BARNES MICHAEL W
Form 4
March 17, 2009

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
BARNES MICHAEL W

(Last) (First) (Middle)

2280 N. GREENVILLE AVE.

(Street)

RICHARDSON, TX 75082

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FOSSIL INC [FOSL]

3. Date of Earliest Transaction (Month/Day/Year)
03/13/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President and COO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/13/2009		F		2,381	D	$ 0	126,392 (1)	D	
Common Stock	03/15/2009		F		1,587	D	$ 0	124,805 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Appreciation Right	$ 18.41							02/19/2007	02/19/2014	Common Stock	24,000
Stock Appreciation Right	$ 22.63							02/01/2008	02/01/2015	Common Stock	40,000
Stock Appreciation Right	$ 31.24							06/01/2008	06/01/2015	Common Stock	36,000
Stock Appreciation Right	$ 30.71							03/15/2009	03/15/2016	Common Stock	75,000
Stock Options (Right to Buy)	$ 25.77							03/08/2006	03/08/2015	Common Stock	40,000
Stock Options (Right to Buy)	$ 11.7133							09/11/2007	02/24/2013	Common Stock	51,000
Stock Options (Right to Buy)	$ 22.1733							09/11/2007	02/23/2014	Common Stock	60,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
	X			

BARNES MICHAEL W
2280 N. GREENVILLE AVE.
RICHARDSON, TX 75082

President and COO

Signatures

/s/ Randy S. Hyne, Attorney-in-Fact	03/17/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes 60,578 shares of restricted stock, 55,760 restricted stock units and 2,009 shares held through a 401(k) plan account as of December 31, 2008.

(2) Includes 60,578 shares of restricted stock, 49,760 restricted stock units and 2,009 shares held through a 401(k) plan account as of December 31, 2008.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. lign="center" border="0" cellpadding="0" cellspacing="0" id="hangingindent" width="100%" style="FONT-FAMILY: times new roman; FONT-SIZE: 10pt; FONT-SIZE: 10pt; FONT-FAMILY: times new roman">

h.
The 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, as compared with net profit of NIS 91.2 million in 2009, representing an increase of 10.4%. The net profit, net of non-recurring revenues and expenditures during the reported period, amounted to approximately NIS 76.7 million, as compared with net profit, net of non-recurring revenues and expenditures in 2009, that amounted to NIS 59.2 million, representing an increase of 29.6%.

The net profit attributed to the Company's shareholders during the reported period was affected by the improvement in the operating margin of most Group companies in Israel as a result of the growth in operations that brought about an improvement in the operating profit, as mentioned above.

Basic earnings per share amounted to NIS 19.84 per share ($5.59 per share) in 2010, as compared with basic earnings per share of NIS 18.03 per share ($4.78 per share) in 2009.
Diluted earnings per share amounted to NIS 19.68 per share ($5.55 per share) in 2010, as compared with diluted earnings per share of NIS 18.03 per share ($4.78 per share) in 2009.

2. Analysis of the Company's Financial Situation

- The cash and cash equivalents item rose from NIS 26.3 million on December 31, 2009 to NIS 121.0 million on December 31, 2010. The increase in cash and cash equivalents originates primarily from the issuing of bond series 5 in the second quarter, that was invested in NIS deposits and is serving to finance the company's current operations.

- The designated deposits in the sum of NIS 127.6 million on December 31, 2009 were utilized entirely in the course of 2010. The decrease in deposits originates as a result of the use of the designated deposit funds for the construction of Machine 8, between the reported years.

- The increase in the accounts receivable item originates from the consolidation of the Hadera Paper Printing customers on December 31, 2010, in the amount of approximately NIS 175.6 million. In the packaging paper and recycling sector, an increase was recorded from NIS 81.2 million on December 31, 2009, to NIS 124.7 million on December 31, 2010. This increase is attributed to quantitative growth in activity in both local and export markets. In the packaging products and cardboard sector, a decrease was recorded in trade receivables, from NIS 199.4 million on December 31, 2009, to NIS 190.2 million on December 31, 2010, as a result of an increase in sales in this sector, coupled with an increase in the days of credit in some of the segments of operation in the sector. Trade receivables for the office supplies marketing sector rose from NIS 53.1 million as at December 31, 2009, to NIS 65.2 million, as at December 31, 2010, as a result of growth in the volume of operations.

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- Other receivables relating to the packaging paper and recycling segment decreased from NIS 92.1 million as at December 31, 2009, to NIS 43 million as at December 31, 2010. The decrease originates primarily from a reduction in credit/debit of inter-company balances as a result of the consolidation of Hadera Paper Printing on December 31, 2010 and the accounts payable balance that was consolidated and amounted to NIS 6.0 million. Other receivables relating to the packaging products and board sector decreased from NIS 5.1 million as at December 31, 2009, to NIS 4.5 million as at December 31, 2010. In the office supplies marketing segment, the other accounts receivable item increased from NIS 1.7 million on December 31, 2009, to NIS 3.6 million on December 31, 2010, primarily as a result of the increase in supplier advances.

- The increase in the inventories item originates from the consolidation of the Hadera Paper Printing inventories on December 31, 2010, in the amount of approximately NIS 161.6 million. Inventories in the packaging paper and recycling sector decreased from NIS 91.1 million as at December 31, 2009, to NIS 76.2 million as at December 31, 2010. This increase is primarily attributed to utilizing the paper waste inventory as a result of the full operation of the new packaging paper manufacturing machine, following the completion of its running-in period. Inventories of the packaging products and board sector increased from NIS 68.5 million as at December 31, 2009, to NIS 79.1 million as at December 31, 2010. The increase is primarily attributed to the 7% rise in prices of raw materials in relation to last year. Inventories in the office supplies marketing sector rose from NIS 20.6 million as at December 31, 2009, to NIS 26.6 million, as at December 31, 2010, primarily as a result of growth in the inventories imported from the Far East.

- The investment in associated companies decreased from NIS 340.1 million on December 31, 2009, to a sum of NIS 237.5 million on December 31, 2010. The principal components of the said decrease, include the consolidation of Hadera Paper Printing for the first time on December 31, 2010, which led to a decrease in investments of NIS 117.7 million, coupled with the company share in the dividend in distributed in the amount of NIS 47.4 million from associated companies and the company share in the declared dividend in the sum of NIS 2.5 million by an associated company, that were offset by the company share in the earnings of associated companies in the sum of NIS 70.1 million, between the reported years, that led to a decrease in investment between the reported years.

- Short-term credit increased from NIS 131.6 million on December 31, 2009 to NIS 144.6 million on December 31, 2010. The growth in this item originates primarily as a result of the consolidation of the credit balances of Hadera Paper Printing on December 31, 2010, in the amount of NIS 92.9 million, that were offset as a result of the repayment of credit.

- The growth in the other payables item originates primarily from the consolidation of the Hadera Paper Printing balances in the amount of NIS 23.7 million. In the packaging paper and recycling sector, growth was recorded from NIS 88.5 million as at December 31, 2009, to NIS 129 million as at December 31, 2010. The growth originated primarily as a result of a payable debt in the sum of NIS 49.4 million, on account of the purchase of Hadera Paper Printing. Other accounts payable of the packaging products and board sector increased from NIS 13.8 million as at December 31, 2009, to NIS 14.6 million as at December 31, 2010, primarily as a result of growth in debts to institutions on account of employees. Other accounts payable for the office supplies marketing sector decreased from NIS 5.8 million on December 31, 2009 to NIS 5.0 million on December 31, 2010.

- The company's shareholders' equity increased from NIS 858.4 million as at December 31, 2009 to NIS 953.6 million as at December 31, 2010. This change originated primarily from the net profit attributed to the company's shareholders between the periods, in the sum of NIS 100.7 million.

3. Investments in Fixed Assets

Investments in fixed assets amounted to NIS 219.1 million in 2010, as compared with NIS 352.5 million in 2009. The investments this year consisted primarily of payments on account of purchasing from equipment vendors for the new packaging paper manufacturing network (Machine 8), in the sum of NIS 96.3 million (including a decrease of NIS 43.8 million in supplier credit). The outstanding investment in Machine 8, true to December 31, 2010, amounts to NIS 702.3 million. Additional investments included were related to environmental protection (wastewater treatment) and current investments in equipment renewal, means of transportation and building maintenance at the Hadera site.

Regarding the examination of the need for impairment during the reported period, see Note 4c4 of the financial statements dated December 31, 2010, as well as the highly significant devaluation attached to the financial statements dated December 31, 2010.

4. Financial Liabilities

The long-term liabilities (including current maturities) amounted to NIS 989.6 million as at December 31, 2010, as compared with NIS 847.6 million as at December 31, 2009. The long-term liabilities have increased in relation to last year primarily as a result of the issuing of a NIS-denominated bond series (Series 5) in the amount of NIS 181.5 million in the second quarter (see Note 10a(4) to the financial statements dated December 31, 2010), coupled with the assumption of long-term loans intended to finance the payments for Machine 8, as well as the consolidation of the long-term loans of Hadera Paper Printing in the amount of NIS 13.0 million. This increase was offset as a result of the repayment of the older debenture series, coupled with the cash flows from operating activities.

The long-term liabilities include primarily four series of debentures and the following long-term bank loans:
Series 2 – NIS 101.0 million, for repayment until 2013.
Series 3 – NIS 179.8 million, for repayment until 2018.
Series 4 – NIS 196.3 million, for repayment until 2015.
Series 5 – NIS 181.5 million, for repayment until 2017.
Long-term loans – NIS 331.8 million.

- The balance of short-term credit, as at December 31, 2010, amounted to NIS 144.6 million, as compared with NIS 131.6 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, as compared with net debt of NIS 825.3 million as at December 31, 2009.

In July 2010 the Supervisor of the Capital Market, Insurance and Savings at the Ministry of Finance ("the Supervisor") 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 manner by 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.

5. Financial liabilities at fair value through the statement of income

Put Option to a Shareholder at an Associated Company

For information pertaining to the Put option, see Note 17a to the annual financial statements dated December 31, 2010.

Liability on account of the Put option to a shareholder at an associated company (investee until December 31, 2010), as at December 31, 2010 and as at 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, the associated company - until its consolidation on December 31, 2010 - other expenses of NIS 0.9 million were recorded in 2010, as compared with other expenses of NIS 1.9 million in 2009.

The principal factors responsible for the change originated as a result of an agreement signed by the company for the acquisition of 25.1% of the shares of the associated companies ("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 to the financial statements dated December 31, 2010.

C. Liquidity

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, of 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 been presented to the Board of Directors and having the report of cash flows that is included in the company's separate financial statements 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, 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.

The information appearing above, including the expected cash flows, is based on the estimates, forecasts and plans of the company, according to the best of its knowledge and understanding regarding its operations and according to the data at its disposal as at the date of this report and which constitutes forward-looking information as defined in the Securities Law - 1968, whose materialization is not certain and whose realization is not exclusively under the control of the company. Consequently, there is no certainty that the data and/or estimates and/or forecasts and/or plans will materialize, in whole or in part, and they may materialize in a manner that is materially different than anticipated, inter alia, on account of the dependence upon external and macro-economic factors that are not subject to the control of the company, including changes in the business and defense environment, coupled with the materialization of any of the risk factors affecting the company.

