotiations and during the ordinary course of business.

a. 1. The Company sold during the year to interested party from the IDB Group and Clal Industries packaging paper. Total transactions with interested parties in the years 2010, 2009 and 2008 amounted to NIS 48.5 million, NIS 27.1 million, NIS 33.3 million and, respectively.

2. The Company sold cardboard products during the year to an interested party from the IDB Group. Total transactions with the interested party in the year 2010 amounted to NIS 7.6 million. Total value of transactions with the interested party in 2009 and 2008 is negligible.

b. The Company sold during the year to associated companies, which are related parties, packaging paper, office supplies and products and white paper waste. Total transactions with interested parties in the years 2010, 2009 and 2008 amounted to NIS 61.9 million, NIS 55.8 million, NIS 95.4 million, respectively.

(2) Cost of sales

During the year the Company performed a large number of transactions with suppliers that are interested parties and related parties from the IDB Group, Clal Industries and Discount Investments. The transactions included the acquisition of foodstuffs and other items for Group companies. The prices and credit terms are established with all the suppliers through negotiations and during the ordinary course of business (hereinafter - IDB Group).

a. 1. The Company has transactions with interested party from the IDB Group relating to building rental services. Total transactions in the years 2010, 2009 and 2008 aggregated to NIS_13 million , NIS 11 million and NIS 4 million, respectively.

2. The Company has transactions with an interested party from IDB Group relating to insurance services. Total transactions in the year 2010 amounts to NIS 10.2 million. Total value of transactions with the interested party in 2009 and 2008 is negligible.

b. The Company purchased during the year from associated companies, which are related parties, white paper and cleaning and toiletry products which are sold by the company. Total transactions with interested parties in the years 2010 ,2009 and 2008 amounted to NIS 42.8 million,NIS 29.5 million and NIS 13.6 million, respectively.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES: (cont.)

B. Transactions with interested and related parties (cont.)

Classified and characterized transactions, as follows: (cont.)

(3) Selling, marketing, general and administrative expenses

a. 1. The Company has transactions with an interested party from IDB Group relating to insurance services. Total transactions in the year 2010 amounts to NIS 1.4 million. Total value of transactions with the interested party in 2009 and 2008 is negligible.

2. The Company has transactions with an interested party from IDB Group relating to cellular services. Total transactions in the year 2010 amounts to NIS 2.7 million. Total value of transactions with the interested party in 2009 and 2008 is negligible.

3. The Company has transactions with an interested party from IDB Group relating to leasing services. Total transactions in the year 2010 amounts to NIS 1.1 million. Total value of transactions with the interested party in 2009 and 2008 is negligible.

4. The Company has transactions with an interested party from IDB Group relating to fuel services for vehicles. Total transactions in the year 2010 amounts to NIS 3.8 million including a transaction that is not negligible in amount of NIS 1.5 million, which is recorded to selling, marketing, general and administrative expenses. Total value of transactions with the interested party in 2009 and 2008 is negligible.

b. The Company has transactions with associated companies, which are related parties, of revenue from rental buildings and computerization services. Total transactions in the years 2010, 2009 and 2008 amounted to NIS 26.1 million, NIS 25.4 million and NIS 24.2 million, respectively.

The amounts of the aforementioned transactions relate to transactions that the Company makes during the ordinary course of business with interested parties (by virtue of being companies held by the company) at similar conditions and prices to those used by the Company for other customers and suppliers.

Sale of land in TEL AVIV:

On June 1, 2010, the Company entered into agreement to sell its rights to a plot of land in TEL AVIV to an interested party which is part of IDB Group. For further details, see Note 7d.

Agreement for leasing of a Logistics Center:

On September 18, 2008, a lease was signed by the Company and by an interested party which is part of IDB Group, whereby the Company would lease land and buildings in MODI'IN. For further details, see Note 14e.

Benefits to key executives

The senior managers in the Group are entitled, in addition to wages, to non-cash benefits (such as vehicles etc). The Group makes deposits in their name in a defined benefit plan after the completion of the transaction. Senior managers also participate in the stock option plan of the Company (see note 12 on Share-based Payments).

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES: (cont.)

B. Transactions with interested and related parties (cont.)

Benefits to key executives:(cont.)

(1) Remuneration of key executives:

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousand | | |
| Short-term benefits | 8,486 | 8,084 | 8,934 |
| Benefits after the completion of the transaction | 6 | 7 | 7 |
| Other long-term benefits | - | - | - |
| Severance benefits | - | 2,335 | 2,205 |
| Share-based payment | 152 | 2,136 | 2,047 |
| | 8,644 | 12,562 | 13,193 |

(2) Benefits to interested parties:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Payroll to interested parties employed by the Company - NIS in thousands * | 2,629 | 3,503 | 2,503 |
| Number of people to whom the benefits relate | 1 | 1 | 1 |
| Remuneration of directors who are not employed by the Company - NIS in thousands | 933 | 807 | 793 |
| Number of people to whom the benefits relate | 11 | 12 | 12 |

* Refers to the payroll of CEO.

(3) The company granted to an interested party employed by the Company (the outgoing CEO) during 2008, 40,250 options, as part of the 2008 plan for senior officers in the Group. On March 7, 2010 the Company Board of Directors approved the grant conditions for the third and fourth batches to the outgoing CEO in light of his retirement from managing the Company, as a result of his disability. The total impact on profit and loss amounts to approximately NIS 641 thousand.

C. Related parties and interested parties balance:

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Accounts receivable - commercial operations (1) | 42,361 | 24,562 |
| Accounts payables and accruals | 1,424 | 5,740 |
| Notes (2) | 29,540 | 38,793 |

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES: (cont.)

C. Related parties and interested parties balance: (cont.)

(1) There were no significant changes in the balance during the year.

(2) Notes

- Non-tradable notes

In the year 2003 the Company issued bonds that are not traded on the stock exchange (see Note 10a). The balance of outstanding debt as of December 31, 2010 and 2009 to interested parties from the IDB Group was NIS 14.9 million and NIS 19.4 million, respectively.

- Tradable notes

In 2008 and 2010 the Company issued bonds that are traded on the stock exchange (see Note 10a). The balance of outstanding debt as of December 31, 2010 and 2009 to interested parties from the IDB Group was NIS 14.6 million and NIS 19.4 million, respectively.

(3) See note 15 in respect of associated companies balance.

NOTE 21 - SEGMENT INFORMATION:

A. General

The Group has been implementing IFRS 8 "operating segments" (hereinafter – "IFRS 8") as of January 1, 2009. In accordance with the provisions of IFRS 8, operating segments are identified on the basis of internal reports on the Group's components, which are regularly reviewed by the chief operational decision maker of the Group for the purpose of allocating resources and evaluating the performance of the operating segments.

In contrast, the previous standard (IAS 14 "segment reporting") required an entity to identify two segment systems (business and geographic), based on the risk-reward approach, while the internal financial reporting system for the key managerial staff of the entity served only as the starting point for the identification of said segments.

Following the adoption of the new standard the Group identified reportable segments that were different than those presented in previous reporting periods.

The identified operating segments, accordingly to IFRS8, are:

The packaging paper and recycling segment – generates revenue from the sale of paper products to paper manufacturing companies as well as from the recycling of paper and cardboard.

The office supplies marketing segment – generates revenue from the sale of office supplies to customers.

The packaging and cardboard products segment – generates revenue from the sale of packaging and cardboard products to customers.

The Hogla Kimberly segment – an associated company that generates revenue from the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products, in Israel and in Turkey.

Printing and writing paper segment – an associated company that generates revenue from the manufacture and marketing of printing and writing paper (On December 31, 2010 the holding in shares in the associated company increased in 25.1% and its was initial consolidated, for more details see Note 17 above).

Information relating to these segments is reported below. Amounts that were reported with respect to previous reporting periods are reported on the basis of the new segment reporting.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - SEGMENT INFORMATION: (cont.)

B. Business segment data 2010:

| | Packaging Paper and recycling | Marketing of office supplies | Packaging and carton products | Hogla Kimberly | Printing and writing paper | Adjustments to consolidation | Total |
|---|---|---|---|---|---|---|---|
| | | | | NIS in thousands | | | |
| Sales to external | 393,439 | 176,580 | 489,543 | 1,691,918 | 691,069 | (2,382,986) | 1,059,563 |
| Sales between Segments | 117,927 | 2,267 | 20,102 | 5,591 | 37,633 | (122,075) | 61,445 |
| Total sales of the segment | 511,366 | 178,847 | 509,645 | 1,697,509 | 728,702 | (2,505,061) | 1,121,008 |
| Profit from ordinary operations | 50,159 | 5,127 | 7,105 | 186,603 | 31,072 | 218,771 | 61,295 |
| Financial income | | | | | | | 9,314 |
| Financial expenses | | | | | | | 54,079 |
| Profit before taxes on income | | | | | | | 16,530 |
| Taxes on income | | | | | | | (2,950) |
| Profit from operations of the Company and its subsidiaries | | | | | | | 19,480 |
| Share in profits of associated companies | | | | | | | 81,132 |
| Net Profit for the year | | | | | | | 100,612 |
| | | | | | | | |
| Segment's assets | 1,689,167 | 53,425 | 376,061 | 979,817 | 425,379 | (1,029,341) | 2,494,454 |
| Join assets that were not allocated between segments(1) | | | | | | | 279,180 |
| Total assets in the consolidated statements | | | | | | | 2,773,634 |
| Segment's liabilities | 138,405 | 35,920 | 75,931 | 501,213 | 119,809 | (501,213) | 370,065 |
| Join liabilities that were not allocated between segments | | | | | | | 1,449,967 |
| Total liabilities in the consolidated statements | | | | | | | 1,820,032 |
| Depreciation and amortization | 68,880 | 1,103 | 18,063 | 31,195 | 11,901 | (43,096) | 88,046 |
| Capital investments in non-current assets | 131,071 | 11,044 | 39,013 | 62,564 | 10,622 | (73,186) | 181,128 |

(1) Including investments in associated companies

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - SEGMENT INFORMATION: (cont.)

C. Business segment data 2009:

| | Packaging Paper and recycling | Marketing of office supplies | Packaging and carton products | Hogla Kimberly | Printing and writing paper | Adjustments to consolidation | Total |
|---|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | | |
| Sales to external | 219,866 | 149,107 | 468,339 | 1,722,613 | 645,972 | (2,368,582) | 837,315 |
| Sales between Segments | 119,433 | 1,904 | 15,965 | 4,014 | 23,250 | (109,886) | 54,680 |
| Total sales of the segment | 339,299 | 151,011 | 484,304 | 1,726,627 | 669,222 | (2,478,468) | 891,995 |
| Profit from ordinary operations | (2,737) | 3,983 | 14,712 | 193,805 | 40,541 | (234,717) | 15,587 |
| Financial income | | | | | | | 4,727 |
| Financial expenses | | | | | | | 22,992 |
| Loss before taxes on income | | | | | | | (2,678) |
| Taxes on income | | | | | | | 7,067 |
| Profit from operations of the Company and its subsidiaries | | | | | | | 4,389 |
| Share in profits of associated companies | | | | | | | 87,359 |
| Net Profit for the year | | | | | | | 91,748 |
| Segment's assets | 1,638,895 | 43,542 | 356,742 | 990,670 | 461,786 | (1,575,061) | 1,916,574 |
| Join assets that were not allocated between segments(1) | | | | | | | 372,102 |
| Total assets in the consolidated statements | | | | | | | 2,288,676 |
| Segment's liabilities | 141,911 | 31,327 | 82,657 | 534,577 | 306,478 | (841,055) | 255,895 |
| Join liabilities that were not allocated between segments | | | | | | | 1,174,352 |
| Total liabilities in the consolidated statements | | | | | | | 1,430,247 |
| Depreciation and amortization | 56,503 | 1,502 | 20,547 | 29,213 | 12,028 | (41,241) | 78,552 |
| Capital investments in non-current | 421,533 | 1,212 | 15,797 | 42,484 | 4,383 | (46,868) | 438,541 |

assets*

(1) Including investments in associated companies

* retroactively adjusted in respect of implementation of amendment to IAS 17, see note 3a

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - SEGMENT INFORMATION: (cont.)

D. Business segment data 2008:

| | Packaging Paper and recycling | Marketing of office supplies | Packaging and carton products | Hogla Kimberly | Printing and writing paper | Adjustments to consolidation | Total |
|---|---|---|---|---|---|---|---|
| | | | | NIS in thousands | | | |
| Sales to externals | 273,436 | 129,068 | 500,069 | 1,605,376 | 717,424 | (2,660,433) | 564,940 |
| Sales between Segments | 133,331 | 2,046 | 12,508 | 3,200 | 14,923 | (57,464) | 108,544 |
| Total sales of the segment | 406,767 | 131,114 | 512,577 | 1,608,576 | 732,347 | (2,717,897) | 673,484 |
| Profit from ordinary operations | 37,773 | 3,233 | (6,226) | 135,753 | 34,090 | (169,272) | 35,351 |
| Financial income | | | | | | | 12,069 |
| Financial expenses | | | | | | | 27,112 |
| Profit before taxes on income | | | | | | | 20,308 |
| Taxes on income | | | | | | | 3,663 |
| Profit from operations of the Company and its subsidiaries | | | | | | | 16,645 |
| Share in profits of associated companies | | | | | | | 51,315 |
| Net Profit for the year | | | | | | | 67,960 |
| Segment's assets | 803,279 | 72,624 | 415,666 | 946,156 | 483,962 | (1,430,118) | 1,291,569 |
| Join assets that were not allocated between segments(1) | | | | | | | 752,525 |
| Total assets in the consolidated statements | | | | | | | 2,044,094 |
| Segment's liabilities | 82,925 | 35,258 | 76,837 | 505,167 | 361,404 | (866,571) | 195,020 |
| Join liabilities that were not allocated between segments | | | | | | | 1,091,445 |
| Total liabilities in the consolidated statements | | | | | | | 1,286,465 |
| Depreciation and amortization | 51,946 | 1,445 | 25,604 | 24,367 | 11,649 | (55,227) | 59,784 |
| Capital investments in non-current assets | 254,494 | 1,694 | 18,027 | 53,334 | 11,649 | (32,971) | 306,227 |

(1) Including investments in associated companies

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - SEGMENT INFORMATION: (cont.)

E. Reconciliation of total segment revenues and results to revenues and results on the consolidated statement

(1) Segments' income:

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Income | | | |
| Total segments' income | 3,626,069 | 3,370,464 | 3,391,381 |
| Less: | | | |
| Inter-company sales among Group's consolidated subsidiaries | (78,850) | (82,620) | (25,285) |
| Sales of segment which are associated companies | (2,426,211) | (2,395,849) | (2,692,612) |
| Income in the consolidated statement | 1,121,008 | 891,995 | 673,484 |

(2)Segments' results:

| | For the year ended December 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Profit from ordinary operations | | | |
| Total profit from ordinary operations of the segments | 280,066 | 250,304 | 204,623 |
| Less: | | | |
| Unrealized gain | (1,096) | (371) | (318) |
| Profits of segment which are associated | (217,675) | (234,346) | (163,954) |
| Profit from ordinary operations in the consolidated statement | 61,295 | 15,587 | 35,351 |

NOTE 22 – SUBSEQUENT EVENT

A. On February 23, 2011, an associate declared a dividend amounting to NIS 30 million, out of retained earnings. This dividend is payable in the second quarter of 2011, subject to absence of material negative developments with respect to the tax event in Turkey, as set forth above in Note 14k. The Company's share of this dividend is NIS 15 million.

B. On January 30, 2011 the Ministry for the Protection of the Environment (hereinafter: "the Ministry") held a hearing for the Company regarding suspicion of pollution of water by discharging low quality waste water into the Hadera Stream. During the hearing the positions of the Ministry and of the Company were heard. The Company presented its position that the decline in the quality of the treated waste water was the result of the use of a new raw material. Upon discovery of the source of the problem, the Company ceased the use of that raw material. The Company works in full transparency opposite the authorities, and was in fact even the one who reported to representatives of the Ministry regarding this harm to the quality of the waste water.

On February 8, 2011 the Company received the summary of the hearing in which it was found, inter alia, that the Company had a duty to improve the quality of the waste water, and a duty of reporting weekly to the Ministry regarding the quality of the treated waste water. The Ministry further noted in this summary that if the Company does not fulfill the values prescribed in the permit order for discharge into the Hadera River given on August 11, 2010 within one month from the date of the hearing, the Ministry's Director of the Haifa District will issue, under his authority, an order to cease operations of Machine 8 which the Company operates, without requiring any advance warnings or additional hearings. Under section 20 to the Business Licensing Law 5728 – 1968, the aforesaid order remains in effect for 30 days from the date of issue.

The Company has been acting for some time for the improvement of the treated waste water by the performance of a number of measures, and as a result of these measures, an improvement may already be seen in the quality of the treated waste water discharged into the river. However, the company at this stage cannot estimate the rate or timetable for improvement of the treated waste water, and cannot at this stage estimate the impact of the above in the event of failure to fulfill the required values.

HADERA PAPER LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 – SUBSEQUENT EVENT (cont.)