D. Details of Operations in the Various Sectors

1. Hogla-Kimberly (Household Products)

The sales turnover of Hogla-Kimberly Israel amounted to approximately NIS 1,229.1 million in 2010, as compared with approximately NIS 1,237.6 million in 2009, representing a decrease of 0.7%.

The decrease in sales in relation to the corresponding period last year is primarily attributed to the erosion of prices as a result of escalating competition in the market.

The operating profit of Hogla-Kimberly Israel amounted to approximately NIS 193.8 million in 2010, as compared with approximately NIS 210.0 million in 2009.
The decrease in the operating profit in relation to the preceding year is attributed to the erosion of prices as a result of the escalating competition in the market, coupled with the rise in the prices of the principal raw materials, that was partially offset by efficiency measures that were implemented by the company, as well as of the decrease in the average US dollar exchange rate vis-à-vis the NIS, by a rate of approximately 5.1%, in relation to 2009.

The sales turnover of KCTR, Hogla-Kimberly's subsidiary operating in Turkey, amounted to approximately NIS 498.2 million (approximately $132.6 million) in 2010, as compared with approximately NIS 493.6 million (approximately $127.7 million) last year, representing an increase of 0.9%.

KCTR's strategic cooperation agreement with Unilever, under which Unilever carries out the selling, distribution and collection activities nationwide, with the exception of retail chains to which KCTR continues to sell independently, continues to expand the customer base in the reported period and to bring about the enhancement of the Huggies and Kotex brands.

In addition, it should be noted that toward the end of 2009, the Turkish tax authorities addressed KCTR as part of the examination of its financial statements for the years 2004-2008, conducted at KCTR on account of the taxation of the influx of capital from Hogla Kimberly Ltd. to KCTR. KCTR estimates, on the basis of the opinion of its legal and tax consultants, that the probability that it will be liable for an additional tax payment is low (See also Note 14.11 to the financial statements dated December 31, 2010).

The necessary funds for financing the strategic program in Turkey and for financing the current operations and investments, originate primarily from internal resources of Hogla Kimberly. (No investment was made in KCTR in 2010). The financial expenses this year were reduced as a result of an increase in financial incom as a result of the devaluation of operational balances, which contributed to an additional reduction in the net loss.

Explanation of Responses:

2. Hadera Paper - Printing and Writing Paper (Formerly Mondi Hadera Paper)

The sales turnover of Hadera Paper Printing amounted to NIS 728.7 million in 2010, as compared with NIS 669.2 million in 2009, representing an increase of 8.9%. The sales turnover of Hadera Paper Printing amounted to NIS 175.2 million in the fourth quarter of the year, as compared with NIS 157.3 million in the corresponding quarter last year, representing an increase of 11.4%.

The growth in the sales turnover, despite the quantitative decrease in sales, is primarily attributed to the raising of prices that was made in 2010. Prices in the local market grew by 11% in NIS terms in relation to last year. The course of the fourth quarter of 2010, the selling prices were eroded. Selling prices decreased by 5.5% in the fourth quarter, in relation to the third quarter of 2010, following escalating competition due to the widespread importing of paper into Israel.

The operating profit of Hadera Paper Printing amounted to NIS 31.1 million in 2010, as compared with NIS 40.5 million in 2009, representing a decrease of 23.2%. In the fourth quarter of 2010, the operating profit amounted to NIS 0.5 million, as compared with an operating profit of NIS 11.6 million in the fourth quarter of 2009 and as compared with operating profit of NIS 7.2 million in the third quarter of 2010.

The decrease in operating profit this year in relation to 2009, despite the rise in prices mentioned above, originated primarily as a result of the increase in the average pulp prices in 2010 in relation to 2009, in NIS terms, by a rate of approximately 43%. The decrease in the operating profit in the fourth quarter of 2010, in relation to the fourth quarter of 2009, originated from the increase in the average pulp prices as mentioned above, coupled with low operational efficiency in the fourth quarter of 2010, the relocation to the new logistics center in Modi'in and the decrease in the gross margin of the sale of purchase paper by Hadera Paper Printing.

A moderate decrease in pulp prices was recorded in the fourth quarter of 2010. Average pulp prices decreased by approximately 8.5% in NIS terms in the fourth quarter of the year, in relation to the third quarter of the year. This decrease did not result in an improved operating profit in the fourth quarter of 2010 in relation to the third quarter of the year, due to a greater erosion of selling prices as mentioned above, low operational efficiency, the relocation to the new logistics center in Modi'in and the decrease in the gross margin of the sale of purchase paper by Hadera Paper Printing.

3. Carmel Container Systems - Packaging and Board Products

The aggregate sales turnover of Carmel (including Frenkel CD) amounted to NIS 509.7 million in 2010, as compared with NIS 484.3 million last year, an increase of 5.2%.

In 2010, the consolidated sales turnover of Carmel Container Systems Ltd. amounted to NIS 397.3 million, as compared with NIS 383.0 million last year, an increase of 3.7%.

The consolidated sales turnover of Carmel Container Systems Ltd. amounted to NIS 113.9 million in the fourth quarter this year, as compared with NIS 99.7 million in the corresponding quarter last year, representing an increase of 14.2% and as compared with NIS 94.4 million in the third quarter this year.

The growth in sales turnover in 2010 as compared with 2009 originated primarily from a quantitative increase in sales of the corrugated board market, while maintaining a stable level of selling prices by comparison with 2009.

The consolidated operating profit of Carmel amounted to NIS 3.6 million in 2010, as compared with an operating profit of NIS 12.8 million last year. The decrease in the operating profit of Carmel is primarily attributed to the sharp rise of 7% in input prices, coupled with the eroded profitability of the Tri-Wall subsidiary. These influences were partially offset by the operational efficiency that was gained as a result of the reduction in stoppages and the greater output capacity. Moreover, in 2010, Carmel acquired a new processing machine that will serve to improve its output capacity and printing capability. These moves are expected to bring about an improvement in the profitability of Carmel over the next several quarters.

The consolidated operating profit of Carmel in the fourth quarter of 2010 amounted to NIS 2.4 million, as compared with an operating profit of NIS 5.9 million in the corresponding quarter in 2009 and as compared with an operating loss of NIS 0.4 million in the third quarter this year.

The aggregate operating profit of Carmel (including Frenkel CD) amounted to NIS 7.1 million in 2010, as compared with an operating profit of NIS 14.7 million last year.

Regarding the need to examine the impairment of the Carmel cash generating unit, see Note 8 to the financial statements dated September 30, 2010.

The above information pertaining to the output capacity and improved profitability of Carmel constitutes forward-looking information as defined in the Securities Law, based on the company's estimates at the date of this report. These estimates may not materialize - in whole or in part - or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as changes in local and global raw material prices and changes in the supply and demand of local and global cardboard packaging products.

4. Packaging Paper and Recycling

The sales turnover of the Packaging Paper and Recycling Division amounted to NIS 511.4 million in the reported period (NIS 581.4 million, net of the sales of Machine 8 totaling NIS 70 million that were discounted during its running in, until May 31, 2010), as compared with NIS 339.3 million last year, representing an increase of approximately 50.7%. The division’s sales turnover in the fourth quarter totaled NIS 170.0 million, as compared with NIS 88.3 million in the corresponding quarter last year, representing an increase of 92.5%, and as compared with NIS 152.0 million in the third quarter of the year.

The quantitative sales of packaging paper amounted to 214.3 thousand tons in 2010 (264.3 thousand tons net of sales totaling 50,000 tons that were discounted during the running-in of Machine 8), as compared with 141.9 thousand tons last year.

The sales of paper and cardboard waste by Amnir amounted to 355.5 thousand tons in 2010, as compared with 194.9 thousand tons last year.

Explanation of Responses:

The growth in the sales turnover originated primarily from the activation of Machine 8, starting in June this year. Moreover, as a result of the emergence from the economic crisis, an increase was recorded in the quantitative demand and in the selling prices, both of packaging paper and of paper waste at Amnir. The company also increased its export sales, as well as the sales of its new products, recycled paper that serves as a substitute for virgin paper.

The division ended 2010 with an operating profit of NIS 43.8 million, as compared with an operating loss of NIS 20.9 million last year. The cost of operating Machine 8, through to May 31, 2010, were discounted as part of the running-in expenses. The division’s operating profit in the fourth quarter of the year amounted to NIS 12.4 million, as compared with an operating loss of NIS 6.4 million in the corresponding quarter last year and an operating profits of NIS 21.1 million in the third quarter of the year, that included a non-recurring revenue of NIS 17.2 million. Net of the non-recurring revenue, the operating profits from current activities in the third quarter amounted to NIS 3.9 million.

The considerable improvement in operating profit in 2010, in relation to last year, is primarily attributed to the quantitative increase in sales as a result of the entry of Machine 8 into current operation, starting in June of this year, coupled with the raising of selling prices. The operating profit also included non-recurring earnings of approximately NIS 17.2 million from the sale of real estate in Bnei-Brak, in light of preparations being made by Amnir for the relocation into the logistic center at Modi'in.

5. Graffiti - Office Supplies Marketing

Graffiti's sales turnover during the reported period amounted to NIS 178.9 million, as compared with NIS 151.0 million in the corresponding period last year, representing an increase of 18.5%.

In 2010, Graffiti recorded an operating profit of NIS 5.1 million, as compared with an operating profit of NIS 4.0 million last year. The growth in the operating profit in 2010 is primarily attributed to the growth in sales that was offset as a result of the sharp rise in the cost of fine paper, at a rate of 14.1%.

Graffiti continues to implement its plan for growth in the marketing of office supplies to businesses and institutional clients and is taking several principal courses of action in order to establish its position as a leader in this market:

Graffiti is constantly working to improve the procurement network, with an emphasis on imports from the Far-East that will serve to significantly reduce purchasing costs, aiming to improve the gross and operating profitability.

Graffiti plans to relocate to a modern and efficient distribution center in Modi'in, that has already been occupied by Hadera Paper Printing and by Amnir in 2010, which will allow for realizing considerable savings in operational costs, while continuing to record growth in both sales and profitability. The relocation is planned for April 2011 and should last approximately 3 months. Graffiti will continue to operate its existing logistic centers during the transitional period, until the complete stabilization of the new logistic center at Modi'in.

Graffiti has completed the detailed specification of the computerized management systems of the logistic center and is currently working on constructing a detailed transition plan covering the various aspects, including: Planning the transfer of merchandise, recruiting supplier assistance for the move and communicating the relocation to the company customers.

Graffiti has successfully assimilated and implemented the Hadera Paper information systems during the reported period. This will allow the company to record accelerated growth and earnings while improving customer service, as modern systems and infrastructure are implemented at the new distribution center.

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E. Exposure and Management of Market Risks

1. General

The Company conducts periodical discussions regarding market risks and exposure to exchange rate and interest rate fluctuations, with the participation of the relevant elements, so as to reach decisions in this matter. The individual responsible for the implementation of market risk management policy at the Company is Shaul Glicksberg, the Group's VP of Finance and Business Development.

2. Market Risks to which the Company is Exposed

Description of Market Risks

The market risks reflect the risk of changes in the value of financial instruments affected by changes in the interest rate, in the Consumer Price Index and in foreign currency exchange rates.

Exchange Rate Risks

Approximately half of the Company’s sales are denominated in US dollars, whereas a significant share of its expenses and liabilities are in NIS. The Company is therefore exposed to fluctuations in the exchange rate of the NIS vis-à-vis the US dollar. This 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).

The Company periodically reexamines the need for hedging on account of these exposures. True to December 31, 2010, the Company entered into hedging transactions in the sum of €4.0 million and $2.1 million, primarily in order to hedge the cash flows related to payments for the acquisition of fixed assets from equipment vendors for Machine 8 and for inventory purchases.

It should be noted that on the aggregate level that includes associated companies, the currency exposure is limited.

Consumer Price Index Risks

The Company is exposed to changes in the Consumer Price Index, pertaining to the debentures issued by the Company and to net long-term loans, in the total sum of NIS 296.1 million.

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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 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 due to the current debt of an associated company that is linked to the consumer price index.

Credit Risks

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

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

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

Sensitive Instruments	Sensitivity to Interest Rates Profit (loss) from changes Interest rise 10%	Interest rise 5%	Fair value as at Dec-31-10	Profit (loss) from changes Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Debentures - Series 2	772	387	(104,144)	(390)	(782)
Debentures - Series 3	2,547	1,281	(184,231)	(1,296)	(2,607)
Debentures - Series 4	1,865	936	(212,453)	(944)	(1,896)
Debentures - Series 5	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.

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

Sensitivity of euro-linked instruments to changes in the euro exchange rate

Sensitive Instruments	Profit (loss) from changes		Fair	Profit (loss) from changes	
	Rise in € 10%	Rise in € 5%	value as at Dec-31-10	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)

Sensitivity to the US Dollar Exchange Rate

Sensitive Instruments	Profit (loss) from changes		Fair	Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	value as at Dec-31-10	Devaluation of $ 5%	Devaluation of $ 10%
	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

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Sensitivity to the Consumer Price Index

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in CPI 2%	Rise in CPI 1%	Fair value as at Dec-31-10	Decrease in CPI 1%	Decrease in CPI 2%
	In NIS thousands				
NIS-CPI forward transactions	600	300	(240)	(300)	(600)
Bonds 2	(2,083)	(1,041)	(104,144)	1,041	2,083
Bonds 3	(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.

Sensitivity to the exchange rate of the yen

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in the yen 10%	Rise in the yen 5%	Fair value as at Dec-31-10	Decrease in the yen 5%	Decrease in the yen 10%
	In NIS thousands				
Accounts Payable	(367)	(184)	(3,672)	184	367

Sensitivity to other currencies (GBP)

Sensitive Instruments	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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Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at December 31, 2009:

Sensitive Instruments	Sensitivity to Interest Rates Profit (loss) from changes Interest rise 10%	Interest rise 5%	Fair value as at Dec-31-09	Profit (loss) from changes Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Debentures - Series 2	1,247	626	(136,715)	(631)	(1,266)
Debentures - Series 3	3,160	1,590	(207,266)	(1,611)	(3,442)
Debentures - Series 4	2,729	1,371	(266,721)	(1,383)	(2,779)
Loan A - fixed interest	148	74	(23,350)	(75)	(150)
Loan B - fixed interest	1,500	754	(111,745)	(763)	(1,534)
Loan C	135	68	(24,119)	(68)	(136)
Long-term loans and capital notes - granted	(195)	(98)	50,980	98	197

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 2009).

Regarding the terms of the debentures and other liabilities – See Note 9 to the annual financial statements dated December 31, 2009.

Regarding long-term loans and capital notes granted - See Note 5 to the annual financial statements dated December 31, 2009.

Sensitivity of euro-linked instruments to changes in the euro exchange rate

Sensitive Instruments	Profit (loss) from changes Rise in € 10%	Rise in € 5%	Fair value as at Dec-31-09	Profit (loss) from changes Decrease in € 5%	Decrease in € 10%
	In NIS thousands				
Cash and cash equivalents	203	101	2,027	(101)	(203)
Designated deposits	2,395	1,197	23,949	(1,197)	(2,395)
Other accounts receivable	508	254	5,075	(254)	(508)
Accounts payable and credit balances	(7,258)	(3,629)	(72,583)	3,629	7,258
NIS-€ forward transaction	5,123	1,994	(1,114)	(4,264)	(7,393)

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Sensitivity to the US Dollar Exchange Rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	Fair value as at Dec-31-09	Devaluation of $ 5%	Devaluation of $ 10%
	In NIS thousands				
Cash and cash equivalents	495	247	4,945	(247)	(495)
Other accounts receivable	1,271	635	12,707	(635)	(1,271)
Accounts payable and credit balances	(4,082)	(2,041)	(40,820)	2,041	4,082
Liabilities at fair value through the statement of income	(1,198)	(599)	(11,982)	599	1,198

Other accounts receivable reflect primarily short-term customer debts
Capital note – See Note 5 to the financial statements

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at December 31, 2009:

Sensitivity to the Consumer Price Index

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	Fair value as at Dec-31-09	Devaluation of $ 5%	Devaluation of $ 10%
	In NIS thousands				
NIS-CPI forward transactions	2,000	1,000	3,052	(1,000)	(2,000)
Bonds 2	(4,145)	(2,073)	(207,266)	2,073	4,145
Bonds 3	(2,734)	(1,367)	(136,715)	1,367	2,734

See Note 17c to the financial statements

Sensitivity to the exchange rate of the yen

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in the yen 10%	Rise in the yen 5%	Fair value as at Dec-31-09	Decrease in the yen 5%	Decrease in the yen 10%
	In NIS thousands				
Accounts Payable	260	130	2,605	(130)	(260)

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Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at Dec-31-10:

In 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 Dec-31-10	(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.

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Explanation of Responses:

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at Dec-31-09:

In NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	€-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	19.3		5.0	2.0		26.3
Short-term deposits and investments	103.7			23.9		127.6
Other accounts receivable	396.5	1.1	13.3	5.1	6.8	422.8
Inventories					175.9	175.9
Investments in Associated Companies	17.8	36.7			286.5	341.0
Deferred taxes on income					2.1	2.1
Fixed assets, net					1,126.4	1,126.4
Intangible Assets					27.1	27.1
Land under lease					37.6	37.6
Other assets					1.3	1.3
Assets on account of employee benefits						0.6
Total Assets	537.9	37.8	18.3	31.0	1,663.7	2,288.7
Liabilities						
Short-term credit from banks	131.6					131.6
Accounts payable and credit balances	252.7		43.4	72.6		368.7
Current tax liabilities	2.7					2.7
Deferred taxes on income					30.4	30.4
Long-Term Loans	253.5	28.1				281.6
Notes (debentures) – including current maturities	237.9	328.1				566.0
Liabilities on account of employee benefits	37.3					37.3
Liabilities at fair value through the statement of income			12.0			12.0
Shareholders' equity, reserves and retained earnings					858.4	858.4
Total liabilities and equity	915.7	356.2	55.4	72.6	888.8	2,288.7
Surplus financial assets (liabilities) as at Dec-31-09	(377.8)	(318.4)	(37.1)	(41.6)	774.9	0.0

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Associated Companies

Hadera Paper is exposed to various risks associated with operations in Turkey, where Hogla-Kimberly is active through its subsidiary, KCTR. These risks originate from concerns regarding economic and political instability, high devaluation and elevated inflation rates that have characterized the Turkish economy in the past and inspite of relative stability may recur and harm the KCTR operations.

Hadera Paper is also exposed to tax related issues at KCTR, as detailed in Note 14.11 to the financial statements dated December 31, 2010.

F. Forward-Looking Statements

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

G. Corporate Governance Issues

1. Donations and Contributions

Hadera Paper Group has continued to implement its policy for corporate and social responsibility and has continued to invest both efforts and resources in matters related to community involvement and contribution. The company's employees and managers at the various sites are all taking an active part in community involvement, in supporting teenagers and primarily in working toward reducing social inequalities and in providing equal opportunity for education and for personal accomplishments within the framework of the company and the community.

As part of this policy, the company makes contributions to various institutions active in the said areas. The Group's contributions and donations amounted to NIS 584 thousand in 2010.

In parallel, through its employees, the Company also participates in volunteer activity in the community, for promoting these same objectives.

This year the company focused on donations to youth clubs, community centers operating in the afternoons - with the intention of fortifying and enriching teenagers while granting them a proper opportunity.

Moreover the company is active in the granting of student scholarships, through the Shenkar Foundation, that was established by the company together with its Austrian strategic partner in Hadera Paper Printing. Two scholarships were granted this year, as well as assistance provided to two projects: A women's club in Um-el-Fahem and a children's club in the Eastern Worker neighborhood of Hadera, as well as for the purchase of computers for the youth center in Hadera. The total contributions of the company through the Shenkar Foundation amounted to NIS 70 thousand.

2. Members of the Board of Directors Possessing Financial Skills and Qualifications

The minimum number of company directors possessing accounting and financial qualifications and skills was determined to be two for the company, in consideration of the nature of the accounting and financial issues that are raised in the preparation of the company's financial statements, in view of the company's areas of operation and in consideration of the composition of the board of directors as a whole, that includes individuals possessing business, management and professional experience that enables them to deal effectively with the tasks of managing the company, including reporting duties.

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

Itzhak Manor -	Holds an MBA from Hebrew University. Serves as director at various publicly-traded and privately-held companies within the IDB Group; Chairman of companies in the David Lubinsky Group Ltd.
Amos Mar-Haim -	Holds a BA in economics and an MBA from Hebrew University. Formerly served and currently serves as Chairman or Deputy Chairman at publicly-traded or privately-held companies. Member of the Israeli Accounting Standards Board.

Regarding a decision by the Audit Committee and the Board Of Directors of the company, dated March 6, 2011, regarding directors' compensation, see Appendix E to the periodical report.

3. The Company's Internal Auditor

1. Auditor's name: Eli Greenbaum
Holding the position since 16.07.06
Credentials: CPA

2. The Auditor is employed by the Company.

3. The Company's Audit Committee has approved the appointment of the Auditor on March 7, 2006. The Auditor is a CPA by training and has dealt in Treasury positions at the Company for 20 years and consequently possesses the necessary skills for the job.

4. The Internal Auditor is supervised by the General Manager.

5. The work plan for internal auditing is annual. The work plan is determined on the basis of: A five-year plan, covering numerous issues that were approved by the Audit Committee according to the auditing needs of the Company and covers issues that the Internal Auditor believes warrant his examination and consideration in the course of the current year. The work plan is determined by the Internal Auditor and the Audit Committee. The work plan is approved by the Audit Committee. The judgment of the Internal Auditor in terms of deviations from the audit program, subject to the approval of the Company's Audit Committee.

6. The Internal Auditing program includes auditing topics in corporations that constitute significant holdings of the Company.