C. On February 28, the Audit Committee approved and on March 6, 2011 the Board of Directors approved the agreement entered into by the Company, whereby the Company would lease to CLAL PV Projects Ltd. ("CLAL PV"), a private company indirectly held and controlled by CLAL Industries, roofs of buildings at the Company facility in HADERA, with a total area of up to 19,200 m2, of which the Company has the option not to lease part of this space with an area of up to 14,300 m2 - for construction of power generating facilities using photo-voltaic technology and its transmission to the power grid during the lease term, pursuant to a generation license to be granted to CLAL PV. The rent would range between NIS 90 thousand and NIS 802 thousand per year, based on the area actually leased, and shall be determined based on the tariff per generated kilowatt/hour of power as set for CLAL PV in its generation license. The agreement also specifies that the Company would be paid additional rent up to NIS 70 thousand per year, with respect to excess power generated (if any), as per provisions of the agreement. The lease term runs from the date of taking possession of the leased property through the 20th anniversary of commercial operation of the leased property (as defined in the agreement); CLAL PV was granted an option to extend the lease, provided that the total lease term would not exceed 24 years and 11 months. The agreement includes customary provisions with regard to circumstances under which the parties may terminate the agreement, and the Company was granted the option to terminate the agreement should it announce its desire to use the leased property for its own operations which do not allow operation of the facility in the leased property; in such case, CLAL PV committed to vacate the leased property within the time specified, in return for payment of the economic value of the generation facility based on an independent economic valuation. The agreement is subject to certain suspending conditions being met within 15 months from its signing date, including, inter alia, obtaining approvals, permits and licenses for construction of the facility, obtaining approval of the General Meeting of Company shareholders to be convened to approve this contract and other conditions.

D. On March 6, 2011, the Board of Directors approved incorporation of a foreign entity (hereinafter: "the foreign entity"), wholly-owned by the Company, which is to be incorporated for entering into agreement with an overseas business partner (an unrelated third party) for operations in removal of paper and cardboard waste and recycling operations overseas under a Joint Venture (hereinafter: "JV"). The Company's share of this operation is expected to be 65%. This operation shall require an initial investment, to be made in stages based on JV needs, amounting to USD 5.2 million, by way of owners loan or guarantee, 80% of which would be invested by the Company. The agreement is expected to include restrictions on partner rights to transfer their JV shares, to grant the foreign entity the right to appoint two thirds of the JV Board members as well as its CEO, to grant the Company the right to purchase up to 75% of the paper and cardboard waste collected by JV at market prices, and to include certain non-compete provisions. The Company is acting to conclude this agreement, but it is uncertain that the foregoing with regard to feasibility of the JV and final agreement on the aforementioned understandings would materialize, in full or in part.

E. On March 24, 2011 an associated company paid a dividend in the amount of NIS 5 million from the retained earnings. The Company’s share in the dividend is approximately NIS 2.5 million.See note 5(5)e, above.

F. On March 27, the company announced that the sale of a plot of land in the Totseret Ha'Aretz street in Tel-Aviv have been fulfilled according to agreement that the company signed with Gev-Yam land corporation Ltd and with Amot Investments Ltd. As a result of the closing transaction, the company will record net gain capital, of approximately NIS 30 million.

NOTE 23 – RECLASSIFICATION

The Group reclassified an amount of NIS 27,649 thousand from Deferred tax assets to Deferred tax liabilities in the comparative figures as at December 31, 2009. The re-classification is due to offset of deferred tax assets against deferred tax liabilities, under the terms of offset, in IAS12. The impact of re-classification in respect to total assets on comparative data in the statement of financial position, for prior periods to year 2009 is immaterial and therefore no re-classification effect was presented.

| | As of December 31, 2009 | | |
|---|---|---|---|
| | As was classified in the past NIS in thousands | The change NIS in thousands | As classified in these statements NIS in thousands |
| Deferred tax assets | 29,745 | (27,649 ) | 2,096 |
| Deferred tax liabilities | 58,053 | (27,649 ) | 30,404 |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

CARMEL CONTAINERS LTD

We have audited the accompanying consolidated balance sheets of Carmel Containers Ltd. ("the Company") and its subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2010, 2009 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2010 and 2009, and the results of their operations, changes in equity and cash flows for each of the years ended December 31, 2010, 2009 and 2008, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2011 expressed an unqualified opinion thereon.

Haifa, Israel
February 22, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

CARMEL CONTAINERS LTD.

We have audited Carmel Containers Ltd ("the Company") and its subsidiary internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and its subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2010, 2009 and 2008 and our report dated February 22, 2011 expressed an unqualified opinion thereon.

Haifa, Israel
February 22, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

FRENKEL CD LTD

We have audited the accompanying consolidated balance sheets of Frenkel CD Ltd. ("the Company") and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2010, 2009 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations, changes in equity and cash flows for each of the years ended December 31, 2010, 2009 and 2008, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2011 expressed an unqualified opinion thereon.

Haifa, Israel
February 22, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

FRENKEL CD LTD.

We have audited Frenkel CD Ltd ("the Company") and its subsidiaries internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies

or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2010, 2009 and 2008 and our report dated February 22, 2011 expressed an unqualified opinion thereon.

Haifa, Israel
February 22, 2011

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

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

- Hadera Paper – Printing and Writing Paper Ltd.

- Hogla-Kimberly Ltd.

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HADERA PAPER - PRINTING & WRITING PAPER LTD.
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

HADERA PAPER - PRINTING & WRITING PAPER LTD.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
HADERA PAPER - PRINTING & WRITING PAPER Ltd.

We have audited the accompanying consolidated statements of financial positions of HADERA PAPER - PRINTING & WRITING PAPER Ltd. (“the Company”) as of December 31, 2010 and 2009, and the consolidated income statements, statements of comprehensive income, changes in shareholders’ equity and cash flows of the Company for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2010 and 2009, and the results of operations, changes in shareholders’ equity and cash flows of the Company on consolidated basis, for each of the three years in the period ended December 31, 2010, in conformity with international financial reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

Israel
21, February, 2011

M - 1

HADERA PAPER - PRINTING & WRITING PAPER LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

| | Note | December 31, 2010 | 2009 |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 4 | 13,111 | 17,076 |
| Trade receivables | 5 | 175,575 | 184,415 |
| Other receivables | 6 | 6,030 | 2,018 |
| Inventories | 7 | 161,649 | 108,202 |
| Total current assets | | 356,365 | 311,711 |
| | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 146,111 | 146,731 |
| Goodwill | 8A | 3,177 | 3,177 |
| Long term trade receivables | | - | 167 |
| Total non-current assets | | 149,288 | 150,075 |
| Total assets | | 505,653 | 461,786 |
| | | | |
| Equity and liabilities | | | |
| Current liabilities | | | |
| Short-term bank credit | 13 | 92,852 | 69,440 |
| Current maturities of long-term bank loans | 13 | 3,662 | 10,599 |
| Trade payables | 11 | 119,809 | 105,624 |
| Hadera Paper Ltd. Group, net | | 54,455 | 57,595 |
| Other financial liabilities | 14 | - | 432 |
| Current tax liabilities | | 10,370 | 3,701 |
| Other payables and accrued expenses | 12 | 19,205 | 21,079 |
| Dividend declared | 24 | 8,528 | - |
| Accrued severance pay, net | 15 | 92 | 206 |
| Total current liabilities | | 308,973 | 268,676 |
| | | | |
| Non-current liabilities | | | |
| Long-term bank loans | 13 | 9,357 | 13,019 |
| Deferred taxes | 23 | 21,828 | 22,704 |
| Employees Benefits | 15 | 2,563 | 2,079 |
| Total non-current liabilities | | 33,748 | 37,802 |
| | | | |
| Commitments and contingent liabilities | 16 | | |
| | | | |
| Shareholders' equity | 17 | | |
| Share capital | | 1 | 1 |
| Premium | | 43,352 | 43,352 |
| Capital reserves | | 929 | 929 |
| Retained earnings | | 118,650 | 111,026 |
| | | 162,932 | 155,308 |
| Total equity and liabilities | | 505,653 | 461,786 |

| D. Muhlgay | A. Solel | O. Bloch |
|---|---|---|
| Financial Director | General Manager | Chairman of the Supervisory Board |

Approval date of the financial statements: February 21, 2011.

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

HADERA PAPER - PRINTING & WRITING PAPER LTD. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(NIS in thousands)

| | Note | Year ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Revenue | 18 | 728,702 | 669,222 | 732,347 |
| Cost of sales | 19 | 640,310 | (*) 577,995 | (*) 649,177 |
| Gross profit | | 88,392 | 91,227 | 83,170 |
| Operating costs and expenses | | | | |
| Selling expenses | 20 | 43,254 | (*) 40,236 | (*) 38,756 |
| General and administrative expenses | 21 | 14,245 | 10,826 | 9,740 |
| Other (income) expenses | | (34) | (376) | 584 |
| | | 57,465 | 50,686 | 49,080 |
| Operating profit | | 30,927 | 40,541 | 34,090 |
| Finance income | | (4,293) | (104) | (5,889) |
| Finance costs | | 5,862 | 11,363 | 13,496 |
| Finance costs, net | 22 | 1,569 | 11,259 | 7,607 |
| Profit before tax | | 29,358 | 29,282 | 26,483 |
| Income tax charge | 23 | 7,286 | 611 | 7,127 |
| Profit for the year | | 22,072 | 28,671 | 19,356 |

(*) Reclassified.

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

HADERA PAPER - PRINTING & WRITING PAPER LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(NIS in thousands)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Profit for the year | 22,072 | 28,671 | 19,356 |
| Cash flow hedges, net. | - | 80 | (4,079) |
| Transfer to profit or loss from equity on cash flow hedge, net | - | 3,999 | - |
| Total comprehensive income for the year (net of tax) | 22,072 | 32,750 | 15,277 |

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

HADERA PAPER - PRINTING & WRITING PAPER LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands)

| | Share capital | Premium | Capital reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| Year ended December 31, 2010 | | | | | |
| Balance - January 1, 2010 | 1 | 43,352 | 929 | 111,026 | 155,308 |
| Profit for the period | - | - | - | 22,072 | 22,072 |
| Total comprehensive income for the period | - | - | - | 22,072 | 22,072 |
| Dividend paid to shareholders | - | - | - | (5,920) | (5,920) |
| Dividend declared to shareholders | - | - | - | (8,528) | (8,528) |
| Balance - December 31, 2010 | 1 | 43,352 | 929 | 118,650 | 162,932 |
| Year ended December 31, 2009 | | | | | |
| Balance - January 1, 2009 | 1 | 43,352 | (3,150) | 82,355 | 122,558 |
| Profit for the period | - | - | - | 28,671 | 28,671 |
| Other comprehensive income for the period | - | - | 4,079 | - | 4,079 |
| Total comprehensive income for the period | - | - | 4,079 | 28,671 | 32,750 |
| Balance - December 31, 2009 | 1 | 43,352 | 929 | 111,026 | 155,308 |
| Year ended December 31, 2008 | | | | | |
| Balance - January 1, 2008 | 1 | 43,352 | 929 | 62,999 | 107,281 |
| Profit for the period | - | - | - | 19,356 | 19,356 |
| Other comprehensive income for the period | - | - | (4,079) | - | (4,079) |
| Total comprehensive income for the period | - | - | (4,079) | 19,356 | 15,277 |
| Balance - December 31, 2008 | 1 | 43,352 | (3,150) | 82,355 | 122,558 |

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

HADERA PAPER - PRINTING & WRITING PAPER LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Cash flows - operating activities | | | |
| Profit for the year | 22,072 | 28,671 | 19,356 |
| Adjustments to reconcile net profit to net cash used in operating activities (Appendix A) | (22,315) | 38,406 | 28,840 |
| Net cash from operating activities | (243) | 67,077 | 47,196 |
| | | | |
| Cash flows - investing activities | | | |
| Acquisition of property plant and equipment | (5,215) | (4,383) | (9,655) |
| Proceeds from sale of property plant and Equipment | 506 | 676 | 287 |
| Interest received | - | 104 | 415 |
| Net cash used in investing activities | (4,709) | (3,603) | (8,953) |
| | | | |
| Cash flows - financing activities | | | |
| Short-term bank credit, net | 23,412 | (35,948) | 3,628 |
| Repayment of long-term bank loans | (10,619) | (15,929) | (14,024) |
| Dividend paid to shareholders | (5,920) | - | - |
| Repayment of capital notes to shareholders | - | - | (5,700) |
| Interest paid | (5,608) | (7,894) | (10,852) |
| Net cash from (used in) financing activities | 1,265 | (59,771) | (26,948) |
| | | | |
| (Decrease) Increase in cash and cash equivalents | (3,687) | 3,703 | 11,295 |
| Cash and cash equivalents at the beginning of the financial period | 17,076 | 13,315 | 323 |
| Net foreign exchange difference on cash and cash equivalents | (278) | 58 | 1,697 |
| Cash and cash equivalents of the end of the financial period | 13,111 | 17,076 | 13,315 |

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

HADERA PAPER - PRINTING & WRITING PAPER LTD. AND SUBSIDIARIES
APPENDICES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| A. Adjustments to reconcile net profit to net cash provided by operating activities | | | |
| Finance expenses recognized in profit and loss | 1,569 | 11,259 | 7,607 |
| Taxes on income recognized in profit and loss | 7,286 | 611 | 7,127 |
| Depreciation and amortization | 11,901 | 12,028 | 11,649 |
| Capital loss (gain) on disposal of property plant and equipment | (34) | (376) | 584 |
| | | | |
| Changes in assets and liabilities: | | | |
| Decrease (Increase) in trade receivables and other receivables | 3,316 | (16,582) | 21,652 |
| (Increase) Decrease in inventories | (54,578) | 31,565 | 2,551 |
| Increase (Decrease) in trade and other payables, and accrued expenses | 12,867 | 11,991 | (21,728) |
| Decrease in Hadera Paper Ltd. Group, net | (3,140) | (12,019) | (1,495) |
| | (20,813) | 38,477 | 27,947 |
| Income tax paid | (1,502) | (71) | (107) |
| | (22,315) | 38,406 | 27,840 |

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

HADERA PAPER - PRINTING & WRITING PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

A. Description of Business

1) Hadera Paper - Printing & Writing Paper Ltd. ("the Company") was incorporated and commenced operations on January 1, 2000. The Company and its Subsidiaries are engaged in the production and marketing of paper, mainly in Israel.

Following the share purchase agreement signed on September 7, 2010 between the shareholders, on December 31, 2010 the completion of said agreement occurred. At the completion, Neusiedler Holding BV (NL) Ltd sold 25.1% of the issued and outstanding share capital of the Company to Hadera Paper Ltd.

In accordance with the above the Company is presently owned by Hadera Paper Ltd. (75%) (the "Parent Company") and Neusiedler Holding BV (NL) (25%).

2) On January 24, 2011 the company changed its name from Mondi Hadera Paper Ltd. to Hadera Paper - Printing & Writing Paper Ltd.

B. Definitions:

| | | |
|---|---|---|
| The Company | - | Hadera Paper - Printing & Writing Paper Ltd. (formerly Mondi Hadera Paper Ltd.) |
| The Group | - | the Company and its Subsidiaries, a list of which is presented in Note 8. |
| Subsidiaries | - | companies in which the Company exercises control (as defined by IAS 27), and whose financial statements are fully consolidated with those of the Company. |
| Related Parties | - | as defined by IAS 24. |
| Interested-Parties | - | as defined by IAS 24. |
| Controlling-Shareholder | - | as defined by IAS 24. |
| NIS | - | New Israeli Shekel. |
| CPI | - | the Israeli consumer price index. |
| Dollar | - | the U.S. dollar. |
| Euro | - | the United European currency. |

HADERA PAPER - PRINTING & WRITING PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Applying international accounting standards (IFRS)

Statement of compliance

The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) for all reporting periods presented.

B. Basis of preparation

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the exchange rate of the U.S. dollar. As of December 31, 2003 when the economy ceased to be hyper-inflationary and the Company no longer adjusted its financial statements to the U.S. dollar, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

- Assets and liabilities measured by fair value: changes in the fair value of financial assets and liabilities that are measured by fair value are recorded directly as profit or loss, and changes in the fair value of hedging financial instruments recorded to comprehensive income.

- Non-current assets held for sale are measured at the lower of their previous carrying amount and fair value less costs of sale.

- Inventories are stated at the lower of cost and net realizable value.

- Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.

- Liabilities to employees as described in note 15.

C. Format for presentation of financial position

The classification of assets and liabilities in the statement of financial position is based on current and noncurrent items.

D. Operating cycle

The operating cycle of the group is 12 months.

E. Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the function of the expense

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

F. Foreign currencies

The individual financial statements of each group entity are presented in New Israeli Shekel ("NIS"), the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are also presented in NIS which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. (Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined). Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they accrue.

G. Cash and cash equivalents

Cash and cash equivalents comprise cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less)

H. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

I. Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

I. Goodwill (cont.)

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

As of 31.12.10 no impairment is recognised.

J. Property, plant and equipment

Property, plant and equipments are tangible items, which are held for use in the manufacture or supply of goods, which are predicted to be used for more than one period. The Group presents its property, plant and equipments items according to the cost model.

Under the cost method - a property, plant and equipment are presented at the balance sheet at cost (net of any investment grants), less any accumulated depreciation and any accumulated impairment losses. The cost includes the cost of the assets acquisition as well as costs that can be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. Amortization of leasehold improvements is computed over the shorter of the term of the lease, including any option period, where the Group intends to exercise such option, or their useful life.

| The annual depreciation rates are: | % | |
|---|---|---|
| Leasehold improvements | 10 | |
| Machinery and equipment | 5-20 | (Mainly 5%) |
| Motor vehicles | 20 | |
| Office furniture and equipment | 6-33 | |

Scrap value, depreciation method and the assets useful lives are being reviewed by management at the end of every financial year. Changes are handled as a change of estimation and are applied from here on.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

The cost of replacing part of a fixed asset item is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

K. Impairment of tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

L.Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production over heads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost determined as follows:

| | | |
|---|---|---|
| Finished products | - | Based on moving-average basis. |
| Raw, auxiliary materials and other | - | Based on moving-average basis. |

M.Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

N.Financial assets

(1) General

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories:

- Financial assets ‘at fair value through profit or loss’ (FVTPL)
- Loans and receivables

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

N.Financial assets (cont.)