7. Scope of employment in 2010: Full-time position for the auditor. The auditing hours number a total of 170 monthly hours, totaling 2,140 hours annually, divided equally between the corporation and its investee companies:

Audited body	Estimated hours of audit annually
Internal auditing at the Company	240 hours
Auditing at investee companies	1,800 hours
Total hours	2,140 hours

In addition to the Internal Auditor, there exists a team dealing in the execution and implementation of internal auditing processes as part of the SOX procedures, to which the company is committed since it is traded on AMEX. The company believes that these procedures are complementary to the internal auditing work. The internal auditor conducts his audit in accordance with acceptable professional standards for internal audit in Israel and overseas, and according to the Company's Board of Directors, based on the assessment of the Company's Audit Committee, the internal auditor complies with the requirements set forth in those standards.

In addition to the above, some of the subsidiaries outsource their internal auditing operations. The scope of auditing amounted to approximately 350 hours in 2010.

8. The Company declares that it has granted the Internal Auditor free, constant and direct access to all the information at the disposal of the Company and the investee companies.

9. Audit reports were submitted in writing and discussed on the following dates:

Submitted	Discussed
3.3.10	23.3.10
5.5.10	9.5.10
4.8.10	8.8.10
3.11.10	7.11.10

10. The scope of employment of the Internal Auditor is determined according to a cycle that renders it possible to audit all the significant topics at the Company, once every few years.

    This scope of activity, the nature, the continuity of operation and the work plan of the Internal Auditor – are reasonable – according to the estimation of the Company's Audit Committee, while rendering it possible to realize the Internal Audit objectives of the organization.

11. The Auditor is employed by the Company. The Board of Directors believes that the compensation received by the Internal Auditor does not influence his professional judgment.

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4. Senior Employee Compensation

In determining the compensation and bonuses of senior employees, the directors and Compensation Committee took into consideration the position and standing of each executive and his contribution to the operations and business of the Company. The labor wage expenses and benefits granted to senior executives and position holders are reasonable, are not an exceptional transaction and reflect the company's accomplishments and are comparable with market standards.

1.Ofer Bloch, Group CEO:

1.1 Description of Compensation:

During the reported period, Ofer Bloch was eligible for wages totaling NIS 1,879 thousand (this included wages, social benefits and acceptable perks, bonus salary and company car). Moreover, on March 6, 2011, the Board of Directors of the company approved the payment of a bonus to Ofer Bloch in the sum of NIS 750,000.

For details regarding the employment agreement of Ofer Bloch, see Section 13.4 of Part A of the periodical report (Description of the Company's Business). For additional details regarding the compensation of Ofer Bloch during the reported period, see Appendix D to part D of the periodical report (Additional Details regarding the Corporation).

1.2 Examining the relationship between the compensation and contribution of Ofer Bloch, the fairness and reasonability of the compensation:

1.2.1 In order to examine and evaluate the terms of the compensation of Ofer Bloch, the Board of Directors of the company has examined, inter alia, Ofer Bloch's compliance with the requirements of his position and his performance as CEO of the group during the reported period, his contribution to the company, the results of operations of the company in 2010 and whether the company has met objectives that were defined in the work plan.

1.2.2 The Board of Directors of the company was presented - to its satisfaction - with the principal terms of employment of Ofer Bloch in the reported period, including the value of the benefits he was granted, as well as the terms of employment of the other position holders at the company. Data was also presented regarding generally accepted compensation in the market during the reported period and true to the date of the examination, for similar position holders at companies possessing the same size and area of operations as that of the company.

1.2.3 Ofer Bloch has been serving as CEO of the group since January 1, 2010. During the reported period, Ofer Bloch has managed to lead the company to considerable accomplishments, while contributing to the improvement and development of the company, including the intensive handling of the subject of the packaging law, issuing bonds, the initial operation of Machine 8, the relocation to the logistics center and a contribution to strategic thinking regarding the continued operation of the group.

1.2.4 The terms of employment of Ofer Bloch are fair, generally acceptable and reasonable, inter alia, while taking into consideration the financial situation of the company, its objectives and the challenges it faces. As regards the bonus that was granted to Ofer Bloch, the Board of Directors of the company believes that it appropriately reflects his significant contribution to improving the operations and development of the company, as detailed above.

1.2.5 In the opinion of the Board of Directors of the company, given the overall considerations detailed above, as well as in consideration of his complex role, skills, experience and his contribution to the company during the reported period, Ofer Bloch's compensation during the reported period is in line with the best interests of the company and is fair and reasonable in relation to his contribution to the company, within the framework of his position during the aforesaid period of time.

2. Shaul Glicksberg - VP Finance and Business Development:

2.1 Description of Compensation:

During the reported period, Shaul Glicksberg was eligible for wages totaling NIS 1,389 thousand (this included wages, social benefits and acceptable perks, bonus salary and company car). Moreover, on March 6, 2011, the Board of Directors of the company approved the payment of a bonus to Shaul Glicksberg in the sum of NIS 350,000.

True to the report date, Shaul Glicksberg holds 5,500 non-marketable stock options of the company, that were allocated to him as part of the employee stock option plan.

For additional details regarding the compensation of Shaul Glicksberg during the reported period, see Appendix D to part D of the periodical report (Additional Details regarding the Corporation).

2.2 Examining the relationship between the compensation and contribution of Shaul Glicksberg, the fairness and reasonability of the compensation:

2.2.1 In order to examine and evaluate the terms of the compensation of Shaul Glicksberg, the Board of Directors of the company has examined, inter alia, his compliance with the requirements of his position and his performance as VP Finance and Business Development of the Group during the reported period, his contribution to the company, the results of operations of the company in 2010 and whether the company has met objectives that were defined in the work plan.

2.2.2 The Board of Directors of the company was presented - to its satisfaction - with the principal terms of employment of Shaul Glicksberg in the reported period, including the value of the benefits he was granted, as well as the terms of employment of the other position holders at the company. Data was also presented regarding generally accepted compensation in the market during the reported period and true to the date of the examination, for similar position holders at companies possessing the same size and area of operations as that of the company.

2.2.3 Shaul Glicksberg has been serving in his position since January 1, 2008. During the reported period, Shaul Glicksberg successfully contributed to the improvement and development of the company in such matters as the investment in Bondex, including the successful completion of the issuing of bonds, improving the credit rating of the company and the highly professional and outstanding management of the company's financial systems.

2.2.4 The terms of employment of Shaul Glicksberg are fair, generally acceptable and reasonable, inter alia, while taking into consideration the financial situation of the company, its objectives and the challenges it faces. As regards the bonus that was granted to Shaul Glicksberg, the Board of Directors of the company believes that it appropriately reflects his significant contribution to improving the operations and development of the company, as detailed above.

2.2.5 The Board of Directors of the company believes, that given the terms of the options granted to Shaul Glicksberg, the scope of compensation in securities, as mentioned above, is fair and reasonable. The volume of options he was granted reflects the company's objective in encouraging him to continue and devote his energy to the company. The exercise price that was determined serves to ensure that the compensation is contingent upon the rise in the price of the share and is consequently dependent upon the market situation and the financial position of the company. The mechanism that was determined allows for compensation over a long period of time, while correlating the compensation with a continuing contribution to the company over the same length of time.

2.2.6 In the opinion of the Board of Directors of the company, given the overall considerations detailed above, as well as in consideration of the complex role of Shaul Glicksberg, his skills, experience and his contribution to the company during the reported period, his compensation during the reported period is in line with the best interests of the company and is fair and reasonable in relation to his contribution to the company, within the framework of his position during the aforesaid period of time.

3. Gideon Lieberman, Chief Operating Officer:

3.1 Description of Compensation:

During the reported period, Gideon Lieberman was eligible for wages totaling NIS 1,134 thousand (this included wages, social benefits and acceptable perks, bonus salary and company car). Moreover, on March 6, 2011, the Board of Directors of the company approved the payment of a bonus to Gideon Lieberman in the sum of NIS 300,000.

True to the report date, Gideon Lieberman holds 5,500 non-marketable stock options of the company that were allocated to him as part of the employee stock option plan.

For additional details regarding the compensation of Gideon Lieberman during the reported period, see Appendix D to part D of the periodical report (Additional Details regarding the Corporation).

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3.2 Examining the relationship between the compensation and contribution of Gideon Lieberman, the fairness and reasonability of the compensation:

3.2.1 In order to examine and evaluate the terms of the compensation of Gideon Lieberman, the Board of Directors of the company has examined, inter alia, his compliance with the requirements of his position and his performance as Chief Operating Officer (COO) of the Company during the reported period, his contribution to the company, the results of operations of the company in 2010 and whether the company has met objectives that were defined in the work plan.

3.2.2 The Board of Directors of the company was presented - to its satisfaction - with the principal terms of employment of Gideon Lieberman in the reported period, including the value of the benefits he was granted, as well as the terms of employment of the other position holders at the company. Data was also presented regarding generally accepted compensation in the market during the reported period and true to the date of the examination, for similar position holders at companies possessing the same size and area of operations as that of the company.

3.2.3 Gideon Lieberman is serving as Chief Operating Officer of the company, where he has been employed since August 25, 1975. During the reported period, Gideon Lieberman successfully contributed to the improvement and development of the company, including handling the engineering planning of the construction of Machine 8, provision of infrastructure services to all companies in the group, successfully leading the operational and maintenance processes and handling the matter of environmental issues.

3.2.4 The terms of employment of Gideon Lieberman are fair, generally acceptable and reasonable, inter alia, while taking into consideration the financial situation of the company, its objectives and the challenges it faces. As regards the bonus that was granted to Gideon Lieberman, the Board of Directors of the company believes that it appropriately reflects his significant contribution to improving the operations and development of the company, as detailed above.

3.2.5 The Board of Directors of the company believes, that given the terms of the options granted to Gideon Lieberman, the scope of compensation in securities, as mentioned above, is fair and reasonable. The volume of options he was granted reflects the company's objective in encouraging him to continue and devote his energy to the company. The exercise price that was determined serves to ensure that the compensation is contingent upon the rise in the price of the share and is consequently dependent upon the market situation and the financial position of the company. The mechanism that was determined allows for compensation over a long period of time, while correlating the compensation with a continuing contribution to the company over the same length of time.

3.2.6 In the opinion of the Board of Directors of the company, given the overall considerations detailed above, as well as in consideration of the complex role of Gideon Lieberman, his skills, experience and his contribution to the company during the reported period, his compensation during the reported period is in line with the best interests of the company and is fair and reasonable in relation to his contribution to the company, within the framework of his position during the aforesaid period of time.

4. Shimon Biton, CEO of Combined Advanced Energy Ltd.:

4.1 Description of Compensation:

During the reported period, Shimon Biton was eligible for wages totaling NIS 1,152 thousand (this included wages, social benefits and acceptable perks, bonus salary and company car). Moreover, on March 6, 2011, the Board of Directors of the company approved the payment of a bonus to Shimon Biton in the sum of NIS 200,000.

True to the report date, Shimon Biton holds 2,750 non-marketable stock options of the company that were allocated to him as part of the employee stock option plan.

For additional details regarding the compensation of Shimon Biton during the reported period, see Appendix D to part D of the periodical report (Additional Details regarding the Corporation).

4.2 Examining the relationship between the compensation and contribution of Shimon Biton, the fairness and reasonability of the compensation:

4.2.1 In order to examine and evaluate the terms of the compensation of Shimon Biton, the Board of Directors of the company has examined, inter alia, his compliance with the requirements of his position and his performance as CEO of the energy company of the group during the reported period, his contribution to the company, the results of operations of the company in 2010 and whether the company has met objectives that were defined in the work plan.

4.2.2 The Board of Directors of the company was presented - to its satisfaction - with the principal terms of employment of Shimon Biton in the reported period, including the value of the benefits he was granted, as well as the terms of employment of the other position holders at the company. Data was also presented regarding generally accepted compensation in the market during the reported period and true to the date of the examination, for similar position holders at companies possessing the same size and area of operations as that of the company.

4.2.3 Shimon Biton serves as CEO of the energy company within the company and has been employed by the company since July 1977. During the reported period, Shimon Biton successfully contributed to improving and developing the company, including leading the project for the construction of Machine 8 and its successful hand over to current operations, handling the company's real estate and advancing an examination of the potential opportunities of the company, related to energy and to promoting an investment in the power station.

4.2.4 The terms of employment of Shimon Biton are fair, generally acceptable and reasonable, inter alia, while taking into consideration the financial situation of the company, its objectives and the challenges it faces. As regards the bonus that was granted to Shimon Biton, the Board of Directors of the company believes that it appropriately reflects his significant contribution to improving the operations and development of the company, as detailed above.

4.2.5 The Board of Directors of the company believes, that given the terms of the options granted to Shimon Biton, the scope of compensation in securities, as mentioned above, is fair and reasonable. The volume of options he was granted reflects the company's objective in encouraging him to continue and devote his energy to the company. The exercise price that was determined serves to ensure that the compensation is contingent upon the rise in the price of the share and is consequently dependent upon the market situation and the financial position of the company. The mechanism that was determined allows for compensation over a long period of time, while correlating the compensation with a continuing contribution to the company over the same length of time.

4.2.6 In the opinion of the Board of Directors of the company, given the overall considerations detailed above, as well as in consideration of the complex role of Shimon Biton, his skills, experience and his contribution to the company during the reported period, his compensation during the reported period is in line with the best interests of the company and is fair and reasonable in relation to his contribution to the company, within the framework of his position during the aforesaid period of time.

5. Gur Ben David, CEO of packaging paper and recycling:

5.1 Description of Compensation:

During the reported period, Gur Ben David was eligible for wages totaling NIS 1,032 thousand (this included wages, social benefits and acceptable perks, bonus salary and company car). Moreover, on March 6, 2011, the Board of Directors of the company approved the payment of a bonus in the sum of NIS 300,000.

True to the report date, Gur Ben David holds 6,750 non-marketable stock options of the company that were allocated to him as part of the employee stock option plan.

For additional details regarding the compensation of Gur Ben David during the reported period, see Appendix D to part D of the periodical report (Additional Details regarding the Corporation).

5.2 Examining the relationship between the compensation and contribution of Gur Ben David, the fairness and reasonability of the compensation:

5.2.1 In order to examine and evaluate the terms of the compensation of Gur Ben David, the Board of Directors of the company has examined, inter alia, his compliance with the requirements of his position and his performance as CEO of the packaging paper and recycling division of the company during the reported period, his contribution to the company, the results of operations of the company in 2010 and whether the company has met objectives that were defined in the work plan.

5.2.2 The Board of Directors of the company was presented - to its satisfaction - with the principal terms of employment of Gur Ben David in the reported period, including the value of the benefits he was granted, as well as the terms of employment of the other position holders at the company. Data was also presented regarding generally accepted compensation in the market during the reported period and true to the date of the examination, for similar position holders at companies possessing the same size and area of operations as that of the company.

5.2.3 Gur Ben David serves as the CEO of the packaging paper and recycling division of the company and has been in the employment of the company since August 1, 2006. During the reported period, Gur Ben David successfully contributed to the improvement and development of the company, including work related to the packaging law, the successful completion of the running-in of Machine 8, significant growth in output capacity, growth in the sales of the division while recording improved profitability, development of export markets and development of unique products.

5.2.4 The terms of employment of Gur Ben David are fair, generally acceptable and reasonable, inter alia, while taking into consideration the financial situation of the company, its objectives and the challenges it faces. As regards the bonus that was granted to Gur Ben David, the Board of Directors of the company believes that it appropriately reflects his significant contribution to improving the operations and development of the company, as detailed above.

5.2.5 The Board of Directors of the company believes, that given the terms of the options granted to Gur Ben David, the scope of compensation in securities, as mentioned above, is fair and reasonable. The volume of options he was granted reflects the company's objective in encouraging him to continue and devote his energy to the company. The exercise price that was determined serves to ensure that the compensation is contingent upon the rise in the price of the share and is consequently dependent upon the market situation and the financial position of the company. The mechanism that was determined allows for compensation over a long period of time, while correlating the compensation with a continuing contribution to the company over the same length of time.

5.2.6 In the opinion of the Board of Directors of the company, given the overall considerations detailed above, as well as in consideration of the complex role of Gur Ben David, his skills, experience and his contribution to the company during the reported period, his compensation during the reported period is in line with the best interests of the company and is fair and reasonable in relation to his contribution to the company, within the framework of his position during the aforesaid period of time.

In January 2008, the board of directors decided to adopt a senior employee stock option plan. In the first quarter of 2008, a sum of 250,500 stock options were allocated to senior employees at associated and consolidated companies, and on January 8, 2009 - a sum of 34,000 options were granted, out of the 35,250 allocated to the trustee, for future granting. Total general expenses for this program are estimated at NIS 15.5 million, as at the date they were granted. The plan's impact on the consolidated financial statements is estimated at NIS 13.8 million.

5. Auditing CPA Fees

Current Fees

The fee of the CPA on account of the auditing services is determined by the Board of Directors. The fee for the auditing services, including the auditing of the internal control over financial reporting, is determined after negotiations with the auditing CPAs, within whose framework the volume of auditing and its complexity is examined, while relating to the generally accepted fees of the auditing CPA. The fee for services that are not related to auditing is determined in accordance with the type of work, the volume of hours and the topic being audited. The fee for the company's auditing CPAs, was equal to $280,000 in 2010, as compared with a sum of approximately $220,000 in 2009. The hours invested by the auditing CPAs on account of these services amounted to 6,563 hours and 6,267 hours in the years 2010 and 2009, respectively.

Below are details of the total fee payable to the auditing CPA of the Company and its subsidiaries in the reported year and in the preceding year:

	2010		2009	
	$K	Hours	$K	Hours
Auditing and tax report auditing services to the company (including special auditing works)	205,600	5,343	135,000	4,506
Auditing of internal auditors	67,000	1,080	65,700	1,100
Miscellaneous	7,300	140	19,700	421
Total	279,900	6,563	220,400	6,027

6. External Directors

The Company chose not to include in its articles of association the provision with regard to the percentage of external board members.

7. Internal Auditing - SOX

By virtue of being a company whose shares are publicly traded in the United States, the company is subject to "Sarbanes Oxley" (SOX) in its entirety, including Section 302 (proper disclosure and evaluation of controls in the organization), Section 404 (Management Assessment of Internal Controls) and Section 906 (Criminal responsibility for breach of this section). The main points of the law have to do with increasing reporting and disclosure, the authorities and duties of the Audit Committee, manager responsibilities, enforcement, sanctions and penalties and increasing the independence from external accountants. The controls instigated by the company for the implementation of the law are regularly inspected by the company's auditing team and by the external accountant. Since 2007, with the introduction of the directives of the said law in the United States, the company is complying with the demands of the law.

We note that on February 16, 2010, the Securities and Exchange Commission (SEC) authorized the company's requests that its reports regarding the effectiveness of internal control be made in the format prescribed by law, by virtue of its being listed for trade on AMEX, i.e.- the SOX regulations in the United States that apply to the company as mentioned above, subject to the company having undertaken to examine, once every quarter, its compliance with the terms described in its application to the SEC, including any change in the directives of the law in Israel and in the United States, in the status of the company as it relates to these laws, changes in the implementation of the SOX regulations and any other change that may affect the disclosure provided by the company.

8. Detailed processes undertaken by the company's supreme supervisors, prior to the approval of the financial statements

1. On February 8, 2011, the Board of Directors of the company authorized the Audit Committee to also serve as a committee for the examination of the financial statements. It was resolved that it would be called the balance sheet and audit committee and would be charged - on behalf of the Board of Directors - to oversee the completeness of the financial statements and the work of the auditing CPAs and to make recommendations regarding the ratification of the financial statements and a discussion thereof prior to such ratification.

2. The members of the committee are as follows:

Name	External / independent director	Possessing accounting and financial expertise / able to read financial statements	Skills, education and experience	Provided an affidavit
Atalia Arad	External Director	Capable of reading and understanding financial statements	Her education and professional experience (see chapter D, Appendix G of the 2010 periodical report).	P
Amir Makov	External Director	Possesses accounting and financial qualifications	His education and professional experience (see chapter D, Appendix G of the 2010 periodical report).	P
Amos Mar-Haim		Possesses accounting and financial qualifications	His education and professional experience (see chapter D, Appendix G of the 2010 periodical report).	P

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Ms. Atalia Arad serves as chairperson of the committee

3. On February 28, 2011, the Balance Sheet and Audit Committee met to discuss the financial statements of the company for 2010 ("The Financial Statements"), for the purpose of formulating recommendations for the Board of Directors of the company.

4. The position holders, interested parties, family members and/or anyone on their behalf present in the meeting of the committee, include:

   Ofer Bloch - CEO, Shaul Glicksberg - VP Finance and Business Development, Yael Nevo - legal counsel, Shmuel Molad - Treasurer, Boaz Simons - VP of Clal Industries and Investments Ltd. (CII), controlling shareholder of the company, Yehuda Ben-Ezra, VP Finance & Treasurer of CII, Dror Dotan - Assistant to the CII CEO.

5. It should be noted that the auditing CPA also attended this meeting. He reviewed the auditing and review process that was conducted by himself, as regards the financial statements.

6. In the course of the meeting, the committee examined the material issues related to the financial statements, the crucial estimates and critical valuations implemented in the financial statements, the plausibility of the data, the accounting policy that was implemented and changes therein, and the implementation of the proper disclosure principal in the financial statements and regarding any accompanying information.

   The Committee also examined various aspects of control and risk assessment reflected in the financial statements (such as reporting of financial risks), as well as those affecting the reliability of the financial statements.

   Upon completion of the discussion of data presented, the committee handed down its recommendations to the Board of Directors of the company, regarding the ratification of the financial statements.

7. The said recommendations were forwarded to the members of the Board of Directors approximately 5 days before the date that was set for the discussion and ratification of the financial statements.

8. The Board of Directors of the company believes that the recommendations of the committee were transferred to it within a reasonable time, and perhaps even more so, prior to the discussion by the Board of Directors, taking into consideration the scope and complexity of the issues to be discussed in the recommendations. The Board of Directors of the company has accepted the recommendations of the balance sheet and object committee regarding the approval of the financial statements.