(2)Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

it has been acquired principally for the purpose of selling in the near future; or

it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(3)Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(4)Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets, an objective evidence of impairment could include:

significant financial difficulty of the issuer or counterparty; or

default or delinquency in interest or principal payments; or

it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original

effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

N.Financial assets (cont.)

(4)Impairment of financial assets (cont.)

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

O.Borrowings

Borrowings are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

P.Derivative financial instruments

(1) General

The Group entered into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk and commodity price risk.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of commodity price risk (cash flow hedges).

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(2) Hedge accounting

The Group designates certain hedging instruments, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the

hedged item.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

P.Derivative financial instruments (cont.)

(2) Hedge accounting (cont.)

The effective part of the changes in the value of financial instruments designated for cash flow hedging is immediately recognized in shareholders' equity and the non-effective part is immediately recognized in the statement of income.

Hedge accounting for cash flows is discontinued when the hedging instrument expires, sold or realized or when the hedging relations no longer meet the threshold conditions for hedging. After the discontinuation of hedge accounting, the amounts carried to shareholders' equity are carried to the income statement while hedged projected transactions are recorded in the income statement.

As of 31.12.10 there are no outstanding cash flow hedge contracts.

Q.Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

(1) Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(2) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

R.Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease agreement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

S.Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(2) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(3) Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

T.Employee benefits

(1) Post-Employment Benefits

The Group's post-employment benefits include: benefits to retirees and liabilities for severance benefits. The Group's post-employment benefits are classified as either defined contribution plans or defined benefit plans. Most of the Group's employees are covered by Article 14 to the Severance Law and therefore the Group's companies makes regular deposits (contributions) in the name of their employees and do not have an obligation to pay further contributions. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

Expenses in respect of a Defined Benefit Plan are carried to the income statement in accordance with the Projected Unit Credit Method, while using actuarial estimates that are performed at each balance sheet date. The current value of the Group's obligation in respect of the defined benefit plan is determined by discounting the future projected cash flows from the plan by the market yields on government bonds, denominated in the currency in which the benefits in respect of the plan will be paid, and whose redemption periods are approximately identical to the projected settlement dates of the plan.

Actuarial profits and losses are carried to the income statements on the date they were incurred. The Past Service Cost is immediately recognized in the Group's income statement to the extent the benefit has vested. A past service cost which has not yet vested is amortized on a straight-line basis over the average vesting period until the benefit becomes vested.

The Group's liability in respect of the Defined Benefit Plan which is presented in the Group's balance sheet includes the current value of the obligation in respect of the defined benefit. A net plan, which is created from said calculation, is limited to the amount of the actuarial losses and past service cost that were not yet recognized with the addition of the current value of available economic benefits in the shape of returns from the plan or in the shape of reduction in future contributions to the plan.

(2) Other long term employee benefits

Other long term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that exceeds 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

T.Employee benefits (cont.)

(2) Other long term employee benefits (Cont.)

Other employee benefits of the Group include liabilities for early retirement. These liabilities are recorded to statement of operations in accordance with the projected unit credit method. The present value of the Group's obligation for early retirement was determined by means of the capitalization of anticipated future cash flows from the program at market yields of government bonds, denominated in the currency in which the benefits for early retirement will be paid.

(3) Short term employee benefits

Short term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that does not exceed 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Short term Group benefits include the Group's liability for short term absences, payment of grants, bonuses and compensation. These benefits are recorded to the statement of operations when created. The benefits are measured on a non capitalized basis. The difference between the amount of the short term benefits to which the employee is entitled and the amount paid is therefore recognized as an asset or liability.

U.Exchange Rates and Linkage Basis

Following are the change in the representative exchange rates of the Euro and the U.S. dollar vis-à-vis the NIS and in the Israeli Consumer Price Index ("CPI"):

| As of: | Representative exchange rate of the Euro (NIS per €1) | Representative exchange rate of the dollar (NIS per $1) | CPI "in respect of" (in points) |
|---|---|---|---|
| December 31, 2010 | 4.7379 | 3.549 | 117.82 |
| December 31, 2009 | 5.4417 | 3.775 | 114.88 |
| December 31, 2008 | 5.2973 | 3.802 | 110.55 |
| | | | |
| Increase (decrease) during the: | % | % | % |
| Year ended December 31, 2010 | (12.93) | (5.99) | 2.66 |
| Year ended December 31, 2009 | 2.72 | (0.71) | 3.90 |
| Year ended December 31, 2008 | (6.40) | (1.14) | 3.90 |

V.Reclassification

Comparative figures relating to years 2008 and 2009 were reclassified in these financial statements as follows: NIS 463 thousand in 2008 and NIS 542 thousand in 2009 were reclassified from depreciation in cost of sales to depreciation in selling expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

W. Adoption of new and revised Standards and interpretations

A. Standards and Interpretations Affecting Amounts Reported in the Current Period (and/ or prior periods)

Standards Affecting Presentation and Disclosure

IAS 1 - Presentation of Financial Statements

Amendment IAS 1 "presentation of financial statements", which stipulates that changes in the components of the other comprehensive income will be presented in the statement of changes in equity or in the notes to the financial statements, according to the company's policy.

In accordance to the above, the company presents the changes in the components of the other comprehensive income in the changes in shareholder equity statements.

B. Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IFRS 7 - Disclosures of Financial Instruments

The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

IFRS 9 “Financial Instruments”

The new Standard provides for the classification and measurement of financial assets and liabilities. In accordance with the Standard, all financial assets are to be treated as follows:

- Debt instruments will be classified and measured subsequent to initial recognition at amortized cost or at fair value through profit or loss. The mode of measurement will be determined based on the entity’s business model for managing financial assets and in accordance with the characteristics of the contractual cash flows deriving from such financial assets.

- A debt instrument which, according to the criteria, is measured at amortized cost may only be designated at fair value through profit or loss if such designation eliminates inconsistencies in the recognition and measurement that would have arose had the asset been measured at amortized cost.

- Equity instruments will be measured at fair value through profit or loss.

- Equity instruments may be designated at fair value through profit or loss, with any gains or losses being recognized in other comprehensive income. Instruments that have been designated as aforesaid will cease to be tested for impairment and any related gain or loss will not be recognized in profit or loss, including in the event of disposal.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

W. Adoption of new and revised Standards and interpretations

B. Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

- Embedded derivatives in financial assets will not be separated from the host contract. Instead, hybrid contracts will be measured as a whole at amortized cost or at fair value, in accordance with the business model and the contractual cash flows criteria.

- Debt instruments will be reclassified from amortized cost to fair value and vice versa only if the entity changes its business model for managing financial assets.

- Investments in equity instruments that are not quoted on an active market, including derivatives on such assets, will be measured solely at fair value. The alternative measurement at cost under certain circumstances has been eliminated. Nevertheless, the Standard determines that, under limited circumstances, cost may be an appropriate estimate of fair value.

The Standard also prescribes the following provisions with respect to financial liabilities:

- The change in the fair value of a financial liability that is designated at fair value through profit or loss upon initial recognition, which is attributed to changes in the credit risk of the liability, is recognized directly in other comprehensive income, unless such recognition gives rise to or increases accounting disparity.

- Upon the repayment or settlement of a financial liability, the amount of the fair value recognized in other comprehensive income will not be classified to profit or loss.

- All derivatives, whether assets or liabilities, will be measured at fair value, including a derivative financial instrument that constitutes a liability, which is related to an unquoted equity instrument for which a fair value cannot be determined reliably.

The provisions of the Standard are to be applied retrospectively, other than in a number of exceptions provided for in the Standard, to annual reporting periods commencing on January 1, 2013 or thereafter. Early adoption is permitted. Entities that opt for early adoption of the Standard prior to January 1, 2012 are not required to apply the Standard retrospectively. Additionally, subject to the transitional provisions of the Standard, early adoption solely of the provisions of the Standard with respect to financial assets, excluding the aforesaid provisions relating to financial liabilities, is permissible.

The Company’s management estimates that the effect of the adoption of the Standard on the financial statements of the Group will be insignificant.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A.General

In the application of the Group's accounting policies, which are described in Note 2, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

B.Significant judgments in applying accounting policies

The following are the significant judgments, apart from those involving estimations (see below), that the management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

- Useful lives of property, plant and equipment - As described at 2J above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.
- Impairment of goodwill - Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.
The carrying amount of goodwill at the balance sheet date was NIS 3,177 thousand.
- Deferred taxes- the company recognizes deferred tax assets for all of the deductible temporary differences up to the amount as to which it is anticipated that there will be taxable income against which the temporary difference will be deductible. During each period, for purposes of calculation of the utilizable temporary difference, management uses estimates and approximations as a basis which it evaluates each period.

C.Key sources of estimation uncertainty

- In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Included in the allowance for doubtful debts are individually impaired trade receivables. The impairment recognized represents the difference between the carrying amount of these trade receivable and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

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NOTE 4 - CASH AND CASH EQUIVALANTS

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Cash in bank – NIS | 627 | 4,697 |
| Cash in bank - foreign currency | 12,484 | 12,379 |
| | 13,111 | 17,076 |

NOTE 5 - TRADE RECEIVABLES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Domestic | | |
| Open accounts | 151,251 | 145,914 |
| Checks receivable | 18,285 | 21,621 |
| | 169,536 | 167,535 |
| Foreign | | |
| Open accounts | 13,035 | 20,676 |
| | 182,571 | 188,211 |
| Less - allowance for doubtful accounts | (6,996) | (3,796) |
| | 175,575 | 184,415 |

The average credit period on sales of goods is 94 days. Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.
Of the trade receivables balance at the end of the year, NIS 13.7 million (2009: NIS 14.9 million) is due from Company A, the Group's largest customer and NIS 10.1 million (2009: NIS 8.3 million) from Company B and NIS 9.7 million (2009: NIS 6.2 million) from Company C There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of NIS 7.8 million which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging of past due but not impaired

| | 31/12/10 |
|---|---|
| 30-60 days | 6,580 |
| 60-90 days | 1,154 |
| 90-120 days | 112 |
| Total | 7,846 |

The Group has a policy for the allowance for doubtful debts which calls for an increasing rate of allowance for outstanding debts that are unsecured. The rate of impairment increases in line with the age of the debt.

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NOTE 5 - TRADE RECEIVABLES (Cont.)

Movement in the allowance for doubtful debts

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Balance at beginning of the year | 3,796 | 4,160 |
| Impairment losses recognized on receivables | 3,837 | 2,599 |
| Amounts written off as uncollectable | (637) | (2,963) |
| Balance at end of the year | 6,996 | 3,796 |

NOTE 6 - OTHER RECEIVABLES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Prepaid expenses | 87 | 1,369 |
| Advances to suppliers | 506 | 285 |
| Value Added Tax | 5,065 | - |
| Others | 372 | 364 |
| | 6,030 | 2,018 |

NOTE 7 - INVENTORIES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Raw and auxiliary materials | 68,657 | 42,235 |
| Good in process | 10,017 | 5,734 |
| Finished products | 82,975 | 60,233 |
| | 161,649 | 108,202 |
| | | |
| Includes products in transit | 24,372 | 22,600 |
| | | |
| The inventories are presented net of impairment provision | 2,792 | 3,218 |

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NOTE 8 - INVESTMENTS IN SUBSIDIARIES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| A. Goodwill, Net | 3,177 | 3,177 |

Impairment tests for goodwill are discussed in note 2E.

B. Consolidated Subsidiaries

The consolidated financial statements as of December 31, 2010, include the financial statements of the following Subsidiaries:

| | Ownership and control As of December 31, 2010 % |
|---|---|
| Hadera Paper Printing & Writing Paper Marketing Ltd. | 100.00 |
| Grafinir Paper Marketing Ltd. | 100.00 |
| Yavnir (1999) Ltd. | 100.00 |
| Miterani Paper Marketing 2000 (1998) Ltd. | 100.00 |

NOTE 9 - FINANCIAL ASSETS

The carrying amounts of the group's financial assets are presented as follows:

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Trade and other receivables | 176,453 | 185,231 |
| Cash and cash equivalents | 13,111 | 17,076 |
| | 189,564 | 202,307 |

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NOTE 10 - PROPERTY PLANT AND EQUIPMENT

| | Leasehold improvements | Machinery and equipment | Motor vehicles | Office Furniture, Computers and equipment | Total |
|---|---|---|---|---|---|
| Consolidated | | | | | |
| Cost: | | | | | |
| Balance - January 1, 2009 | 4,403 | 212,279 | 5,166 | 3,630 | 225,478 |
| Changes during 2009 | | | | | |
| Additions | 628 | 3,454 | - | 301 | 4,383 |
| Dispositions | - | (1,206) | (380) | - | (1,586) |
| Increase spare parts stock | - | 235 | - | - | 235 |
| Balance - December 31, 2009 | 5,031 | 214,762 | 4,786 | 3,931 | 228,510 |
| | | | | | |
| Changes during 2010: | | | | | |
| Additions | 1,124 | 8,547 | 23 | 928 | 10,622 |
| Dispositions | (197) | (368) | (1,028) | (251) | (1,844) |
| Increase spare parts stock | - | 1,131 | - | - | 1,131 |
| | | | | | |
| Balance - December 31, 2010 | 5,958 | 224,072 | 3,781 | 4,608 | 238,419 |
| | | | | | |
| Accumulated depreciation | | | | | |
| Balance - January 1, 2009 | 2,573 | 63,139 | 2,886 | 2,439 | 71,037 |
| Changes during 2009 | | | | | |
| Additions | 517 | 10,189 | 756 | 566 | 12,028 |
| Dispositions | - | (1,007) | (279) | - | (1,286) |
| Balance - December 31, 2009 | 3,090 | 72,321 | 3,363 | 3,005 | 81,779 |
| | | | | | |
| Changes during 2010: | | | | | |
| Additions | 358 | 10,419 | 547 | 577 | 11,901 |
| Dispositions | (173) | (69) | (900) | (230) | (1,372) |
| Balance - December 31, 2010 | 3,275 | 82,671 | 3,010 | 3,352 | 92,308 |
| Net book value: | | | | | |
| December 31, 2010 | 2,683 | 141,401 | 771 | 1,256 | 146,111 |
| December 31, 2009 | 1,941 | 142,441 | 1,423 | 926 | 146,731 |

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NOTE 11 - TRADE PAYABLES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| In Israeli currency | 24,538 | 29,355 |
| In foreign currency or linked thereto (1) | 95,271 | 76,269 |
| | 119,809 | 105,624 |

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| (1) | | |
| USD | 77,408 | 55,588 |
| EUR | 17,863 | 20,681 |
| | 95,271 | 76,269 |

NOTE 12 - OTHER PAYABLES AND ACCRUED EXPENSES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Accrued payroll and related expenses | 15,142 | 14,048 |
| Value Added Tax | - | 4,238 |
| Advances from customers | 1,323 | 314 |
| Interest payable | 288 | 265 |
| Other | 2,452 | 2,214 |
| | 19,205 | 21,079 |

NOTE 13 - BORROWINGS

| | Interest rate | As of December 31, | |
|---|---|---|---|
| | %(*) | 2010 | 2009 |
| A. Secured | | | |
| In NIS – Short term Bank loans | 3.08 | 92,852 | 69,440 |
| In NIS – not linked | 5.72 | 13,019 | 19,966 |
| In NIS indexed to the CPI | | - | 3,652 |
| | | 105,871 | 93,058 |

(*) Average interest rate as of December 31, 2010.

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NOTE 13 - BORROWINGS (Cont.)

| | As of December 31, 2010 |
|---|---|
| B. Maturities of long term loans | |
| First year - 2011 | 3,662 |
| Second year - 2012 | 2,563 |
| Third year - 2013 | 2,649 |
| Fourth year - 2014 | 2,740 |
| Fifth year - 2015 | 1,405 |
| | 13,019 |

C. According to the loan agreements with the banks, as amended in the second half of 2005, the Company has to achieve, inter alia, financial ratio at the end of each audited fiscal year of total shareholders' equity (which includes capital notes to shareholders) to total assets to be no less than 22%. In case the Company fails to fulfill these covenants, the banks are entitled to demand early repayment of the loans, in whole or in part.

As of December 31, 2010, the Company was in full compliance with the covenants stipulated in the bank agreements and this financial ratio amounted to 32.2%.

D. As to a "negative pledge agreement" signed by the Company, see Note 16B.

E. The Company and its Subsidiaries have been granted a total bank credit facility, pursuant to which the Company and its Subsidiaries may, from time to time, borrow an aggregate principal amount of up to adjusted NIS 305,823 thousand. As of the balance sheet date, the Group utilized NIS 93,284 thousand of the credit facility as long & short term borrowings and as bank guarantees granted to third parties.