9. Procedure for classifying transactions as marginal

On March 8, 2009, the Company's Board of Directors resolved to adopt rules and guidelines for categorizing a transaction of the Company or of one of its consolidated subsidiaries - with a controlling shareholder ("controlling shareholder transaction") - as a negligible transaction as set forth in Regulation 41(a)(6) of the Securities Regulations (Preparation of Annual Financial Statements), 2010 ("Financial Statements Regulations"). These rules and guidelines shall also serve to examine the extent of disclosure in the periodical report and the prospectus (including shelf prospectus reports) regarding a transaction of the company, Corporation under its control and any related company, with a controlling shareholder, or in whose approval a controlling shareholder possesses a personal interest, as set forth in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports) -1970 ("Periodic Report Regulations") and in Regulation 54 of the Securities Regulations (Prospectus Details and Prospectus Draft - Form and Shape) - 1969, as well as for the purpose of submitting an immediate report regarding a said transaction of the company, as stipulated in Regulation 37(a)(6) of the Periodic Report Regulations (the types of transactions determined in the Financial Statements Regulations, Periodical Statements Regulations and in the Prospectus Details Regulations mentioned above, hereinafter: "Related Party Transactions"). On August 8, 2010, the Company's Board of Directors decided to update the rules and guidelines for the classification of an interested party transaction as a negligible transaction for the purposes described above, as follows:

The Company and its associated and related companies, are conducting or may conduct interested-party transactions in the course of their normal state of affairs, and they possess or may possess undertakings to conduct such transactions, including transactions of the type and possessing the characteristics outlined below: Obtaining banking, financial and/or economic services (such as: portfolio management, investment consulting, managing funds provided for the employees, deposits) from a banking corporation and financial institutions; purchasing insurance policies (such as: Managers liability insurance, property insurance and managers insurance); sale and purchase of products and services (such as: Communication products and services, Call Center services, food products, office supplies, paper and cardboard products, clothing, textile, hygiene products, complementary products for cleaning and kitchen use and pesticides); sale and purchase of gifts and gift certificates; purchase and/or rental and/or operational leasing of vehicles; purchase of commercial vehicles, trucks and generators; purchase of travel, flights and tourism services in Israel and overseas and conference and event planning services; legal services; purchasing; rental of real estate property; property management services; vehicle repair services; transportation and courier services, packaging and export services; archive services, warehouse management services and logistic services; administrative services; underwriting engagements; irrigation and pest control services, shredding and waste treatment; rental of advertising space; supply of newspapers, magazines and periodicals.

In the absence of any special qualitative considerations arising from the circumstances, a transaction with an interested party shall be deemed negligible if it is not an exceptional transaction (as defined in the Companies Law) for the purposes outlined above, if the applicable benchmark calculated for the transaction is less than 0.5% and the volume of the transaction does not exceed NIS 8 million (with this sum being adjusted according to the rise, from time to time, in the consumer price index, in relation to the Known Index starting at the beginning of 2010).

In any interested party transaction classified as a negligible transaction, one or more of the criterions relevant to the specific transaction will be calculated based on the consolidated audited or reviewed financial statements of the Company: (a) The sales ratio – total sales in the interested party's transaction divided by total annual sales; (b) Sales cost ratio – the cost of the interested party's transaction divided by the total cost of annual sales; (c) Profit ratio – the actual or forecasted profit or loss attributed to the interested party's transaction divided by the average annual profit or loss in the last three years, based on the last 12 quarters for which reviewed or audited financial statements were published; (d) Assets ratio – the total volume of assets in the interested party's transaction divided by total assets; (e) Liabilities ratio – the liabilities in the interested party's transaction divided by total liabilities; (f) Operating costs ratio - the volume of the expenditure that is the subject of the interested party transaction divided by the total annual operating expenditures. For example, in an insurance transaction of several years, the annual paid insurance fees shall be considered as the volume of the transaction. In cases where, at the Company's discretion, all the aforementioned quantitative benchmarks are not applicable for evaluation of the negligibility of the transaction with an interested party, the transaction shall be deemed negligible, in accordance with another applicable benchmark to be determined by the Company, provided that the applicable benchmark calculated for said transaction is less than 0.5% and that the volume of the transaction shall not exceed NIS 8 million (with this sum being adjusted according to the rise, from time to time, of the consumer price index in relation to the Known Index since the beginning of 2010).

The consideration of the quantitative benchmarks of an interested-party transaction may lead to the classification of the transaction as a transaction that is not negligible despite the aforesaid. Thus - and only as an example - a transaction with an interested party shall not usually be deemed negligible if it is conceived as a significant event by the Company's management, and if it serves as a basis for making managerial decisions, or if in the course of the transaction with an interested party, the latter is expected to receive benefits which are important to disclose publicly.

Separate interested-party transactions that are in fact interconnected and that are in fact part of the same engagement (for example: conducting negotiations regarding the entirety of the transactions), shall be examined as a single transaction.

An interested-party transaction that was classified as negligible by an investee company of the Company, shall also be considered negligible at the parent company level. A transaction that was classified by the investee company is a transaction that is not negligible, shall be examined against the relevant benchmarks at the parent company level.

The Audit Committee of the Company shall annually review the manner of implementation of the instructions in this procedure by the Company, and will conduct sample examinations of interested-party transactions to which the company is a party directly, that were classified is negligible transactions according to the procedural instructions. As part of the sample examinations of the said transactions, the Audit Committee shall examine, inter alia, the manner by which the prices and other terms of the transaction were determined, as the circumstances may be, and will analyze the impact of the transaction on the business situation of the company and the results of its operations. The operations of the Audit Committee as stated in this section, including the sample examination mentioned above, the manner of its implementation and the summarized results and conclusions, shall be disclosed in the periodical report of the company.

The Company's Board of Directors shall examine the need to update the instructions of this procedure from time to time, while taking into consideration the interest-party transactions undertaken by the company and the relevant changes in the legislation.

H. Disclosure Directives Related to the Financial Reporting of the Corporation

1. Events Subsequent to the Balance Sheet Date

For details regarding events that occurred subsequent to the balance sheet date, see Note 22 to the financial statements dated December 31, 2010.

2. Critical Accounting Estimates

Regarding critical accounting estimates, see Note 4 of the financial statements dated December 31, 2010.

I. Dedicated Disclosure to Debenture Holders

For details regarding the rating of debentures, see Note 15 to the periodical report for the year 2010. On January 02, 2011, Standard & Poor's Maalot ratified the Company's ilA+ rating. The rating forecast is stable. The said rating report is attached as an appendix to the management discussion date December 31, 2010.

1. Sources of Finance

See Section B4 - Financial Liabilities and further details in the table below.

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J. Dedicated Disclosure to Debenture Holders - Continued

2. Debentures for institutional investors and the public

Series	Issue Date	Name of rating Company	Rating at time of issue and at report date	Total stated value at issue date	Interest type	Stated Interest	Registered for trade on stock exchange (Yes/No)	Interest payment dates	Nominal par value as at Dec-31-10	Book value of debenture balances as at Dec-31-10	Book value of interest to be paid as at Dec-31-10	Fair value as at Dec-31-10
							In NIS millions					
Series 2	12.2003	Maalot	A+	200,000,000	Fixed	5.65%	No	Annual interest December 21 In the years 2004-2013	85.7	101.0	0.2	104.1
Series 3	7.2008	Maalot	A+	187,500,000	Fixed	4.65%	Yes	Annual interest On July 10 In the years 2009-2018	166.7	179.8	4.0	184.2
Series 4	7-8.2008	Maalot	A+	235,557,000	Fixed	7.45%	Yes	Semi-annual interest On January 10 and July 10 In the years 2009-2015	196.3	196.3	7.0	212.5
Series 5	5.2010	Maalot	A+	181,519,000	Fixed	5.85%	Yes	Semi-annual interest On November 30 and May 31 of the years 2010-2017	181.5	181.5	0.9	197.4

Comments:

1. Series 2 - Linked to the Consumer Price Index (CPI). Principal repaid in 7 annual installments, between Dec-21-2007 and Dec-21-2013.
2. Series 3 - Linked to the Consumer Price Index (CPI). Principal repaid in 9 annual installments, between July 2010 and July 2018.
3. Series 4 - Principal repaid in 6 annual installments, between July 2010 and July 2015.
4. Series 5 - Principal repaid in 5 annual installments, between November 2013 and November 2017.
5. The trustee of the debentures (Series 2) is Bank Leumi Le-Israel Trust Corporation Ltd. The responsible contact person on behalf of Bank Leumi Le-Israel Trust Corporation Ltd. is Ms. Idit Teuzer (telephone: 03-5170777).

6. The trustee of the public debentures (Series 3, 4) is Hermetic Trust Corporation (1975) Ltd. The responsible contact people on behalf of Hermetic Trust Corporation (1975) Ltd. are Mr. Dan Avnon and/or Ms. Merav Ofer-Oren (telephone: 03-5272272).
7. The trustee of the public debentures (Series 5) is Strauss Lazar Trust Corporation (1992) Ltd. The responsible contact person at Strauss Lazar Trust Corporation (1992) Ltd. in the matter of the public debentures is Mr. Uri Lazar (telephone: 03-6237777).
8. As at the date of the report, the Company has met all of the terms and undertakings of the trust notes and there exist no terms that constitute just cause for demanding the immediate repayment of the debentures.

Zvika Livnat, Chairman of the Board of Directors	Ofer Bloch, CEO

Exhibit 3

A Free Translation From Hebrew

Table of Contents

Part A

Description of the Corporation's Business

Table of Contents

Chapter A -

Description of the General Development of the Corporation's Business

1. Introduction

The Board of Directors of Hadera Paper Ltd. is honored to hereby present the description of the corporation's business as at December 31, 2010 - a review of the corporate description and development of its business in 2010 ("the reported period"). The report was formulated in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

1.1. Legend

For the sake of convenience, in this periodic report the following abbreviations shall have the meaning noted adjacent to them:

"Amnir" -	Amnir Recycling Industries Ltd.;
"Amnir Environment" -	Amnir Industries and Environmental Services Ltd.;
"Integraed Energy"	Advanced Integrated Energy Ltd.
"Graffiti" -	Graffiti Office Supplies & Paper Marketing Ltd.;
"DIC" -	Discount Investment Corporation Ltd.;
"TASE" -	The Tel Aviv Stock Exchange Ltd.;
"The Company" or "Hadera Paper" -	Hadera Paper Ltd. (formerly: "American Israeli Paper Mills Ltd.");
"The Group"	The Company, its subsidiaries and associated companies, as defined below;
"Subsidiaries" -	Companies directly and/or indirectly controlled by the Company[1]: Graffiti Office Supplies & Paper Marketing Ltd., Hadera Paper - Packaging Paper and Recycling Ltd., Hadera Paper - Development and Infrastructure Ltd., Amnir Recycling Industries Ltd., Attar Office Supplies Marketing Ltd., Carmel Container Systems Ltd., Frenkel CD Ltd., Hadera Paper - Printing and Writing Paper Ltd. and its subsidiaries and other inactive companies as set forth in section 2.5 below;
"Associated Companies" -	Hogla Kimberly Ltd., KCTR (Turkey), Cycle-Tec Ltd. and their subsidiaries;
"Hogla Kimberly" -	Hogla Kimberly Ltd.;
"The Companies Law" -	The Companies Law, 1999;
"The Securities Act" -	The Securities Act, 1968;
"Tri-Wall" -	Tri-Wall Containers (Israel) Ltd.
"Carmel" -	Carmel Container Systems Ltd.;
"CII" -	Clal Industries and Investments Ltd.;

1In respect of this report, "Control" - as defined in Section 1 of the Securities Act.