NOTE 14 - OTHER FINANCIAL LIABILITIES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Derivatives carried at fair value through profit or loss | - | 432 |

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NOTE 15 - EMPLOYEE BENEFITS

A. Composition

| | As of December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Post Employment Benefits: | | | |
| Benefits to retirees | 2,563 | 2,079 | 1,364 |
| Accrued severance pay | 92 | 206 | 214 |
| | | | |
| Short term employee benefits: | | | |
| Accrued payroll and related expenses | 9,048 | 8,121 | 8,791 |
| Liability for vacation pay | 6,094 | 5,927 | 5,163 |
| | 17,797 | 16,333 | 15,532 |

B. Defined contribution plan

Most of the Group's employees are covered by Article 14 to the Severance Law and therefore the Group's companies makes regular deposits (contributions) in the name of their employees and do not have an obligation to pay further contributions. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

The total expense recognized in the income statement of NIS 6,916 thousand represents contributions to these plans by the group.

C. Actuarial assumptions

The groups defined benefit plans has been calculated by estimating the present value of the future probable obligation used actual valuation methods. The discounted rate is based on field on government bonds at a fixed interest rate which have an average lifetime equal to that of the gross liability. The actuarial assumptions used in the plan are detailed bellow.

D. Defined benefit plans

The groups defined benefit plans include early retirement and benefits to retirees – holiday gifts and paper distribution.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | Valuation at | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Discount rate | 4.9%-5.7% | 5.54%-6 % | 5.9 % |
| Expected rate of inflation | 2.7%-2.8% | 2.6%-2.7% | 2.1 % |

| | | | | | | |
|---|---|---|---|---|---|---|
| Expected rate of leaving | 3%-14 | % | 3%-14 | % | 3%-11 | % |

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NOTE 15 - EMPLOYEE BENEFITS (Cont.)

D.Defined benefit plans (cont.)

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Current service cost | 25 | 20 | 17 |
| Interest on obligations | 65 | 61 | 66 |
| Actuarial losses (gains) recognized in the year | 145 | 44 | (382) |
| Benefit paid during the year | (51) | (49) | (42) |
| | 184 | 76 | (341) |

The amount included in the balance sheet arising from the entity's obligation in respect of its defined benefit plans is as follows:

| | As of December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Present value of funded defined benefit obligation | 1,318 | 1,134 | 1,058 |

Movements in the present value of the defined benefit obligation in the current period were as follows:

| | As of December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Opening defined benefit obligation | 1,134 | 1,058 | 1,399 |
| Current service cost | 25 | 20 | 17 |
| Interest cost | 65 | 61 | 66 |
| Actuarial losses (gains) | 145 | 44 | (382) |
| Benefits paid | (51) | (49) | (42) |
| Closing defined benefit obligation | 1,318 | 1,134 | 1,058 |

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NOTE 15 - EMPLOYEE BENEFITS (Cont.)

D. Other long term employee benefits

Other long term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that exceeds 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Other employee benefits of the Group include liabilities for early retirement.

The obligation in respect of early retirement includes an obligation for pension of the period starting the date of the early retirement up to reaching the legal retirement age.

The amount included in the balance sheet arising from the entity's obligation in respect of early retirement is as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Present value of defined benefit obligation | 1,245 | 945 | 306 |

Movements in the present value of obligation for early retirement in the current period were as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Opening defined benefit obligation | 945 | 306 | - |
| Interest cost | 64 | 54 | - |
| Current service cost | 474 | 759 | 306 |
| Benefits paid | (238) | (174) | - |
| Closing defined benefit obligation | 1,245 | 945 | 306 |

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NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Commitments:

The Company and its Subsidiaries lease certain of their facilities under operating leases for varying periods with renewal options primarily from Hadera Paper Group. In November 2010, the group moved to a new logistics center in Modi'in ("the site"), Hadera Paper has signed an operational lease agreement on September, 28 under which it has undertaken to lease the site for the Company along with two of Hadera paper's subsidiaries. The Company has signed a guarantee for her part of the site agreement. At the balance sheet date, the group had outstanding commitments under non cancellable operating leases, which fall due as follows:

| | Consolidated |
|---|---|
| Within 1 Year | 7,844 |
| Between 1 to 2 Years | 7,844 |
| Between 2 to 5 Years | 23,531 |
| | 39,218 |

B. Liens

To secure long-term bank loans and short-term bank credits (the balance of which as of December, 31 2010 is NIS 105,871 thousand), the Company entered into a “negative pledge agreement” under which the Company is committed not to pledge any of its assets, excluding fixed pledges relating to assets financed by others, prior to the consent of the banks.

C. Guarantees

The Company from time to time and in the course of its ongoing operations provides guarantees.

NOTE 17 - SHAREHOLDERS' EQUITY

A. As of December 31, 2010, 2009 and 2008, share capital is composed of ordinary shares of NIS 1.00 par value each. Authorized - 38,000 shares; issued and paid up - 1,000 shares.

B. Holders of ordinary shares are entitled to participate equally in the payment of cash dividends and bonus share (stock dividend) distributions and, in the event of the liquidation of the Company, in the distribution of assets after satisfaction of liabilities to creditors.

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NOTE 18 - REVENUE

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Industrial operations | 570,202 | 531,453 | 569,772 |
| Commercial operations | 158,500 | 137,769 | 162,575 |
| | 728,702 | 669,222 | 732,347 |

NOTE 19 - COST OF SALES

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Purchases (**) | 129,680 | 117,080 | 141,478 |
| Materials consumed | 392,095 | 292,083 | 373,131 |
| Salaries and related expenses | 46,794 | 44,018 | 42,760 |
| Subcontracting | 2,883 | 3,075 | 4,494 |
| Energy costs | 42,808 | 47,535 | 49,240 |
| Depreciation | 11,353 | (*)11,361 | (*)11,024 |
| Other manufacturing costs and expenses (including rent) | 26,433 | 31,114 | 34,796 |
| | 652,046 | 546,266 | 656,923 |
| Change in finished goods , goods in process, and products in transit (***) | (11,736 ) | 31,729 | (7,746 ) |
| | 640,310 | 577,995 | 649,177 |

(*) Reclassified.
(**) The purchases of the Group are related principally to commercial operations.
(***) Change in raw and auxiliary materials are included in materials consumed.

NOTE 20 - SELLING EXPENSES

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Salaries and related expenses | 20,009 | 20,029 | 19,780 |
| Packaging and shipping to customers | 9,445 | 8,095 | 6,512 |
| Maintenance and rent | 9,408 | 7,961 | 8,408 |
| Vehicles | 2,407 | 1,755 | 1,855 |
| Advertising | 307 | 250 | 126 |
| Depreciation | 455 | (*) 619 | (*) 587 |
| Others | 1,223 | 1,527 | 1,488 |
| | 43,254 | 40,236 | 38,756 |

(*) Reclassified.

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NOTE 21 - GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Salaries and related expenses | 4,934 | 4,356 | 4,025 |
| Office maintenance | 125 | 234 | 147 |
| Professional and management fees | 1,474 | 1,549 | 1,413 |
| Depreciation | 93 | 48 | 57 |
| Bad and doubtful debts | 3,837 | 2,599 | 1,334 |
| Other | 3,782 | 2,040 | 2,764 |
| | 14,245 | 10,826 | 9,740 |

NOTE 22 - FINANCE COSTS

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| A. Financing income: | | | |
| Interest income | - | 104 | 415 |
| Foreign currency gains (see note C) | 4,293 | - | 5,474 |
| Total financing income | 4,293 | 104 | 5,889 |
| | | | |
| B. Financing costs: | | | |
| Interest expenses | | | |
| Interest on bank loans | 5,797 | 8,329 | 13,134 |
| Interest on defined benefit arrangements (see note 15) | 65 | 61 | 362 |
| Foreign currency losses (see note C) | - | 2,973 | - |
| Total interest expenses | 5,862 | 11,363 | 13,496 |
| Net finance cost | 1,569 | 11,259 | 7,607 |
| | | | |
| C. Foreign Exchange | | | |
| The amounts credited to the consolidated income statement are presented below: | | | |
| Included in net financing costs | | | |
| Foreign currency gains (losses) | 3,861 | (159) | 3,092 |
| Fair value gains (losses) on forward foreign exchange contracts (see note 25) | 432 | (2,814) | 2,382 |
| Net foreign currency gains (losses) | 4,293 | (2,973) | 5,474 |

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NOTE 23 - INCOME TAXES

A. The Company and its Subsidiaries are taxed according to the provisions of The Income Tax Ordinance and the Income Tax Law (Inflationary Adjustments), 1985. The Company is an industrial company in conformity with the Law for the Encouragement of Industry (Taxes), 1969. The major benefit the Company is entitled to under this law is accelerated depreciation rates.

B. Composition

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Current taxes | 8,162 | 3,614 | 97 |
| Deferred taxes (D. below) | (876) | (3,003) | 7,030 |
| | 7,286 | 611 | 7,127 |

C. Reconciliation of the statutory tax rate to the effective tax rate

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Income before income taxes | 29,358 | 29,282 | 26,483 |
| Statutory tax rate | 25% | 26% | 27% |
| Tax computed by statutory tax rate | 7,340 | 7,613 | 7,150 |
| Tax increments (savings) due to: | | | |
| Non-deductible expenses | - | - | 75 |
| Loss on disposal not recognized as deferred tax asset | - | - | 158 |
| Utilization of tax losses not previously recognized | - | (483) | - |
| Change in tax rate | - | (6,379) | - |
| Differences arising from basis of measurement | (54) | (140) | (256) |
| | 7,286 | 611 | 7,127 |

D. Deferred Taxes

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Balance as of beginning of year | (22,704) | (24,274) | (18,677) |
| Charged to the consolidated income statements | 876 | 3,003 | (7,030) |
| Charged directly to equity | - | (1,433) | 1,433 |
| Balance as of end of year | (21,828) | (22,704) | (24,274) |

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NOTE 23 - INCOME TAXES (Cont.)

E. Deferred Taxes (cont.)

| | As of December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Deferred taxes arise from the following: | | | |
| Allowance for doubtful accounts | 1,680 | 949 | 744 |
| Vacation and recreation pay | 1,726 | 1,709 | 1,586 |
| Carry forward tax losses | - | - | 2,533 |
| Depreciable fixed assets | (25,255 ) | (25,412 ) | (30,624 ) |
| Accrued severance pay, net | 21 | 50 | 54 |
| Cash flow hedges | - | - | 1,433 |
| | (21,828 ) | (22,704 ) | (24,274 ) |

For 2010 - Deferred taxes were computed at rates between 24%-18%, primarily - 24%.

Deferred taxes are not recognized in respect of all losses of subsidiaries amounted to NIS 589 thousands as of December 31, 2010.

F. The Company and its Subsidiaries have tax assessments that are final through the 2005 tax year.

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

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law (Inflation Adjustments) (Amendment 20) (Limitation of Term of Validity) - 2008 (hereinafter: "The Amendment"), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention it is to prevent distortions in tax calculations.

According to the amendment, from tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

G. In July 2005, the Israeli Knesset passed 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.

H. On July 23, 2009 the Knesset (The legislative branch of the Israeli government), passed the Economic Efficiency Law (legislative amendments to implement the economic plan for the years 2009 and 2010) – 2009, which stipulates, inter alia, and additional gradual reduction in the rate of companies tax to 18% in the 2016 tax year and

thereafter. According to these amendments, the rate of Group tax applying to the 2010 tax year and thereafter are as follows: 2010 tax year – 25%, 2011 tax year – 24%, 2012 tax year – 23%, 2013 tax year – 22%, 2014 texture – 21%, 2015 tax year – 20%, , and in the 2016 tax year and thereafter there will be companies tax rate of 18%. The change in the tax rates have decreased the deferred taxes liability as of December 31, 2009 in the amount of NIS 6,379 thousand.

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NOTE 23 - INCOME TAXES (Cont.)

I. On the 29th December, 2010 the Knesset ratified the Economic Policy 2011-2012 Law (amendments), 2011 that was published in the articles on the 6th January, 2011. Within this law, the Law for the Encouragement of Capital Investments – 1959 was amended (hereafter "amendment"). According to the amendment the different income tax channels were abolished & instead fixed income tax rates on the industrial taxable income were set as follows:

2011-2012: 15% (area "A" – 10%)
2013-2014: 12.5% (area "A" – 7%)
2015 onwards: 12% (area "A" -6%)

These amendments came in force as from 1st January, 2011. Each company is entitled to choose whether to be included within this amendment & to forego the outstanding benefits of the previous law or to waive this amendment.

The company has uncertainty as to its ability to confirm to the amendments stipulations &, as such, has not recognized the tax income derived from the amendment.

NOTE 24 - DIVIDEND

On August 11, 2010 a dividend of 1.2 million EUR was paid to shareholders (1,200 EUR per share).

On December 30, 2010 the company declared a dividend distribution of 1.8 million EUR to shareholders (1,800 EUR per share). The dividend was paid on January 31, 2011. (See note 27).

NOTE 25 - FINANCIAL INSTRUMENTS

A. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

B. Categories of financial instruments

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | 189,564 | 202,037 |
| | | |
| Financial liabilities | | |
| Derivative instruments | - | 432 |
| | | |
| Amortized cost | 296,581 | 263,827 |

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HADERA PAPER - PRINTING & WRITING PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 25 - FINANCIAL INSTRUMENTS (Cont.)

C. Credit risk

The Group's cash and cash equivalents as of December 31, 2010 and 2009 are deposited mainly with major banks. The group considers the credit risks in respect of these balances to be remote.

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

The group uses a credit insurance policy to manage its exposure to the risk of customers defaulting on sales invoices raised.

Total amount of trade receivables insured against credit insurance is NIS 55,564 thousands as of December 31, 2010. (2009: NIS 50,632 thousands).

The carrying amount of financial assets recorded in the financial statements, net of insured amount, represents the group's exposure to credit risk.

D. Liquidity risk

Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate.

Forecast liquidity represents the Group's expected cash inflows, principally generated from sales made to customers, less the Group's contractually – determined cash outflows, principally related to supplier payments and the repayment of borrowings, plus the payment of any interest accruing thereon. The matching of these cash inflows and outflows rests on the expected ageing profiles of the underlying assets and liabilities. Short-term financial assets and financial liabilities are represented primarily by the Group's trade receivables and trade payables respectively. The matching of the cash flows that result from trade receivables and trade payables takes place typically over a period of three to four months from recognition in the balance sheet and is managed to ensure the ongoing operating liquidity of the Group. Financing cash outflows may be longer-term in nature. The Group does not hold long-term financial assets to match against these commitments, but is significantly invested in long-term non-financial assets, which generate the sustainable future cash inflows, net of future capital expenditure requirements, needed to service and repay the Group's borrowings.

The following table presents the Group's outstanding contractual maturity profile for its non-derivative financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the Group's financial liabilities, including any interest that will accrue. Non-interest bearing financial liabilities which are due to be settled in less than 12 months from maturity equal their carrying values, since the impact of the time value of money is

immaterial over such a short duration.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 25 - FINANCIAL INSTRUMENTS (Cont.)

D.Liquidity risk (cont.)

Maturity profile of outstanding financial liabilities'

| | 1 year | 1-2 years | 2-5 years | Total |
|---|---|---|---|---|
| 2010 | | | | |
| Supplier payables | 182,182 | - | - | 182,182 |
| Borrowings' | 97,375 | 3,062 | 7,355 | 107,729 |
| Dividend declared | 8,528 | - | - | 8,528 |
| Total | 288,085 | 3,062 | 7,355 | 298,502 |
| | | | | |
| 2009 | | | | |
| Supplier Payables | 170,337 | - | - | 170,337 |
| Borrowings' | 81,027 | 4,318 | 10,419 | 95,764 |
| Total | 251,364 | 4,318 | 10,419 | 266,101 |

Average days of credit for trade payables are 114 days.

E.Exchange rate risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at reporting date are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2010 NIS | 2009 NIS | 2010 NIS | 2009 NIS |
| USD | 77,408 | 56,020 | 27,852 | 37,692 |
| EUR | 26,391 | 20,681 | 1,694 | 1,079 |

The Group is mainly exposed to USD and EUR.

The following table details the Group's sensitivity to a 10% increase and decrease in the NIS against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the NIS strengthens 10% against the relevant currency. For a 10% weakening of the NIS against the relevant currency, there would be an equal and opposite impact on the profit and other equity,

and the balances below would be negative.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 25 - FINANCIAL INSTRUMENTS (Cont.)

E.Exchange rate risk (cont.)

| | USD Impact 2010 NIS | EUR Impact 2010 NIS |
|---|---|---|
| Profit or loss (1) | 4,956 | 2,470 |

(1) This is mainly attributable to the exposure outstanding on receivables, cash and payables at year end in the Group, and forward foreign exchange contracts.

F.Fair value of financial instruments

The financial instruments of the Group consist of non derivative assets and liabilities. Non-derivative assets include cash and cash equivalents, receivables and other current assets. Non-derivative liabilities include short-term bank credit, trade payables, other current liabilities and long-term loans from banks. Due to the nature of these financial instruments, their fair value, generally, is identical or close to the value at which they are presented in the financial statements, unless stated otherwise.

The fair value of the long-term loans approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

HADERA PAPER - PRINTING & WRITING PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 25 - FINANCIAL INSTRUMENTS (Cont.)

G.Linkage Terms of Financial Instruments

| | December 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | In, or linked to, foreign currency (mainly Dollar and Euro) | Linked to the Israeli CPI | Not Linked | In, or linked to, foreign currency (mainly Dollar and Euro) | Linked to the Israeli CPI | Not Linked |
| | NIS in thousands | | | NIS in thousands | | |
| Assets: | | | | | | |
| Cash and cash equivalents | 12,484 | - | 627 | 12,379 | - | 4,697 |
| Trade and other receivables | 17,062 | - | 159,391 | 26,392 | - | 158,839 |
| | 29,546 | - | 160,018 | 38,771 | - | 163,536 |
| Liabilities: | | | | | | |
| Short-term credit from banks | - | - | 92,852 | - | - | 69,440 |
| Trade and other payables | 103,799 | 27,662 | 59,249 | 76,269 | 39,230 | 54,838 |
| Other financial liabilities | - | - | - | 432 | - | - |
| Long term loans (including current maturities) | - | - | 13,019 | - | 3,653 | 19,965 |
| | 103,799 | 27,662 | 165,120 | 76,701 | 42,882 | 144,243 |

HADERA PAPER - PRINTING & WRITING PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 26 - RELATED PARTIES

The Group is owned by Hadera Paper Ltd (The "Parent Company") (75%) and Neusiedler Holding (25%). See note 2(a).

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below:

A.Transactions with Related Parties

| | Hadera Paper and its subsidiaries Year ended December 31, | | Neusiedler Holding and its subsidiaries Year ended December 31, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Sales to related parties | 37,972 | 23,453 | - | - |
| Purchases of goods | - | - | 1,780 | 6,225 |
| Cost of sales | 84,644 | 85,709 | 2,494 | 1,818 |
| Selling expenses, net (Participation in selling expenses, net) | - | - | - | 166 |
| General and administrative expenses | 2,823 | 3,020 | - | - |
| Financing expenses ,net | 2,045 | 3,349 | - | - |

B.Balances with Related Parties

| | Hadera Paper and its subsidiaries As of December 31, | | Neusiedler Holding and its subsidiaries As of December 31, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Dividend declared | 4,255 | - | 4,273 | - |
| Trade payables | 54,455 | 57,595 | 796 | 2,752 |
| Other payables and accrued expenses | - | - | - | 166 |

C. (1) The Group leases its premises from Hadera Paper and receives services (including energy, water, maintenance and professional services) under agreements, which are renewed based on shareholders agreements. See also Note 16A above.

(2) The Group pays commissions to Mondi Neusiedler GmbH for pulp purchase.

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HADERA PAPER - PRINTING & WRITING PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 26 - RELATED PARTIES (Cont.)

D.Compensation of key management personnel

Total remuneration of key management during the year was as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Short term benefits | 6,030 | 5,175 |
| Share options | 530 | 648 |
| | 6,560 | 5,823 |

The Company's senior management was rewarded by allotment of Mondi Plc's and Hadera Paper's share options. The cost of the benefit was determined as the fair value on the grant day and this amount is being charged to the income statement over the vesting period. The company's debt resulting from the grant will be paid in cash to both shareholders.

The fair value of the options granted as aforementioned was estimated by applying the economic models.

NOTE 27 - SUBSEQUENT EVENTS

On January 31, 2011 the Company paid dividend of 1.8 million EUR to shareholders (1,800 EUR per share). The dividend was declared on December 30, 2010.

HOGLA-KIMBERLY LTD.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

HOGLA-KIMBERLY LTD.
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
Hogla-Kimberly Ltd.

We have audited the accompanying consolidated statements of financial position of Hogla-Kimberly Ltd. (“the Company”) as of December 31, 2010 and 2009, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated changes in shareholders' equity and consolidated statements of cash flows of the Company for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the statements of financial position of the Company and its subsidiaries as of December 31, 2010 and 2009, and the consolidated income statements, consolidated statements of comprehensive income, consolidated changes in shareholders' equity and the consolidated statements of cash flows of the Company, for each of the three years then ended, in conformity with international financial reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Brightman Almagor Zohar & Co.
Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Israel
23 February, 2011

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT
OF FINANCIAL POSITION
(NIS in thousands)

| | Note | As of December 31, 2010 | 2009 |
|---|---|---|---|
| Current Assets | | | |
| Cash and cash equivalents | 4 | 16,732 | 106,996 |
| Trade receivables | 5 | 289,094 | 289,680 |
| Inventories | 6 | 241,803 | 180,631 |
| Current tax assets | 22 | 54 | - |
| Other current assets | 7 | 7,178 | 5,757 |
| | | 554,861 | 583,064 |
| Non-Current Assets | | | |
| VAT Receivable | | 51,223 | 47,171 |
| Property plant and equipment | 8A | 350,560 | 334,604 |
| Goodwill | 9 | 17,033 | 18,650 |
| Employee benefit assets | 10 | 639 | 517 |
| Deferred tax assets | 22 | 3,864 | 4,899 |
| Prepaid expenses for operating lease | 8B | 1,637 | 1,765 |
| | | 424,956 | 407,606 |
| | | 979,817 | 990,670 |
| Current Liabilities | | | |
| Borrowings | 11 | 36,640 | 25,977 |
| Trade payables | 12 | 329,916 | 296,359 |
| Employee benefit obligations | 10 | 12,810 | 12,855 |
| Current tax liabilities | 22 | 22,583 | 26,631 |
| Dividend payables | | 5,000 | 40,000 |
| Other payables and accrued expenses | 13 | 44,054 | 57,873 |
| | | 451,003 | 459,695 |
| Non-Current Liabilities | | | |
| Borrowings | 12 | 6,941 | 33,736 |
| Employee benefit obligations | 10 | 7,899 | 7,515 |
| Deferred tax liabilities | 22 | 35,370 | 33,631 |
| | | 50,210 | 74,882 |
| Commitments and Contingent Liabilities | 14 | | |
| Capital and reserves | 15 | | |
| Issued capital | | 265,246 | 265,246 |
| Reserves | | (82,338) | (60,156) |
| Retained earnings | | 295,696 | 251,003 |
| | | 478,604 | 456,093 |
| | | 979,817 | 990,670 |

| G .Calvo Paz | O. Lux | A. Melamud |
|---|---|---|
| Chairman of the Board of Directors | Chief Financial Officer | Chief Executive Officer |

Approval date of the financial statements: 23 February, 2011.

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

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(NIS in thousands)

| | Note | Year ended December 31, 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Revenue | 16 | 1,697,509 | 1,726,627 | 1,608,576 |
| Cost of sales | 17 | 1,165,219 | 1,164,949 | 1,097,567 |
| Gross profit | | 532,290 | 561,678 | 511,009 |
| Operating costs and expenses | | | | |
| Selling and marketing expenses | 19 | 288,061 | 304,776 | 308,737 |
| General and administrative expenses | 20 | 62,357 | 63,097 | 66,519 |
| Other income | 18 | (4,731) | - | - |
| | | 345,687 | 367,873 | 375,256 |
| Operating profit | | 186,603 | 193,805 | 135,753 |
| Finance expenses | 21B | (8,110) | (3,041) | (12,355) |
| Finance income | 21A | 12,104 | 4,557 | 13,702 |
| Finance expenses, net | | 3,994 | 1,516 | 1,347 |
| Profit before tax | | 190,597 | 195,321 | 137,100 |
| Income taxes charge | 22 | (45,904) | ( 44,226) | (47,473) |
| Profit for the year | | 144,693 | 151,095 | 89,627 |

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

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(NIS in thousands)

| | Year Ended December, 31 | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Profit for year | 144,693 | 151,095 | 89,627 |
| Exchange differences arising on translation of foreign operations | (21,341) | (1,375) | (52,096) |
| Cash flow hedges | (2,315) | 766 | (572) |
| Transfer to profit or loss from equity on cash flow hedge | 1,192 | (2,270) | 4,081 |
| Income tax relating to components of other comprehensive income | 282 | 403 | (987) |
| Other comprehensive income (loss) for the year (net of tax) | (22,182) | (2,476) | (49,574) |
| Total comprehensive income for the year | 122,511 | 148,619 | 40,053 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(NIS in thousands)

| | Share capital | Capital reserves | Foreign currency translation reserve | Cash flow hedges | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Year ended December 31, 2010 | | | | | | |
| Balance - January 1, 2010 | 29,638 | 235,608 | (60,228) | 72 | 251,003 | 456,093 |
| Profit for the year | - | - | - | - | 144,693 | 144,693 |
| Exchange differences arising on translation of foreign operations | - | - | (21,341) | - | - | (21,341) |
| Cash flow hedges | - | - | - | (841) | - | (841) |
| Dividend | - | - | - | - | (100,000) | (100,000) |
| Balance - December 31, 2010 | 29,638 | 235,608 | (81,569) | (769) | 295,696 | 478,604 |

| | Share capital | Capital reserves | Foreign currency translation reserve | Cash flow hedges | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Year ended December 31, 2009 | | | | | | |
| Balance - January 1, 2009 | 29,638 | 235,608 | (58,853) | 1,173 | 233,423 | 440,989 |
| Profit for the year | - | - | - | - | 151,095 | 151,095 |
| Exchange differences arising on translation of foreign operations | - | - | (1,375) | - | - | (1,375) |
| Cash flow hedges | - | - | - | (1,101) | - | (1,101) |
| Dividend | - | - | - | - | (133,515) | (133,515) |
| Balance - December 31, 2009 | 29,638 | 235,608 | (60,228) | 72 | 251,003 | 456,093 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(NIS in thousands)

| | Share capital | Capital reserves | Foreign currency translation reserve | Cash flow hedges | Retained earnings | Total |
|---|---|---|---|---|---|---|
| Year ended December 31, 2008 | | | | | | |
| Balance - January 1, 2008 | 29,638 | 235,608 | (6,757) | (1,349) | 143,796 | 400,936 |
| Profit for the year | - | - | - | - | 89,627 | 89,627 |
| Exchange differences arising on translation of foreign operations | - | - | (52,096) | - | - | (52,096) |
| Cash flow hedges | - | - | - | 2,522 | - | 2,522 |
| Balance - December 31, 2008 | 29,638 | 235,608 | (58,853) | 1,173 | 233,423 | 440,989 |

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Cash flows – operating activities | | | |
| Net income for the year | 144,693 | 151,095 | 89,627 |
| Adjustments to reconcile operating profit to net cash provided by operating activities (Appendix A) | (22,424) | 90,548 | 12,972 |
| Net cash generated by operating activities | 122,269 | 241,643 | 102,599 |
| | | | |
| Cash flows – investing activities | | | |
| Acquisition of property plant and equipment | (62,564) | (42,484) | (53,334) |
| Proceeds from disposal of Property plant and equipment | 168 | 32 | 4,851 |
| Proceeds from realization of trademark | 3,131 | - | - |
| Repayment of capital note by shareholders | - | 32,770 | - |
| Interest received | 2,532 | 1,495 | 1,525 |
| Net cash used in investing activities | (56,733) | (8,187) | (46,958) |
| | | | |
| Cash flows – financing activities | | | |
| Dividend paid | (135,000) | (93,515) | - |
| Borrowings received | - | - | 82,947 |
| Borrowing paid | (25,307) | (23,904) | - |
| Short-term bank credit | 9,975 | (28,139) | (124,286) |
| Interest paid | (4,048) | (3,381) | (8,353) |
| Net cash used in financing activities | (154,380) | (148,939) | (49,692) |
| | | | |
| Net increase (decrease) in cash and cash equivalents | (88,844) | 84,517 | 5,949 |
| Cash and cash equivalents – beginning of year | 106,996 | 23,219 | 23,082 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | (1,420) | (740) | (5,812) |
| Cash and cash equivalents - end of year | 16,732 | 106,996 | 23,219 |

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

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| A. Adjustments to reconcile operating profit to net cash provided by operating activities | | | |
| Finance expenses adjustments to profit | 1,516 | 4,426 | 6,828 |
| Taxes on income recognized in profit and loss | 45,904 | 44,226 | 47,473 |
| Depreciation and amortization | 31,195 | 29,213 | 24,367 |
| Capital loss on disposal of property, plant and equipment | 991 | 948 | 2,878 |
| Effect of discounting capital note to shareholder | - | - | (1,560) |
| Capital gain from realization of trademark | (3,131) | - | - |
| | | | |
| Changes in assets and liabilities: | | | |
| Decrease (Increase) in trade receivables | (13,419) | (19,566) | 5,465 |
| Decrease (Increase) in other current assets | (1,485) | 597 | 3,872 |
| Decrease (Increase) in inventories | (68,657) | 54,144 | (66,659) |
| Increase in trade payables | 33,914 | 11,927 | 18,407 |
| Net change in balances with related parties | 27,266 | (12,911) | 1,339 |
| Increase (Decrease) in other payables and accrued expenses | (21,357) | 12,303 | 3,195 |
| Effect of exchange rate differences on dividend payables | - | (2,540) | - |
| Decrease in other long term asset | (8,795) | (5,947) | (9,163) |
| Change in employee benefit obligations, net | 507 | 1,089 | 5,414 |
| | 24,449 | 117,909 | 41,856 |
| Income taxes received | 7,273 | 10,880 | 7,065 |
| Income taxes paid | (54,146) | (38,241) | (35,949) |
| | (22,424) | 90,548 | 12,972 |

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

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

A. Description Of Business

Hogla Kimberly Ltd. ("the Company") and its Subsidiaries are engaged principally in the production and marketing of paper and hygienic products. The Company's results of operations are affected by transactions with shareholders and affiliated companies.

The Company is owned by Kimberly Clark Corp. ("KC" or the "Parent Company") (50.1%) Hadera Paper Ltd. (49.9%).

B. Definitions:

The Company - Hogla-Kimberly Ltd.

The Group - the Company and its Subsidiaries.

Subsidiaries - companies in which the Company control, (as defined by IAS 27) directly or indirectly, and whose financial statements are fully consolidated with those of the Company.

Related Parties - as defined by IAS 24.

Interested Parties - as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.

Controlling Shareholder - as defined in the 1968 Israeli Securities law and Regulations.

NIS - New Israeli Shekel.

CPI - the Israeli consumer price index.

Dollar - the U.S. dollar.

YTL - the Turkish New Lira.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Applying International Accounting Standards (IFRS)

Statement of compliance

The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) for all reporting periods presented.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

B. Basis of preparation

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the exchange rate of the U.S. dollar. As of December 31, 2003 when the economy ceases to be hyper-inflationary and the Company no longer adjusted its financial statements to the U.S. dollar, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

- Assets and liabilities measured by fair value and derivative financial instruments.
- Inventories are stated at the lower of cost and net realizable value.
- Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.
- Liabilities to employees as described in note 2Q.

C. Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in the New Israeli Shekel ("NIS"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they occur except for:

Ÿ Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Ÿ Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

C. Foreign currencies (Cont.)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in NIS using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

D. Cash and Cash Equivalents

Cash and cash equivalents include bank deposits, available for immediate withdrawal, as well as unrestricted short-term deposits with maturities of less than three months from the date of deposit.

E. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

F. Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

G. Property, plant and equipment

Property, plant and equipments are tangible items, which are held for use in the manufacture or supply of goods or services, or leased to others, which are predicted to be used for more than one period. The Company presents its property, plant and equipments items according to the cost model.

Under the cost method - a property, plant and equipment are presented at the balance sheet at cost (net of any investment grants), less any accumulated depreciation and any accumulated impairment losses. The cost includes the cost of the asset's acquisition as well as costs that can be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. Amortization of leasehold improvements is computed over the shorter of the term of the lease, including any option period, where the Company intends to exercise such option, or their useful life.

| The annual depreciation and amortization rates are: | % |
|---|---|
| Buildings | 2-4 |
| Leasehold improvements | 10-25 |
| Machinery and equipment | 5-10 |
| Motor vehicles | 15-20 |
| Office furniture and equipment | 6-33 |

Scrap value, depreciation method and the assets useful lives are being reviewed by management in the end of every financial year. Changes are handled as a change of estimation and are applied from here on.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

H. Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

H. Impairment of tangible and intangible assets excluding goodwill (cont.)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

I. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net releasable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production over heads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net releasable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost determined as follows:

| | |
|---|---|
| Manufactured finished products | Based on standard cost method |
| Purchased finished goods raw, auxiliary materials and other | Based on moving-average basis. |

Inventories that are purchased on differed settlement terms, which contains a financing element, are stated in purchase price for normal credit terms. The difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of the financing.

J. Financial assets

(1) General

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into Loans and receivables

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

J. Financial assets (Cont.)

(2) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(3) Impairment of financial assets

Financial assets, are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets, objective evidence of impairment could include:

Significant financial difficulty of the issuer or counterparty; or

Default or delinquency in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

K. Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

L. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

M. Derivative financial instruments

(1) General

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges),

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

M. Derivative financial instruments (Cont.)

(2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the “finance income” or "finance expenses" lines of the income statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

N. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

(1) Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

N. Revenue recognition (Cont.)

(2) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

O. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(2) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

O. Taxation (Cont.)

(3) Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

P. prepaid expenses of operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. the Company's lands in Afula which were leased from the Israel Land Administration, shall be presented in the Company's balance sheet as prepaid expenses for operating lease in respect of lease, and amortized over the remaining period of the lease.

Q. Employee benefits

(1) Post-Employment Benefits

The Group's post-employment benefits include: benefits to retirees and liabilities for severance benefits. The Group's post-employment benefits are classified as either defined contribution plans or defined benefit plans. Most of the Group's employees are covered by Article 14 to the Severance Law and therefore the Group's companies makes regular deposits (contributions) in the name of their employees and do not have an obligation to pay further contributions. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

Expenses in respect of a Defined Benefit Plan are carried to the income statement in accordance with the Projected Unit Credit Method, while using actuarial estimates that are performed at each balance sheet date. The current value of the Group's obligation in respect of the defined benefit plan is determined by discounting the future projected cash flows from the plan by the market yields on government bonds, denominated in the currency in which the benefits in respect of the plan will be paid, and whose redemption periods are approximately identical to the projected settlement dates of the plan.