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"Report date" -	December 31, 2010;
"Hadera Paper Packaging" -	Hadera Paper - Packaging Paper and Recycling Ltd. (formerly: Hadera Paper Industries Ltd. and prior to that "AIPM Paper Industries (1995) Ltd.");
"Hadera Paper Printing" -	Hadera Paper - Printing and Writing Paper Ltd. (formerly: "Mondi Hadera Paper Ltd.");
"Hadera Paper Infrastructure" -	Hadera Paper Development and Infrastructure Ltd.;
"Cycle-Tec" -	Cycle-Tec Recycling Technology Ltd.;
"Attar" -	Attar Office Supplies Marketing Ltd.;
"Frenkel-CD" -	Frenkel-CD Ltd.;
"Kimberly-Clark" -	Kimberly-Clark Corp.
"NYSE"-	New York Stock Exchange Euronext (formerly: American Stock Exchange - AMEX);
"KCTR"-	Kimberly-Clark Tuketim Mallari Sanayi Ve Ticare A.S.

1.2. The degree to which information included in this report is material, including description of the subsidiaries and associated companies and description of their business, is provided from the Company's viewpoint, and in some cases the description has been elaborated to provide a comprehensive view of the topic described.

1.3. Holding stakes in shares of investee companies are rounded to the nearest percentage point, and are current in proximity to the date of this report, unless otherwise indicated. Holding stakes in shares of an investee company are calculated out of total actual issued share capital of said investee, not accounting for potential dilution due to exercise of options and other convertible securities issued by the company, unless otherwise indicated. In calculating the holding rate in company shares, fully diluted, the exercise of all the options and other convertible securities issued at that date were taken into account, unless stated otherwise. Consequently, holding percentage is may change according to the exercise of options granted to the remaining shareholders in the same investee company.

1.4. In the description of the investee companies, data that is based on various surveys and studies is occasionally included. The company is not responsible for the content of such surveys and studies.

1.5. This report refers to both men and women - the occasional use of the masculine form is for purposes of convenience only.

1.6. Part A of this annual report should be read along with its other parts, including the notes to the financial statements.

2. Corporate operations and description of development of its business

2.1. The Company was incorporated in Israel as a private company in 1951. In 1959 the Company held an initial public offering of its securities, pursuant to a prospectus published on that date (hereinafter: "The IPO") and Company shares have been listed since then for trading on the TASE and on the NYSE. 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.

2.2. The controlling shareholder of the company is CII, that holds, as of a date adjacent to the publication date of this report, approximately 59.09% of the Company's issued capital and voting rights, respectively.

2.3. Prior to September 30, 2009, DIC held 21.45% of the issued capital and voting rights to 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 CII, DIC ceased being a controlling shareholder of the company. CII accordingly increased its holdings in the company.

2.4. To the best of the Company's knowledge, the following are details of holders of 5% or more of the Company's issued share capital or voting rights, in immediate proximity to the publication date of this report:

Name of Interested Party	Ordinary Shares of NIS 0.01 par value	Holding rate of capital and voting, non-diluted		Holding rate of capital and voting, fully diluted	
Clal Industries and Investments Ltd.2	3,007,621	59.09	%	57.60	%
Clal Insurance Holdings Ltd.3	224,736	4.42	%	4.30	%
Clal Finance4	35,759	0.70	%	0.68	%
Psagot Investment House Ltd.5	276,361	5.43	%	5.29	%
Public	1,545,334	30.36	%	32.11	%
Total	5,089,811	100	%	100	%

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2 CII is a public company. As of the date of this report, IDB Development Co., Ltd. (hereinafter: "IDB Development"), a public company whose shares are listed for trade on the TASE , holds 60.54% of CII's issued capital. To the best of the Company's knowledge, Clal Insurance Business Holding Ltd. (hereinafter: "Clal Holdings"), a public company whose shares are listed for trading on the TASE, which is controlled, as of the report date, by IDB Development, holds 4.21% of CII's issued capital. To the best of the Company's knowledge, Clal Holdings is an interested party in Clal Industries, since it is controlled by IDB Development, the controlling shareholder of CII.

To the best of the Company's knowledge, IDB Development Ltd. ("IDB Development") is a privately-held company whose shares are listed for trade on the Tel Aviv Stock Exchange Ltd. ("TASE") and whose controlling shareholder is IDB Holdings Ltd. ("IDB Holdings"), which holds all of the issued share capital and voting rights therein. To the best of the company's knowledge, IDB Holdings is a public company whose shares and securities are registered for trade on the TASE. To the best of the company's knowledge, the following is a description of the control in IDB Holdings: 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 issued share capital and voting rights of IDB Holdings (approximately 54.36% fully diluted), as follows: Ganden holds approximately 37.22% of the issued share capital and voting rights of IDB Holdings (approximately 36.98% fully diluted), while Ganden Holdings directly holds approximately 17.50% of the issued share capital and voting rights of IDB Holdings (approximately 17.38% fully diluted). Moreover, Shelly Bergman (one of the controlling shareholders in Ganden Holdings, as described below), holds - through YZD Ltd. - a privately held company incorporated in Israel which it wholly owns, approximately 4.17% of the issued share capital and voting rights of IDB Holdings (approximately 4.14% fully diluted).

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. Moreover, it should be noted that 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 share capital and voting rights of Ganden Holdings; for the sake of caution and in view of Tzur Dabush's commitment toward Nochi Dankner to vote using all of his shares of Ganden Holdings together with Nochi Dankner, 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.

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Other material corporate shareholders of Ganden Holdings are as follows:

A. 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 Mr. Yaakov Schimmel, who serves as a director of IDB Holdings and IDB Development) holds approximately 9.9% of the issued share capital and voting rights in Ganden Holdings.

b. 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, approximately 9.1% of the issued share capital and voting rights in Ganden Holdings.

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, approximately 13.30% of the issued share capital and voting rights of IDB Holdings (approximately 13.22% fully diluted), as follows: Manor holds approximately 10.25% of the issued share capital and voting rights of IDB Holdings (approximately 10.18% fully diluted), while Manor Holdings directly holds approximately 3.05% of the issued share capital and voting rights of IDB Holdings (approximately 3.03% fully diluted).

Manor is a company controlled by Itzhak Manor and his wife, Ruth Manor. Itzhak Manor and Ruth Manor, along with their four children - Dori Manor, Tamar Morel, Michal Topaz and Sharon Vishnia - hold all Manor shares via two private companies registered in Israel- Manor Holdings and Euro Man Automotive Ltd. ("Euro Man"), as follows: Ruth and Itzhak Manor hold all shares of Manor Holdings, which holds 60% of Manor shares; in addition, Ruth and Itzhak Manor and their aforementioned children hold all shares of Euro Man, which holds 40% of Manor shares, as follows: Ruth Manor and Itzhak Manor each hold 10% of Euro Man shares; Dori Manor, Tamar Morel, Michal Topaz and Sharon Vishnia each hold 20% of Euro Man shares. Note also that Itzhak 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., 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 issued share capital and voting rights of IDB Holdings (approximately 13.23% fully diluted), as follows: Livnat holds approximately 10.20% of the issued share capital and voting rights of IDB Holdings (approximately 10.13% fully diluted), while Avraham Livnat Ltd. directly holds approximately 3.11% of the issued share capital and voting rights of IDB Holdings (approximately 3.09% fully diluted).

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 each of Messrs. 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.

A shareholders agreement (as updated) exists between Ganden, Manor and Livnat, relating to their holdings and joint control over IDB Holdings ("IDB Shareholders Agreement"), relating to approximately 51.7% of the issued share capital of IDB Holdings, held as follows: [a] Ganden - 31.02%; [b] Manor - 10.34%; and [c] Livnat - 10.34% (on their own and through their parent companies).

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 IDB Development'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 Chairmen on 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 IDB Development) 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 shareholders agreement in IDB is valid for 20 years starting in May 2003.

The shares in IDB Holdings, held by Ganden Holdings (17.50%), by Ganden (6.2%), by Manor Holdings (2.96%), by Avraham Livnat Ltd. (2.97%) and by Shelly Bergman, via her wholly-owned company (4.17%) of the issued share capital of IDB Holdings - are excluded from the "controlling interest" as defined in the IDB shareholders' agreement.

3 Clal Insurance Holdings Ltd. (hereinafter: Clal Holdings"), a public company whose shares are listed for trading on the stock exchange, which is controlled, as of the report date, by IDB Development Co. Ltd. (hereinafter: "IDB Development"). To the best of the Company's knowledge, Clal Holdings is an interested party in Clal Industries, since it is controlled by IDB Development, the controlling shareholder of CII.

4 Clal Finance Ltd. (hereinafter: "Clal Finance"), a public company whose shares are listed for trade on the TASE, which is controlled, as of the report date, 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 CII.

5 Psagot Investment House Ltd. (hereinafter: "Psagot"), is a company - that to the best of the company's knowledge, true to the date of the report - is controlled by AP.PS ACQUISITION LTD., a dedicated Israeli company wholly owned by Partners Apax an international investment fund ("Apax") .

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2.5. The Company deals - directly or through its subsidiaries - in the manufacture and sale of packaging paper, corrugated board containers and packaging for consumer goods, in the collection and recycling of paper waste, in the manufacturing and marketing of fine paper and in the marketing of office supplies. Moreover, the company possesses holdings in an associated company that deals - directly and through the subsidiaries of the associated company - in the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products.

2.6. The company has five sectors of operation, that are reported as accounting sectors in the company's consolidated financial statements: (a) Packaging paper and recycling sector; (b) Office supplies marketing sector; (c) Packaging products and cardboard sector; (d) Fine paper sector; and (e) through the company's associated company - the Hogla Kimberly sector (non-food disposable consumer goods).

The companies in the group that are active in the packaging paper and recycling sector include Hadera Paper Packaging, Hadera Paper Infrastructure and Amnir. To companies in the group that are active in the marketing of office supplies include Graffiti and Attar. The companies in the group that are active in the packaging products and cardboard sector include Carmel, Tri-Wall and Frenkel-CD. The companies in the group that are active in the fine paper sector include Hadera Paper Printing and its subsidiaries. For details regarding the five operating sectors, see Section 3, below. The Company provides various services, including headquarter services, to some of its subsidiaries and to an associated company. For details, see Section 3.1, below.

2.7. The following diagram illustrates the Company's holdings in major Group companies:

Hogla-Kimberly
Ltd.
Hadera Paper -
Packaging
Paper and
Recycling Ltd.
Amnir
Recycling
Industries Ltd.
Frenkel-CD
Ltd.(2)
Attar Marketing Office
Supplies Ltd.
49.9%
75%
100%
100 %
Hadera Paper Ltd. (1)
100%
100%
Hadera Paper
- Printing and
Writing Paper
Ltd.
100%
28.92%
28.92%
KCTR
(Turkey)
100%
Hadera Paper
Development and
Infrastructure Ltd.
100%
Tri-Wall
Containers
(Israel) Ltd.
100%
Carmel
Container
Systems Ltd.
Graffiti Office
Supplies & Paper
Marketing Ltd.