Actuarial profits and losses are carried to the income statements on the date they were incurred. The Past Service Cost is immediately recognized in the Group's income statement to the extent the benefit has vested. A past service cost which has not yet vested is amortized on a straight-line basis over the average vesting period until the benefit becomes vested.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

Q. Employee benefits (Cont.)

(1) Post-Employment Benefits (Cont.)

The Group's liability in respect of the Defined Benefit Plan which is presented in the Group's balance sheet, includes the current value of the obligation in respect of the defined benefit, with the addition (net of) actuarial past service cost that was not yet recognized. A net plan, which is created from said calculation, is limited to the amount of the actuarial losses and past service cost that were not yet recognized with the addition of the current value of available economic benefits in the shape of returns from the plan or in the shape of reduction in future contributions to the plan.

(2) Other long term employee benefits

Other long term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that exceeds 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

R. Exchange Rates and Linkage Basis

Following are the changes in the representative exchange rates of the U.S. dollar vis-a-vis the NIS and the Turkish Lira and in the Israeli Consumer Price Index (“CPI”):

| As of: | Turkish Lira exchange rate vis-a-vis the U.S. dollar (TL’000 per $1) | Representative exchange rate of the dollar (NIS per $1) | CPI “in respect of” (in points) |
|---|---|---|---|
| December 31, 2010 | 1,560 | 3.549 | 117.38 |
| December 31, 2009 | 1,515 | 3.775 | 114.77 |
| December 31, 2008 | 1,521 | 3.802 | 110.55 |
| | | | |
| Increase (decrease) during the: | % | % | % |
| Year ended December 31, 2010 | 2.97 | (5.99) | 2.3 |
| Year ended December 31, 2009 | (0.4) | (0.71) | 3.7 |
| Year ended December 31, 2008 | 29.38 | (1.14) | 3.9 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

S. Adoption of new and revised Standards and interpretations

(1) Standards and Interpretations Affecting Amounts Reported in the Current Period (and/ or prior periods)

Standards Affecting Presentation and Disclosure

IAS 1 - Presentation of Financial Statements

Amendment IAS 1 "presentation of financial statements", which stipulates that changes in the components of the other comprehensive income will be presented in the statement of changes in equity or in the notes to the financial statements, according to the company's policy.

In accordance to the above, the company presents the changes in the components of the other comprehensive income in the changes in shareholder equity statements.

IAS 36

The amendment to IAS 36 "Impairment of Assets" clarifies that in allocation of goodwill to cash-generating units or to groups of cash-generating units for impairment examination, each unit or group of units will not be larger than a segment, before grouping segments with similar economic characteristics to one segment. The amendment is implemented by way of "From now on" annual reporting periods beginning on January 1, 2010 or thereafter. The financial statements have not been effected by the amendment.

IAS 17 - "Leases"

According to the amendment land lease will be classified as operating lease or finance lease according to the standard's general guidance .

The amendment is effective commencing January 1 , 2010.

The amendment have no material effect on the financial statements

(2) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IFRS 2

The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

IFRS 7 - Disclosures of Financial Instruments

The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011).

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

S. Adoption of new and revised Standards and interpretations (Cont)

(2) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective(Cont)

IFRS 9 "Financial Instruments"

The new Standard provides for the classification and measurement of financial assets and liabilities. In accordance with the Standard, all financial assets are to be treated as follows:

- Debt instruments will be classified and measured subsequent to initial recognition at amortized cost or at fair value through profit or loss. The mode of measurement will be determined based on the entity's business model for managing financial assets and in accordance with the characteristics of the contractual cash flows deriving from such financial assets.

- A debt instrument which, according to the criteria, is measured at amortized cost may only be designated at fair value through profit or loss if such designation eliminates inconsistencies in the recognition and measurement that would have arose had the asset been measured at amortized cost.

- Equity instruments will be measured at fair value through profit or loss.

- Equity instruments may be designated at fair value through profit or loss, with any gains or losses being recognized in other comprehensive income. Instruments that have been designated as aforesaid will cease to be tested for impairment and any related gain or loss will not be recognized in profit or loss, including in the event of disposal.

- Embedded derivatives in financial assets will not be separated from the host contract. Instead, hybrid contracts will be measured as a whole at amortized cost or at fair value, in accordance with the business model and the contractual cash flows criteria.

- Debt instruments will be reclassified from amortized cost to fair value and vice versa only if the entity changes its business model for managing financial assets.

- Investments in equity instruments that are not quoted on an active market, including derivatives on such assets, will be measured solely at fair value. The alternative measurement at cost under certain circumstances has been eliminated. Nevertheless, the Standard determines that, under limited circumstances, cost may be an appropriate estimate of fair value.

The Standard also prescribes the following provisions with respect to financial liabilities:

- The change in the fair value of a financial liability that is designated at fair value through profit or loss upon initial recognition, which is attributed to changes in the credit risk of the liability, is recognized directly in other comprehensive income, unless such recognition gives rise to or increases accounting disparity.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

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

S. Adoption of new and revised Standards and interpretations (Cont)

(2) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (Cont)

- Upon the repayment or settlement of a financial liability, the amount of the fair value recognized in other comprehensive income will not be classified to profit or loss.

- All derivatives, whether assets or liabilities, will be measured at fair value, including a derivative financial instrument that constitutes a liability, which is related to an unquoted equity instrument for which a fair value cannot be determined reliably.

The provisions of the Standard are to be applied retrospectively, other than in a number of exceptions provided for in the Standard, to annual reporting periods commencing on January 1, 2013 or thereafter. Early adoption is permitted.

Entities that opt for early adoption of the Standard prior to January 1, 2012 are not required to apply the Standard retrospectively. Additionally, subject to the transitional provisions of the Standard, early adoption solely of the provisions of the Standard with respect to financial assets, excluding the aforesaid provisions relating to financial liabilities, is permissible.

The Company's management estimates that the effect of the adoption of the Standard on the financial statements of the Group will be unsignificant.

NOTE 3 - CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A. General

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

B. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 3 - CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont)

Revenue recognition

In making their judgment, the management considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the management is satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was NIS 17 million.

Useful lives of property, plant and equipment

As described at 2G above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Contingent liabilities

As of December 31, 2010 the company has a legal dispute with the tax authorities in Turkey regarding tax inspection that was performed during 2009.(see note 14)

According to the tax report the company need to pay additional tax and penalties in the amount of 90 million Dollar. The company's management , based on the legal advisors, estimates that the possibility of a negative cash flow is not probable therefore did not provide any provisions.

C. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Employee retirement benefits

The present value of the employee retirement benefits is based on an actuarial valuation using many assumptions inter alia the capitalization rate. Changes in the assumptions may influence the book value of the liabilities for retirement benefits. The Company determines the capitalization rate once a year based on the basis of the

capitalization rate of government bonds. Other key assumptions are based on the current prevailing terms in the market and the past experience of the Company (see also note 10).

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 4 - CASH AND CASH EQUIVALENTS

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Cash in banks | 747 | 1,788 |
| Short term bank deposits | 15,985 | 105,208 |
| Cash and cash equivalents | 16,732 | 106,996 |

NOTE 5 - TRADE RECEIVABLES

Composition

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Domestic - Open accounts | 177,147 | 179,902 |
| - Checks receivable | 40,979 | 38,957 |
| - Related parties | 1,519 | 940 |
| | 219,645 | 219,799 |
| | | |
| Foreign - Open accounts | 45,450 | 38,470 |
| - Related parties | 26,489 | 34,742 |
| | 71,939 | 73,212 |
| | 291,584 | 293,011 |
| Less - allowance for doubtful accounts | 2,490 | 3,331 |
| | 289,094 | 289,680 |

The average credit period on sales of goods is 65 days.

For each customer, where possible, the Company checks its credit rating with an external credit rating companies to assess the potential customer’s credit quality and help in defining its credit limit. Credit limit for each customer is determined and approved according to the Company's policy taking into account its rating and collaterals.

Of the trade receivables balance at the end of the year, 40.3 million NIS (2009: 49.4 million) is due from Company A, and 27.8 million Nis (2009: 36 million) is due from customer B which are the Group’s largest customers .There are no other customers who represent more than 10% of the total balance of trade receivables.

Hogla Kimberly exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

Included in the Group's trade receivable balance, are debtors with a carrying amount of NIS 9,415 thousands which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group is insured for NIS 130 million of these

balances.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 5 - TRADE RECEIVABLES (Cont.)

Ageing of past due but not impaired

| | As of December 31, 2010 |
|---|---|
| 30-90 days | 931 |
| More then 90 days | 8,484 |
| | 9,415 |

Movement in provision for doubtful debts during the year

| | As of December 31 | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Balance at beginning of the year | 3,331 | 7,465 |
| Impairment losses recognized on receivables | 112 | 315 |
| Amounts written off as uncollectible | (379) | (2,943) |
| Amounts recovered during the year | (439) | (1,506) |
| Foreign currency exchange rate differences | (135) | - |
| Balance at end of the year | 2,490 | 3,331 |

NOTE 6 - INVENTORIES

Composition

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Raw and auxiliary materials | 114,281 | 80,660 |
| Finished goods | 106,345 | 79,012 |
| Spare parts and other | 21,177 | 20,959 |
| | 241,803 | 180,631 |

In 2010 raw materials and changes in finished goods recognized as cost of sales amounted to NIS 618,740 (2009 – NIS 597,791).

As of December 31, 2010 and 2009 allowance for impairment of inventory amounted to NIS 7.1and NIS 5.7 million, respectively.

All Finish goods and Raw and auxiliary materials inventories are expected to be recovered in period of no more than twelve months.

NOTE 7 - OTHER CURRENT ASSETS

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Prepaid expenses | 2,913 | 2,976 |
| Loans to employees | 489 | 473 |
| Other | 3,776 | 2,308 |
| | 7,178 | 5,757 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 8 - PROPERTY PLANT AND EQUIPMENT

A. Composition and movement

| | Buildings | Improvements | Machinery Equipment | Vehicles | Furniture Equipment | Total |
|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | |
| Cost: | | | | | | |
| Balance - January 1, 2010 | 53,267 | 18,150 | 515,556 | 12,338 | 14,440 | 613,751 |
| Changes during 2010: | | | | | | |
| Additions | 890 | 1,328 | 52,342 | - | 1,035 | 55,595 |
| Dispositions | (211) | - | (7,392) | (667) | (124) | (8,394) |
| Foreign currency translation adjustments | (2,624) | (105) | (7,568) | (75) | (472) | (10,844) |
| Balance - December 31, 2010 | 51,322 | 19,373 | 552,938 | 11,596 | 14,879 | 650,108 |
| | | | | | | |
| Accumulated depreciation: | | | | | | |
| Balance - January 1, 2010 | 21,323 | 9,538 | 225,707 | 11,225 | 11,354 | 279,147 |
| Changes during 2010: | | | | | | |
| Additions | 1,313 | 1,535 | 26,731 | 460 | 1,028 | 31,067 |
| Dispositions | (183) | - | (6,310) | (666) | (76) | (7,235) |
| Foreign currency translation adjustments | (478) | (106) | (2,464) | (75) | (308) | (3,431) |
| Balance - December 31, 2010 | 21,975 | 10,967 | 243,664 | 10,944 | 11,998 | 299,548 |
| | | | | | | |
| Net book value: | | | | | | |
| December 31, 2010 | 29,347 | 8,406 | 309,274 | 652 | 2,881 | 350,560 |

| | Buildings | Improvements | Machinery Equipment | Vehicles | Furniture Equipment | Total |
|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | |
| Cost: | | | | | | |
| Balance - January 1, 2009 | 51,090 | 15,718 | 482,521 | 12,343 | 13,862 | 575,534 |
| Changes during 2009: | | | | | | |
| Additions | 2,412 | 2,431 | 42,428 | - | 618 | 47,889 |
| Dispositions | (130) | - | (8,984) | - | (18) | (9,132) |
| Foreign currency translation adjustments | (105) | 1 | (409) | (5) | (22) | (540) |
| Balance - December 31, 2009 | 53,267 | 18,150 | 515,556 | 12,338 | 14,440 | 613,751 |
| | | | | | | |
| Accumulated depreciation: | | | | | | |
| Balance - January 1, 2009 | 20,208 | 8,241 | 209,087 | 10,663 | 10,161 | 258,360 |
| Changes during 2009: | | | | | | |
| Additions | 1,268 | 1,293 | 24,732 | 567 | 1,218 | 29,078 |
| Dispositions | (130) | - | (8,004) | - | (18) | (8,152) |
| | (23) | 4 | (108) | (5) | (7) | (139) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Foreign currency translation adjustments | | | | | | |
| Balance - December 31, 2009 | 21,323 | 9,538 | 225,707 | 11,225 | 11,354 | 279,147 |
| | | | | | | |
| Net book value: | | | | | | |
| December 31, 2009 | 31,944 | 8,612 | 289,849 | 1,113 | 3,086 | 334,604 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 8 - PROPERTY PLANT AND EQUIPMENT (Cont.)

B. Prepaid expenses for operating lease

Hogla-Kimberly leased land in Afula from the Israel Land Administration on January 1988 at the amount of NIS 4,600 thousand, the end of the leasing period is September 2023.

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Prepaid expenses for operating leases as of January, 1988 | 4,600 | 4,600 |
| Accumulated expenses recognized in profit and loss | (2,963) | (2,835) |
| | 1,637 | 1,765 |

NOTE 9 - INVESTMENTS IN SUBSIDIARIES

A. Goodwill

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Cost | 26,009 | 26,009 |
| Translation adjustments | (8,976) | (7,359) |
| | 17,033 | 18,650 |

B. Annual impairment test

The goodwill is allocated to KCTR's activity, which is the cash generating unit for the purpose of calculating the recoverable amount.

The recoverable amount value is based on the fair value of investment in KCTR less cost to sell, calculated by five years DCF forecast approved by the company's management and based on the following assumptions, determined by KC experience in similar markets. :

1. Long term growth ratio of 2.5%.
2. Weighted cost of capital of 14.5%.

C. Investment in Kimberli Clark Tuketim Mallari Sanayi Ve Ticaret A.Ş. ("KCTR")

As of December 31, 2010 and 2009, the Group’s investment in KCTR (a Turkish Subsidiary) amounted to NIS 224,099 and NIS 250,813 thousand respectively (including (including goodwill – see above). In recent years KCTR incurred significant losses from operations.

The company examined the investment in KCTR for impairment in accordance to its revocable amount.

Based on the said examination, the company's business forecast and estimates made, no impairment is required. (see note 10 B above)

During years 2005 - 2010, the Company provided KCTR NIS 583,758 thousand for the continuation of its on going operations. In addition, the Company has committed to financially support KCTR in 2011. Such finance support may be granted to KCTR either by cash injections, long-term loans, or guaranties if required so by banks according to the financing needs of KCTR.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 9 - INVESTMENTS IN SUBSIDIARIES (Cont.)

D. Consolidated Subsidiaries

The consolidated financial statements as of December 31, 2010, include the financial statements of the following Subsidiaries:

| | Ownership and control as of December 31, 2010 % |
|---|---|
| Hogla-Kimberly Marketing Ltd. (“Marketing”) | 100 |
| Kimberly Clark Tuketim Mallari Sanayi Ve Ticaret A.Ş. (“KCTR”) | 100 |
| Mollet Marketing Ltd. (“Mollet”) | 100 |
| H-K Overseas (Holland) B.V. (*) | 100 |
| Hogla-Kimberly Holding Anonim Sirketi (*) | 100 |

(*) The company is inactive.

NOTE 10 - EMPLOYEE BENEFITS

A. Composition

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Post Employment Benefits: | | |
| Severance pay benefits: | | |
| Severance pay liability | 4,759 | 4,176 |
| Less – Amounts deposited with a general fund | (2,205) | (2,160) |
| Severance pay net | 2,554 | 2,016 |
| Liability for early retirement | 3,410 | 4,237 |
| Benefits to retirees | 2,308 | 1,910 |
| Other short term employee benefits: | | |
| Liability for vacation pay | 11,798 | 11,690 |
| Stated in the balance sheet as follows: | | |

| | | |
|---|---|---|
| Non current Assets | 639 | 517 |
| Short-term Liabilities | 12,810 | 12,855 |
| Long-term Liabilities | 7,899 | 7,515 |
| | 20,070 | 19,853 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 10 - EMPLOYEE BENEFITS (Cont.)

B. Defined contribution plan

Most of the Company and its Israeli subsidiaries employees are covered by Article 14 to the Severance Law and therefore the Company and its Israeli subsidiaries makes regular deposits (contributions) in the name of their employees and do not have an obligation to pay further contributions. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

During the year 2010 a sum of NIS 22,623 thousand was recognized in the income statement due to the defined contribution plan.

C. Actuarial assumptions

The groups defined benefit plans and other long term employee benefits provisions, has been calculated by estimating the present value of the future probable obligation using actuarial valuation methods. The discounted rate is based on yield on government bonds at a fixed interest rate which have an average lifetime equal to that of the gross liability. The actuarial assumptions used in each plan are detailed bellow.

D. Defined benefit plans

The groups defined benefit plans include benefits to retirees and severance pay

1. The group's Severance pay liability.

Severance pay provisions resulting from the Israeli companies and included in the financial statements of the group are due to increased severance pay which are not covered by deposits made on monthly basis. In respect of this part of the obligation, there is a reserve deposited in the Company's name in a recognized compensation fund

Under the Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provisions according to current 506 numbered Social Insurance Law’s 6 March 1981 dated, 2422 numbered, 25 August 1999 dated and 4447 numbered with 60th article that has been changed. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 10 - EMPLOYEE BENEFITS (Cont.)

D. Defined benefit plans (Cont.)

1. The group's Severance pay liability. (Cont.)

The principal assumptions used for the Severance pay liability in Israel actuarial valuations were as follows:

| | Valuation at | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| Discount rate | 4.88 | % | 5.47 | % |
| Expected rate of inflation | 2.81 | % | 2.64 | % |
| Expected rate of salary increase | 4.25 | % | 4.25 | % |

The provisions at the respective balance sheet dates in Turkish subsidiary have been calculated assuming an annual inflation rate of 5.1% and a discount rate of 10%, the anticipated rate of forfeitures is considered.

The amounts recognized in profit or loss in respect of Severance pay liability are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Current service cost | 1,293 | 1,257 | 2,724 |
| Interest on obligations | 232 | 192 | 135 |
| Actuarial losses recognized during the year | 17 | 143 | 51 |
| Benefit paid during the year | (669) | (744) | (440) |
| Foreign currency translation affect | (290) | (13) | (271) |
| | 583 | 835 | 2,199 |

The amount included in the balance sheet arising from the entity's obligation in respect of Severance pay liability is as follows:

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Present value of Severance pay liability | 4,759 | 4,176 |

The amount of Severance pay liability of 4,759 consists of: NIS 3,194 thousands (2009 – NIS 2,533 thousands) due to severance pay liability for of the Turkish subsidiary employees according to the Turkish law and NIS 1,565 thousand(2009 – NIS 1,643 thousands) due to liability for increased severance pay for certain employees according to a collective agreement.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 10 - EMPLOYEE BENEFITS (Cont.)

D. Defined benefit plans (cont.)

1. The group's Severance pay liability. (Cont.)

Movements in the present value of Severance pay liability in the current period were as follows:

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Opening defined benefit obligation | 4,176 | 3,341 |
| Current service cost | 1,293 | 1,257 |
| Interest cost | 232 | 192 |
| Actuarial losses | 17 | 143 |
| Benefit paid during the year | (669) | (744) |
| Foreign currency translation affect | (290) | (13) |
| Closing defined benefit obligation | 4,759 | 4,176 |

2. Benefits to retirees of holiday vouchers.

The financial statements include liability to benefits given to retirees – holiday gifts.

Employees who are not temporary are entitled to received holiday vouchers, after retirement, until the end of their life. In cases of death, the remaining spouses are entitled to receive the benefits until the end of their life.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | Valuation at | |
|---|---|---|
| | 2010 | 2009 |
| Discount rate | 4.88 % | 5.54 % |
| Expected rate of inflation | 2.81 % | 2.61 % |
| Expected rate of leaving | 2.6%-15.1% | 2.6%-15.1% |

The amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Current service cost | 43 | 59 | 48 |
| Interest on obligations | 106 | 105 | 92 |
| Actuarial losses recognized in the year | 363 | 68 | 58 |
| Benefit paid during the year | (114) | (112) | (104) |

| | | | |
|---|---|---|---|
| | 398 | 120 | 94 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 10 - EMPLOYEE BENEFITS (Cont.)

D. Defined benefit plans (cont.)

2. Benefits to retirees of holiday vouchers (Cont.)

The amount included in the balance sheet arising from the entity's obligation in respect of its benefits to retirees' plans is as follows:

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Present value of funded defined benefit obligation | 2,308 | 1,910 |

Movements in the present value of the defined benefit obligation in the current period were as follows:

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Opening defined benefit obligation | 1,910 | 1,995 |
| Current service cost | 43 | 31 |
| Interest cost | 106 | 100 |
| Actuarial losses | 363 | 59 |
| Benefits paid | (114) | (275) |
| Closing defined benefit obligation | 2,308 | 1,910 |

E. Other short term employee benefits

Other short term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that exceeds 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

F. Early retirement

The obligation in respect of early retirement includes an obligation for pension for the period starting the date of the early retirement up to reaching the legal retirement age.

The amount included in the balance sheet arising from the entity's obligation in respect of early retirement is as follows:

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |

| | | |
|---|---|---|
| Present value of funded defined benefit obligation | 3,410 | 4,237 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 10 - EMPLOYEE BENEFITS (Cont.)

F. Early retirement (Cont)

Movements in the present value of early retirement in the current period were as follows:

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Opening defined benefit obligation | 4,237 | 5,009 |
| Interest cost | 207 | 220 |
| Additions | 163 | 402 |
| Benefits paid | (1,197) | (1,394) |
| Closing defined benefit obligation | 3,410 | 4,237 |

| Stated in balance sheet | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Short term liabilities | 1,013 | 1,165 |
| Long term liabilities | 2,397 | 3,072 |
| | 3,410 | 4,237 |

NOTE 11 - BORROWINGS

This Note provides information about the contractual terms of the interest-bearing loans and borrowings. For more information about the exposure of the Group to interest rate and foreign currency risks, see Note 23

A. Composition

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| | NIS thousands | |
| Current liabilities to banks | | |
| Short-term borrowings | 9,845 | 670 |
| Current maturities of long term bank loans (*) | 26,795 | 25,307 |
| | 36,640 | 25,977 |
| Non-current liabilities to banks and others | | |
| Long tern bank loans | 6,941 | 33,736 |
| | 43,581 | 59,713 |

(*) The loans are not linked and bear interest at a variable rate. The principal of the loan and interest are paid quarterly.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 11 - BORROWINGS (Cont.)

B. Terms and debt repayment table

| | | Nominal interest rate (*) | Current Liabilities | | Non-Current liabilities | |
|---|---|---|---|---|---|---|
| | | | December 31, | | December 31, | |
| | | | 2010 | 2009 | 2010 | 2009 |
| | Currency | % | NIS in thousands | | | |
| Loans and borrowings from banks: | | | | | | |
| Borrowing: | | | | | | |
| NIS nominated | NIS | 3.8-4.7 | - | - | - | - |
| YTL nominated | YTL | 7.8 | 9,845 | 670 | - | - |
| Loans: | | | | | | |
| NIS nominated | NIS | 3.5 | 26,795 | 25,307 | 6,941 | 33,736 |
| | | | 36,640 | 25,977 | 6,941 | 33,736 |

Terms and debt repayment table

On January 2008, the Company made an agreement with an Israeli bank for prime linked interest loan in the amount of NIS 100 million which will be repaid during a four years period. As part of the agreement the Company agreed to the following covenants:

1. It's shareholder's equity will not be less than NIS 250 million and not less than 25% of the total consolidated assets.

2. Both the Company's shareholder's Kimberly Clark and Hadera Paper separately or together, will not hold less than 51% of the Company's share capital.

As of December 31, 2010 the Company meets all covenants agreed with banks.

| | As of December 31, 2010 |
|---|---|
| | NIS in thousands |
| Maturities of long term loans | |
| First year - 2011 | 26,795 |
| Second year - 2012 | 6,941 |
| | 33,736 |

NOTE 12 - TRADE PAYABLES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |

| | | |
|---|---|---|
| In Israeli currency: | | |
| Open accounts | 145,420 | 143,957 |
| Related parties | 32,767 | 28,611 |
| In foreign currency: | | |
| Open accounts | 115,085 | 95,164 |
| Related parties | 36,644 | 28,626 |
| | 329,916 | 296,358 |

The average credit period is 103 days.

Regarding exposure to currency risks are disclosed in note 23.

The Trade payables balance include an amount of NIS 8,485 Thousands (2009: NIS 15,454 thousands) due to fixed assets purchases.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 13 - OTHER PAYABLES AND ACCRUED EXPENSES

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Accrued payroll and related expenses | 30,926 | 36,689 |
| Value Added Tax | 4,472 | 7,955 |
| Advances from customers | 142 | 278 |
| Derivatives liabilities (*) | 2,124 | 119 |
| Sales Agent fee accrual | 3,594 | 6,534 |
| Other | 2,796 | 6,298 |
| | 44,054 | 57,873 |

(*) Derivatives liabilities see note 23.

NOTE 14 - COMMITMENTS CONTINGENT LIABILITIES AND OTHER INFORMATION

A. Commitments

(1) The Group is obligated to pay royalties to a shareholder - see also Note 24B.

(2) The Company and its Subsidiaries lease a number of their facilities under operating leases for varying periods with renewal options. The Company does not have an option to purchase the leased assets at the end of the lease period .In addition the company has a vehicles lease agreement for the period between 2008-2014 Future minimum lease and vehicles leasing rentals as of December 31, 2010 are as follows:

| | NIS in thousands |
|---|---|
| 2011 | 27,846 |
| 2012-2015 | 86,665 |
| 2016 and thereafter | 77,149 |
| | 191,660 |

B. Guarantees

(1) As part of their normal course of business, the Company and its Subsidiaries provided third parties with bank guarantees for contract performance, the balance of which as of December 31, 2010 amounted to NIS 180 thousand.

(2) A Subsidiary has given letter of guarantees to the local banks for a number of contingent liabilities that have arisen as a result of the Company’s importing transactions. The amount disclosed of NIS 2,425 thousands represents the aggregate amount of such contingent liabilities for which the Company as an importer is liable.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 14 - COMMITMENTS CONTINGENT LIABILITIES AND OTHER INFORMATION (Cont.)

C. Legal proceedings

1. 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 (“Court”) for a staying of procedures by creditors. In December 2005, the Court approved a creditors settlement submitted by the trustees, according to which, amongst other matters, the Company is to receive about 51% of Clubmarket’s debt to the Company.

On September 2007 a compromise was made between the trustees and the company, which was approved by the court, that the total approved debt of clubmarket to the company is NIS 23.9 million. Until December 31, 2010, NIS 11 million was received as part of the creditors' settlement.

There is not any remaining net balance of Clubmarket's debt as of December 31, 2010, that is in excess of the doubtful accounts provision recorded in the financial statements.

2. On July 12, 2007 a lawsuit was filled against KCTR, a Hogla Kimberly subsidiary, by a former distributor, claiming financial loss caused to him. The amount claimed is approximately YTL 832 thousands (NIS 2,045 thousands).KCTR filed a counter claim for it's damage in the amount of approximately YTL 355 thousands ( NIS 873 thousands). Based on the Company’s legal counsels, management estimates that the Company has valid arguments to oppose the lawsuit, and it is probable that its arguments will be accepted. Therefore, no provision was recorded in the financial statements relating to this lawsuit.

3. During 2009, as part of a formal tax inspection of the Turkish Tax Authorities, KCTR's Financial Reports for the years 2004-2008 were examined.

On February 16, 2010, KCTR received a tax inspection report, following the aforementioned inspection, according to which KCTR is required to an additional tax payment for two matters audited, as detailed below, on the total amount of 135 millions YTL (approximately 90 millions USD) including interest and penalty.

On July 2010, an amount of 264 thousands YTL was paid to Turkish Tax Authorities regarding settlement in the stamp duty issue.

Regarding the second matter, which is the essential part of the tax demand (tax on capital injection from Hogla-Kimberly to KCTR), KCTR, based on its tax consultant opinion, estimates that the likelihood that it will be demanded for the additional tax payment in this matter, is not probable, and therefore it will not provide a provision at Its Financial Reports for December 31, 2010.

Based on its tax consultant opinion, during 2010, KCTR decided to pursuit a law case against the Turkish Tax Authorities demands regarding the second matter. First level court proceedings are continuing as date of this report .

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 14 - COMMITMENTS CONTINGENT LIABILITIES AND OTHER INFORMATION (Cont.)

C. Legal proceedings (Cont.)

4. On June 15, 2010, a petition was filed against Hogla-Kimberly and against another competitor for the approval of a class action. According to the petition, the Competitor and Hogla-Kimberly has misled the public by presenting plastic bags as oxo biodegradable and therefore environmentally friendly, while the products are breaking down into fragments.

The plaintiff estimates the scope of the petition, if approved as class action, to be approximately NIS 111 million. At this early stage Hogla-Kimberly legal advisor opinion is that the probability of the request for approval of a class action lawsuit will be rejected is higher than the probability that it will be approved.

5. On October 24, 2010 a new lawsuit was received, filed against the company in the amount of approximately NIS 1.5 million, by a former distributer, regarding termination of distribution agreement by the company. The former distributor claims for the existence of employer-employee relations. Due to the preliminary stage of the proceedings, management is unable to estimate the possible outcome of the lawsuit.

NOTE 15 - SHARE CAPITAL

A. Composition of Share Capital in Nominal NIS as of December 31, 2010, 2009 and 2008:

| | Number of Shares | |
|---|---|---|
| | Authorized | Issued and fully paid up |
| Ordinary Shares of NIS 1.00 par value | 11,000,000 | 9,113,473 |

B. Holders of ordinary shares are entitled to participate equally in the payment of cash dividends and bonus share (stock dividend) distributions and, in the event of the liquidation of the Company, in the distribution of assets after satisfaction of liabilities to creditors. Each ordinary share is entitled to one vote on all matters to be voted on by shareholders.

C. The company issued one preference Share to Hadera Paper Ltd, which gives Hadera Paper the right to receive special dividends according to the decision of the Board from time to time.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 16 - REVENUE

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| A. Sales of the Turkish subsidiary | 471,304 | 489,560 | 404,024 |
| B. Sales to major customers (as percentage from total net sales) | | | |
| Customer A | 13.2 % | 14 % | 13.2 % |
| Customer B | 8.4 % | 9.5 % | 10.5 % |

NOTE 17 - COST OF SALES

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Material consumed | 618,740 | 597,791 | 564,455 |
| Purchases (*) | 280,127 | 267,842 | 271,688 |
| Salaries and related expenses | 122,222 | 119,867 | 110,844 |
| Manufacturing expenses | 134,872 | 133,098 | 140,991 |
| Depreciation | 29,449 | 27,387 | 21,883 |
| | 1,185,410 | 1,145,985 | 1,109,861 |
| Change in finished goods inventory | (20,191) | 18,964 | (12,294) |
| | 1,165,219 | 1,164,949 | 1,097,567 |

(*) The purchases of the group are related principally to commercial operations.

NOTE 18 - OTHER INCOME

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Capital gain from realization of trademark | 3,131 | - | - |
| Refund from mutual fund | 1,600 | - | - |
| | 4,731 | - | - |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 19 - SELLING AND MARKETING EXPENSES

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Salaries and related expenses | 83,611 | 80,930 | 81,744 |
| Maintenance and transportation expenses | 84,547 | 83,132 | 82,676 |
| Advertising and sales promotion | 66,923 | 82,936 | 85,589 |
| Commissions to distributors | 9,819 | 11,941 | 11,541 |
| Royalties | 29,780 | 31,117 | 29,584 |
| Depreciation | 1,460 | 1,668 | 1,695 |
| Other | 11,921 | 13,052 | 15,908 |
| | 288,061 | 304,776 | 308,737 |

NOTE 20 - GENERAL AND ADMINISTRATIVE EXPENSES

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Salaries and related expenses | 31,312 | 36,434 | 35,224 |
| Administrative and computer services | 12,506 | 13,005 | 12,118 |
| Services provided by Shareholder | 1,400 | 1,373 | 1,380 |
| Office maintenance | 4,507 | 3,549 | 4,392 |
| Depreciation | 730 | 832 | 749 |
| Provision for doubtful accounts | (710) | (1,724) | 1,459 |
| Other | 12,612 | 9,628 | 11,197 |
| | 62,357 | 63,097 | 66,519 |

NOTE 21 - FINANCING INCOME AND EXPENSES

A. Financing income

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Exchange rate differences | 9,318 | 1,024 | 8,388 |
| Interest from long-term and short-term bank deposits | 144 | 213 | 612 |
| Interest income from tax authorities | 2,382 | 1,164 | 631 |
| Application of amortized cost method on Receivables and payables. | 251 | 1,434 | 2,379 |
| Finance expense from derivative | - | 683 | |
| Due to capital note to related parties | - | - | 1,560 |
| Other | 9 | 39 | 132 |

| | | | |
|---|---|---|---|
| | 12,104 | 4,557 | 13,702 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 21 - FINANCING INCOME AND EXPENSES (Cont.)

B. Financing expenses

| | Year ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS in thousands | | |
| Interest on long-term bank loans | 1,360 | 1,395 | 4,595 |
| Interest on Short-term bank loans | 1,290 | 807 | 4,499 |
| Interest expenses to tax authorities | 1,267 | - | |
| Finance Expenses from derivative | 3,560 | - | 3,002 |
| Other | 633 | 839 | 259 |
| | 8,110 | 3,041 | 12,355 |
| | | | |
| | 3,995 | 1,516 | 1,347 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 22 - INCOME TAX

A. Recognised tax assets and deferred tax liabilities

Tax assets and deferred tax liabilities are attributed to the following items

Changes in temporary differences during the year (NIS in thousands)

| | Balance at January 1, 2009 | Charged to profit and loss | Charged to other comprehensive income | Change in Tax rate | Balance at December 31, 2009 | Charged to profit and loss | Charged to other comprehensive income | Exchange difference | Change in Tax rate | Balance at December 31, 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | (39,498) | (1,562) | - | 6,287 | (34,773) | (1,729) | - | 79 | - | (36,423) |
| Doubtful debts | 1,399 | (975) | - | 27 | 451 | (200) | - | - | 9 | 260 |
| Derivatives | (433) | - | 401 | - | (32) | - | 282 | - | - | 250 |
| Employee benefits | 4,848 | 791 | - | (50) | 5,589 | (1,252) | - | - | 82 | 4,419 |
| Expenses accruals | - | - | - | - | - | - | - | - | - | - |
| Tax carry forward losses | - | - | - | - | - | - | - | - | - | - |
| Other | 59 | (25) | - | - | 33 | (45) | - | - | - | (12) |
| | (33,625) | (1,772) | 401 | 6,264 | (28,732) | (3,226) | 282 | 79 | 91 | (31,506) |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 22 - INCOME TAX (Cont.)

B. Deferred taxes are presented in the balance sheet as follows:

| | 2010 | 2009 |
|---|---|---|
| | NIS in thousands | |
| Long-term liabilities (in respect of depreciable assets) | 35,370 | 33,631 |
| Long-term Assets | (3,864) | (4,899) |
| | 31,506 | 28,732 |

For 2010-2011 - Deferred taxes were computed at rates between 18%-25%, primarily – 20.5%.

As of December 31, 2010 deferred tax assets at the amount of NIS 250 thousand (2009 – NIS 32 thousand tax liability) due to revaluation of financial instruments treated as cash flow hedges was recognized directly to equity.

C. Deferred tax assets that were not recognised

The calculation of deferred taxes does not take into account the taxes that would be applicable in case of realization of the investment in subsidiaries and associates, since the Group intends to retain the investment. Deferred taxes in respect of a distribution of profit in Israeli subsidiaries were also not taken into account, since the dividends are not taxable. In addition, unutilized deferred tax assets in respect of losses carried forward, were not recognized in cases where future taxable income against which they can be utilized, is not foreseen.

As of December 31, 2010 carry forward tax losses deriving from the Turkish subsidiary sum up to NIS 165.7 (72.8 YTL) millions. The Company has examined the validity of the deferred tax assets deriving from its Turkish subsidiary. As of December 31, 2010 deferred tax assets were not recognized in respect of utilizing tax losses in the Turkish subsidiary since it is not anticipated that there will be taxable income against which the tax benefits can be utilized.

According to the Turkish law, carry forward tax losses can be utilized for a five years period only, unrecognized tax losses of KCTR will expire as follow:

An amount of NIS 74.5, 73.6, 7, 6.3 and 4.2 will expire between 2011-2015, respectively.

D. Income tax attributable directly to other comprehensive income

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | | NIS in thousands | |
| Total tax recognized directly in equity | 579 | (199) | 155 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 22 - INCOME TAX (Cont.)

E. Tax Composition

| | 2010 | 2009 |
|---|---|---|
| | NIS in thousands | |
| Current taxes | 42,771 | 48,715 |
| Taxes in respect of prior years | - | - |
| Deferred taxes - A. above | 3,133 | (4,489) |
| | 45,904 | 44,226 |

F. Reconciliation of the statutory tax rate to the effective tax rate:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| | NIS in thousands | | |
| Income before income taxes | 190,598 | 195,321 | 137,100 |
| | | | |
| Statutory tax rate (see H. below) | 25 % | 26 % | 27 % |
| Tax computed by statutory tax rate- | 47,650 | 50,783 | 37,017 |
| | | | |
| Tax increments (savings) due to: | | | |
| Income (Expenses) in reduced tax rate | (3,561) | (4,268) | (2,104) |
| Non-deductible expenses | 1,483 | 1,024 | 2,297 |
| Non-taxable income | (797) | (48) | (90) |
| Unrecorded deferred taxes in connection with tax loss carry forward | 1,074 | 3,027 | 5,483 |
| Amortizing differed taxes | - | - | 4,244 |
| Reduction in corporate tax rates (see H. below) | (239) | (6,177) | 651 |
| Differences arising from basis of measurement | (178) | (185) | 579 |
| Income (Expenses) taxes for prior years | - | - | 221 |
| Other differences, net | 472 | 70 | (825) |
| | 45,904 | 44,226 | 47,473 |

G. Current Tax Balance

| | 2010 | 2009 |
|---|---|---|
| | NIS in thousands | |
| Current taxes assets | 54 | - |
| Current tax liabilities | 22,583 | 26,631 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 22 - INCOME TAX (Cont.)

H. The Company and its Israeli Subsidiaries are subject to the Income Tax Ordinance and the Income Tax Law (Inflationary Adjustments), 1985. Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the Israeli CPI. The Company and its subsidiaries in Israel are taxed under this law.

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law ("Inflation Adjustments") (Amendment 20) (Limitation of Term of Validity) - 2008 (hereinafter: "The Amendment"), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention it is to prevent distortions in tax calculations.

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

Non-Israeli Subsidiaries are subject to income tax provisions of their home country.

The Company is an industrial company in conformity with the Law for the Encouragement of Industry (Taxes), 1969. The principal benefit that the Company is entitled to under this law is accelerated depreciation rates and reduced tax rates.

According to this law the Company and Shikma (formerly a subsidiary) filed consolidated tax returns until December 31, 2005. On December 31, 2005, Shikma was merged into the Company.

On January 15,2009 the Company received an approval from the investment center for the merger of the Company and its subsidiary Shikma which took place at the end of 2005.

During 2002, the Company’s program for the establishment of a new facility for manufacturing paper was granted Approved Enterprise status in accordance with the Law for the Encouragement of Capital Investments, 1959, under “alternative benefits” track. The approval program was originally for total investments of approximately NIS 97 million. According to the terms of the program, income derived from the Approved Enterprise will be tax-exempt for a period of 10 years commencing in the year in which the program was substantially completed. Distribution of dividends from tax exempt profits of the Approved Enterprise will be subject to income tax at a rate equal to the income tax rate of the Approved Enterprise had the Company not elected the alternative benefits track. The Company completed the investments relating to the new facility. Commencement of operations was during 2003.

During May 2010,the Company recived the approval of the final report from the Investment center for total investments of NIS 109, and approval for the merger of Shikma into the company.

The Company and its subsidiary Shikma Ltd. possess final tax assessments through 2003.

Hogla Kimberly Marketing Ltd., a subsidiary of the Company, posses' final tax assessments through 2004.

NOTE 22 - INCOME TAX (Cont.)

H. (Cont.)

Mollet Marketing Ltd., a subsidiary of the Company, posses' final tax assessments through 2004.

On July 14, 2009 Knesset passed the Economic Efficiency Law (legislative amendments to implement the economic plan for the years 2009 and 2010) - 2009, which stipulates, inter alia, an additional gradual reduction in the rate of companies tax to 18% in the 2016. tax year and thereafter. According to these amendments, the rate of company tax applying to the 2010 tax year and thereafter are as follows: 2009 tax year - 26%, 2010 tax year - 25%, 2011 tax year - 24%, 2012 tax year - 23%, 2013 texture - 22%, 2014 tax year - 21%, 2015 tax year - 20%, and in the 2016 tax year and thereafter there will be a companies tax rate of 18%.

The change in the tax rates have decreased the deferred taxes liability as of December 31, 2009 in the amount of NIS 6,177 thousand.

I. On the 29th December, 2010 the Knesset ratified the Economic Policy 2011-2012 Law (amendments), 2011 that was published in the articles on the 6th January, 2011. Within this law, the Law for the Encouragement of Capital Investments – 1959 was amended (hereafter "amendment"). According to the amendment the different income tax channels were abolished & instead fixed income tax rates on the industrial taxable income were set as follows:

2011-2012: 15% (area "A" – 10%)
2013-2014: 12.5% (area "A" – 7%)
2015 onwards: 12% (area "A" -6%)

These amendments came in force as from 1st January, 2011. Each company is entitled to to choose whether to be included within this amendment & to forego the outstanding benefits of the previous law or to waive this amendment.

The company has uncertainty as to its ability to confirm to the amendments stipulations &, as such, has not recognized the tax income derived from the amendment.

J. Tax inspection report was received during 2010 to KCTR, see note 14 C .

NOTE 23 - FINANCIAL INSTRUMENTS

General

In the normal course of business, Hogla-Kimberly is exposed to credit, liquidity and market risks, as well as interest and currency risks. The Company monitors these risks on a constants basis.

The Group's policy is to hedge the exposure from fluctuations in foreign exchange rates to minimize its exposure to fluctuations of foreign currency rates. The hedging is according to a policy adopted by the Company's Board of Directors.

A. Significant accounting policies

Details as to the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial

asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

B. Categories of financial instruments

| | As of December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS in thousands | |
| Financial assets | | |
| Cash (including cash equivalents) and Trade receivables | 310,091 | 399,457 |
| | | |
| Financial liabilities | | |
| Borrowings and Trade payables | 366,556 | 322,336 |
| Derivative instruments in designated hedge accounting relationships | 2,124 | 119 |

Measured at the fair value

C. Credit risk

Credit risk refers to the possibility that counterparty will fail to meet its contractual obligations, resulting in financial loss to the Company.

Commencing November 2007 Hogla Kimberly is covered by a credit insurance policy, which partially covers it's most major customers. In accordance with its policy conditions, the company will be reimbursed starting from an annual loss of US dollars 200 thousands to a maximum of US dollars 10 million, subject to deductible conditions.

The revenues of the Company and its Israeli subsidiaries are mainly in Israel and derived from two major customers and a large number of smaller customers. Trade receivables in the Turkish subsidiary consist of a limited number of customers, where no single counterparty or any company of counterparties having similar characteristics.

The Company has a policy of creditworthy customers and obtaining sufficient collaterals where possible as a means of mitigating the risk of financial loss from defaults,

For each customer, where possible, the Company checks its credit rating with an external credit rating companies to assess the potential customer’s credit quality and help in defining its credit limit. Credit limit for each customer is determined and approved according to the Company's policy taking into account its rating and collaterals.

Management regularly monitors the balance of trade receivables and the financial statements include an allowance for doubtful accounts based on management's estimation.

The exposure to credit risks relating to trade receivables is limited due to the relatively large number of customers and to the credit insurance.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk (without taking account of the value of any collateral obtained).

Cash and cash equivalents are deposited with major banks in Israel and abroad. Therefore, it is not expected that such banks will fail to meet their obligations.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

D. Liquidity risk

Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate.

The following table presents the Group's outstanding contractual maturity profile for its non-derivative financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the Group's financial liabilities, including any interest that will accrue. Non-interest bearing financial liabilities which are due to be settled in less than 12 months from maturity equal their carrying values, since the impact of the time value of money is immaterial over such a short duration.

Maturity profile of outstanding financial liabilities

| | 1 year | 1-2 years | 2-4 years | Total |
|---|---|---|---|---|
| | NIS in thousands | | | |
| 2010 | | | | |
| Supplier payables | 329,916 | - | - | 329,916 |
| Borrowings | 36,640 | 6,941 | - | 43,581 |
| Total | 366,556 | 6,941 | - | 373,497 |
| | | | | |
| 2009 | | | | |
| Supplier payables | 296,359 | - | - | 296,359 |
| Borrowings | 25,977 | 26,795 | 6,941 | 59,713 |
| Total | 322,336 | 26,795 | 6,941 | 356,072 |

E. Exchange rate risk

The Group is exposed to foreign currency risks mainly due to payments for purchases of raw materials and finished goods inventory and purchases of equipment and spare parts linked to the dollar or the Euro. In applying a policy of minimizing the exposure, the Group makes forward transactions against the dollar and euro.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | 31, December 2010 | | |
|---|---|---|---|
| | NIS thousands | | |
| | USD | EURO | YTL |
| | NIS | in thousands | |
| Cash and cash equivalents | 4,146 | 2,127 | 3,058 |
| Trade receivables | 30,116 | - | 40,354 |
| | 34,262 | 2,127 | 43,412 |
| Borrowings | - | - | 9,845 |

| | | | |
|---|---|---|---|
| Trade payables | 109,449 | 30,499 | 15,829 |
| | 109,449 | 30,499 | 25,674 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

E. Exchange rate risk (Cont)

| | 31, December 2009 NIS thousands | | |
|---|---|---|---|
| | USD | EURO | YTL |
| | NIS | in thousands | |
| Cash and cash equivalents | 38,586 | 748 | 22,975 |
| Trade receivables | 35,583 | 1,328 | 34,738 |
| | 74,168 | 2,076 | 57,713 |
| Borrowings | - | - | 670 |
| Trade payables | 61,536 | 25,002 | 30,576 |
| | 61,536 | 25,002 | 31,246 |

The following table details the Group's sensitivity to a 10% increase and decrease in the NIS against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the NIS strengthens 10% against the relevant currency. For a 10% weakening of the NIS against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | USD Impact | | EUR Impact | | YTL Impact | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | NIS in thousands | | | | | |
| Profit or loss (1) | (2,465) | (5,671) | (160) | (542) | 2,068 | 2,008 |
| Other equity (2) | 1,692 | 1,737 | 1,457 | 740 | - | - |

(1) This is mainly attributable to the exposure outstanding on receivables, cash and payables at year end in the Group, and forward foreign exchange contracts.

(2) This is as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

Forward foreign exchange contracts

The Company hedges its exposure of itself and its Israeli subsidiaries by entering into forward foreign exchange contracts, according to a policy adopted by the Company's Board of Directors, to manage the risk associated with anticipated purchase transaction. The Company hedges 80% of its forecasted payments to suppliers of its forecasted exposure for a period of six month forward.

These hedging transactions are treated as cash flow hedges and the resulting gain or loss is recognized in other comprehensive income.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

E. Exchange rate risk (Cont.)

The following table details the forward foreign currency (FC) contracts outstanding as at the reporting date:

| Outstanding contracts | Buy Currency | Sell Currency | Fair value NIS |
|---|---|---|---|
| Less than 3 months | USD | NIS | 1,224 |
| 3 to 6 months | USD | NIS | 254 |
| Less than 3 months | EUR | NIS | 460 |
| 3 to 6 months | EUR | NIS | 185 |

The Company does not hedge its foreign currency exposure to the YTL in respect of its investment in the Turkish subsidiary.

F. Fair Value of Financial Instruments

The financial instruments of the Group consist primarily of non-derivative assets and liabilities. Non-derivative assets include cash and cash equivalents, receivables and other current assets. Non-derivative liabilities include trade payables and other current liabilities. Due to the nature of these financial instruments, their fair value, generally, is identical or close to the value at which they are presented in the financial statements, unless stated otherwise.

NOTE 24 - RELATED PARTIES AND INTERESTED PARTIES

The Company is owned by Kimberly Clark Corp. (“KC” or the “Parent Company”) (50.1%) and Hadera Paper Ltd. (“Hadera Paper”) (49.9%).

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below:

A. Balances with Related Parties

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | NIS Thousands | |
| Trade receivables | 27,968 | 35,682 |
| Other current assets | 3,228 | 948 |
| Trade payables | 84,629 | 72,339 |

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 24 - RELATED PARTIES AND INTERESTED PARTIES (Cont.)

B. Transactions with Related Parties

| | December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | NIS Thousands | | |
| Sales to related parties (1) | 222,018 | 243,212 | 216,841 |
| Cost of sales (2) | 328,466 | 256,696 | 268,476 |
| Royalties to the shareholders (3) | 29,780 | 31,117 | 29,584 |
| General and administrative expenses (*) (4) | 9,707 | 11,980 | 12,488 |

(*) Company - excludes Subsidiaries.

C.

(1) Sales of finished goods to companies in KC group and Hadera Paper.

(2) Mainly purchase of finished goods from companies in KC group and Hadera Paper group.

(3) The group is obligated to pay royalties to KC.

(4) The Company leases its premises in Hadera and Naharia from Hadera Paper and receives certain services (including energy, water, maintenance, computer and professional services) under agreements, which are renewed based on shareholders agreements.

D. Compensation of key management personnel

Total remuneration of key management during the year was NIS 9,344 thousands (2009: NIS 9,891 thousands). The amounts include costs relating to options (*) granted to senior managements to shares of the Company's shareholders.

(*) The Company's senior management was rewarded by allotment of KC's and Hadera Paper's share options. The cost of the benefit was determined as the fair value on the grant day and this amount is being charged to the income statement over the vesting period. The company's debt resulting from the grant will be paid in cash to both shareholders.

The fair value of the options granted as aforementioned was estimated by applying the economic models.

The total expenses resulting from the aforementioned grant for the year ended December 31, 2010 was NIS 1,042 thousand (2009: NIS 589 thousands).

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 25 - DIVIDENDS

A. On October 22, 2009 the board of directors decided to distribute Dividend in the amount of NIS 40 million from the unapproved enterprise retained earnings accumulated as of September 30, 2009 to the holders of the ordinary shares. The dividend was paid on January 20, 2010.

B. On February 18, 2010 the board of directors decided to distribute Dividend in the amount of NIS 20 million from the unapproved enterprise retained earnings to the holders of the ordinary shares. The dividend was paid on May 12, 2010.

C. On April 22, 2010, the board of directors decided to distribute Dividend in the amount of NIS 40 million from the unapproved enterprise retained earnings to the holders of the ordinary shares. The dividend was paid on July 15, 2010.

D. Following the last Board's decision from July 27, 2010 to distribute a dividend in the amount of NIS 40 million from unapproved enterprise earnings, the payment is subject to availability of funds and the agreement of KC, The Board approved to pay at the fourth quarter of 2010 the amount of NIS 35 million and at 2011 the amount of NIS 5 million. A divided of NIS 35 million was paid on November 29, 2010.

NOTE 26 - SUBSEQENT EVENTS

On February 23, 2011 the board of directors declared dividend distribution of NIS 30 million from the unapproved enterprise retained earnings. Actual payment will take place at Q2/2011 subject to no major negative development in the tax case in KCTR.