(1) The company also has holdings in the following companies: Advanced Integrated Energy Ltd. (100%), Bondex Technologies Ltd. (18.37%) and Cycle-Tec Ltd. (30.18%) (company with no business activity), whose operations

are not material to the company.

(2) There are two types of shares in Frenkel-CD. The holding percentage of the company in the voting rights, directly and indirectly, is equal to 57.72%.

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2.8. Changes in the Business of the Corporation during the Reported Period

2.8.1. 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, that has become a privately held company.

2.8.2. Effective December 31, 2010, the company acquired from a subsidiary of Mondi Business Paper Group (hereinafter: "Mondi Group"), 25.1% of the issued and outstanding share capital of Hadera Paper Printing (hereinafter in this section: "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 the report, the company holds approximately 75% of the shares of Hadera Paper Printing, that was consolidated within the financial statements of the company, with a subsidiary of Mondi Group holding the remaining shares of Hadera Paper Printing. For details regarding the operations of Hadera Paper Printing and the acquisition transaction, see section 11, below.

3. Sectors of operation

As mentioned above, the Company, via its subsidiaries and associated companies, operates in five sectors of operation:

3.1. Packaging Paper and Recycling - Company operations in this sector include the manufacture and sale of packaging paper, used mainly as raw materials in the packaging industry (hereinafter: "corrugators"). This sector of operations also includes the collection and recycling of paper waste, as well as a network of complementary services for the packaging industry. Most of the manufacturing performed by the company consists of fluting paper (paper that serves as a raw material for the manufacture of corrugated board packages, serving as a separation between the external layer of the box and its internal side). This paper is produced by Hadera Paper Packaging out of recycled paper waste, collected by Amnir from various sources throughout Israel. Within this sector of operations, the company also produces types of paper based entirely (100%) on recycled fibers that constitute a replacement for pulp-based packaging paper. Additionally, Hadera Paper Infrastructures provides various services to some of the group companies, at the company site in Hadera. Such services include: Engineering services, regular maintenance to ensure manufacturing consistency, supply of gas, electricity, steam, fuel, water, spare parts warehouse, transportation services, cleaning, security and catering services. For further details regarding this operating sector, see Section 8, below.

3.2. Office supplies marketing - Company operations in this sector are carried out via Graffiti and Attar, including marketing of office and paper supplies, primarily to the institutional and business markets, which include inter-alia: government offices, banks, HMOs and other businesses. The rate of technological development of Israel’s business sector leads to increasing demand for technology-based products, including office automation, printers, hardware, software and consumables such as toners, inkjet cartridges, etc. Office supplies are often delivered along with management of the customers' relevant purchasing budget, thus allowing Graffiti to assist in cost reduction and improved efficiency for large enterprises. For further details regarding this operating sector, see Section 9, below.

3.3. Packaging and cardboard products - Company operations in this operating segment include production and sale of cardboard products, intended primarily for customers in the industry and agriculture sectors and of cardboard shelf packaging for consumer goods, mostly used in industry, agriculture, food, beverages and cosmetics. Packaging and board production is partially based on recycled paper waste used as raw material. The packaging and cardboard produced by Carmel and by Frenkel-CD are also made of recycled paper produced by Hadera Paper Packaging. For further details regarding this operating sector, see Section 10, below.

3.4. Manufacture of Fine Paper - The company's operations in this sector are conducted through the subsidiary company Hadera Paper Printing and its subsidiaries and consists of the manufacture and marketing of fine paper, the marketing of imported paper, such as coated paper and special paper, complementary to its product range. For further details regarding this operating sector, see Section 11, below.

3.5. Hogla Kimberly (disposable, non-food consumer goods) - The company operations in this sector are performed through the Hogla associated company and its subsidiaries and consist of the manufacture and marketing of a wide variety of household paper products, disposable diapers for babies, incontinence products (adult absorbent products), feminine hygiene products and complimentary products for the kitchen and for cleaning. For further details regarding this operating sector, see Section 24.1, below.

4. Equity investments in the Company and transactions in its shares

4.1. On January 14, 2008, the Company adopted a compensation plan for senior employees of the Group, whereby up to 285,750 stock options, each of which is exercisable into one ordinary share of the Company, of NIS 0.01 par value, would be allocated (hereinafter: "Compensation Plan"). The number of shares derived from the exercise of the stock options represented - on the date of approval of the allotment - approximately 5.65% of the issued share capital of the company. Pursuant to the conditions of the said option warrants, the offerees who will exercise the option warrants 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 warrants at the exercise date only. In the course of the first quarter of 2008, a sum of 250,500 stock options were granted as aforesaid, and on January 8, 2009, a sum of 34,000 stock options were granted, out of 35,250 stock options that were allocated to the trustee, as a reservoir for future granting. On August 9, 2009, the remaining options held by the Trustee, totaling 1,250 options, were cancelled. During 2009, senior employees and position holders at the company exercised 1064 option warrants into 98 ordinary shares of the company. Moreover, a total of 17,686 stock options expired in 2009. In the course of 2010, a total of 103,462 option warrants were exercised into 24,009 shares and true to December 31, 2010, a total of 158,038 option warrants of the company have either expired or have yet to be exercised. For details regarding the aforementioned stock option plan and allocation, see section 13.4.5, below.

5. Dividend distribution

5.1. The company did not distribute any dividends to its shareholders during the past two years. As of December 31, 2010, the company possesses retained earnings that are eligible for distribution, in the sum of NIS 506,445 thousand.

5.2. We note that, as of the report date, the Company has yet to adopt a dividend distribution policy. Furthermore, as of the report date, the Company has yet to assume any restrictions on dividend distribution. It is noted that dividends from distributable profits from approved enterprises (alternative enterprises) are subject to extra taxes, as specified in the Law for the Encouragement of Capital Investments.

Chapter B - Other Information

6. Financial Information Regarding the Corporation's Sectors of Operation

6.1. Below are data regarding financial information about the Company's sectors of operation in the years 2010, 2009 and 2008:

	NIS thousands	Packaging paper & recycling sector	Office Supplies Marketing sector	Packaging products and cardboard sector	Hogla Kimberly Sector	Fine paper sector	Adjustments to consolidated*	Consolidated
		Year ended December 31, 2010						
1.	Revenues							
a.	External sector revenues	393,439	176,580	489,543	1,691,918	691,069	(2,382,986)	1,059,563
b.	Revenues from other operating sectors	117,927	2,267	20,102	5,591	37,633	(122,075)	61,445
c.	Total	511,366	178,847	509,645	1,697,509	728,702	(2,505,061)	1,121,008
2.	Costs*							
a.	Costs that constitute revenues of another sector of the corporation	12,531	35,483	73,757	55,578	6,152	(121,771)	61,730
b.	Other Costs	448,676	138,237	428,783	1,455,328	691,478	(2,164,519)	997,983
c.	Total	461,207	173,720	502,540	1,510,906	697,630	(2,286,290)	1,059,713
d.	Fixed costs	206,445	19,940	164,333	448,479	160,293	(612,481)	387,009
e.	Variable costs	254,762	153,781	338,207	1,062,427	537,337	(1,673,810)	672,704
3.	Operating Profit	50,159	5,127	7,105	186,603	31,072	(218,771)	61,295
a.	Operating profit attributed to the owners of the parent company	50,159	5,127	5,399	93,115	15,505	(109,716)	59,589
b.	Operating profit attributed to rights that do not offer control	-	-	1,706	93,488	15,567	(109,055)	1,706
4.	Total assets as at December 31, 2010**	1,689,167	53,425	376,061	979,817	425,379	(750,215)	2,773,634

5.	Total liabilities as at December 31, 2010	138,405	35,920	75,931	501,159	119,809	948,154	1,820,032

* Adjustments are primarily for general assets not assigned to a specific operating sector (such as investment in associated companies, cash, etc.).

** For a valuation of total company assets provided to the company and attached to the financial statements, see the Company's financial statements as at December 31, 2010. .

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					Year ended December 31, 2009				
	NIS thousands		Paper & recycling sector	Office Supplies Marketing sector	Packaging products and cardboard sector	Hogla Kimberly Sector	Fine Paper Sector	Adjustments to consolidated*	Consolidated
1.	Revenues								
	a.	External sector revenues	219,866	149,107	468,339	1,722,613	645,972	(2,368,582)	837,315
	b.	Revenues from other operating sectors	119,433	1,904	15,965	4,014	23,250	(109,886)	54,680
	c.	Total	339,299	151,011	484,304	1,726,627	669,222	(2,478,468)	891,995
2.	Costs*								
	a.	Costs that constitute revenues of another sector of the corporation	59,601	30,777	94,561	54,596	5,209	(184,939)	59,805
	b.	Other Costs	282,435	116,251	375,031	1,478,226	623,472	(2,058,812)	816,603
	c.	Total	342,036	147,028	469,592	1,532,822	628,681	(2,243,751)	876,408
	d.	Fixed costs	146,691	15,636	145,797	541,218	143,825	(684,838)	308,329
	e.	Variable costs	195,345	131,392	323,795	991,604	484,856	(1,558,913)	568,079
3.	Operating profit from ordinary operations		(2,737)	3,983	14,712	193,805	40,541	(234,717)	15,587
	a.	Operating profit attributed to the owners of the parent company	(2,737)	3,983	12,192	96,709	20,230	117,310	13,067
	b.	Operating profit attributed to rights that do not offer control			2,520	97,096	20,311	117,407	2,520
4.	Total assets as at December 31, 2009		1,638,895	43,542	356,742	990,670	461,786	(1,202,959)	2,288,676
5.	Total liabilities as at December 31, 2009		141,911	31,327	82,657	534,577	306,478	360,946	1,430,247

* Adjustments are primarily for general assets not assigned to a specific operating sector (such as investment in associated companies, cash etc.)

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			Year ended December 31, 2008					
	NIS '000	Paper & recycling sector	Office Supplies Marketing sector	Packaging products and cardboard sector	Hogla Kimberly Sector	Fine Paper Sector	Adjustments to consolidated*	Consolidated
1.	Revenues							
a.	External sector revenues	273,436	129,068	500,069	1,605,376	717,424	(2,660,433)	564,940
b.	Revenues from other operating sectors	133,331	2,046	12,508	3,200	14,923	(57,464)	108,544
c.	Total	406,767	131,114	512,577	1,608,576	732,347	(2,717,897)	673,484
2.	Costs*							
a.	Costs that constitute revenues of another sector of the corporation	66,185	19,250	97,344	68,756	7,913	(182,779)	76,669
b.	Other Costs	302,809	108,631	421,459	1,404,067	690,344	(2,365,846)	561,464
c.	Total	368,994	127,881	518,803	1,472,823	698,257	(2,548,625)	638,133
d.	Fixed costs	145,699	17,930	150,377	520,034	147,168	(773,581)	207,627
e.	Variable costs	223,295	109,951	368,426	952,789	551,089	(1,775,044)	430,506
3.	Operating profit	37,773	3,233	(6,226)	135,753	34,090	(169,272)	35,351
a.	Operating profit attributed to the owners of the parent company	37,773	3,233	(4,250)	67,741	17,011	84,181	37,327
b.	Operating profit attributed to rights that do not offer control			(1,476)	68,012	17,079	85,091	1,976
4.	Total assets as of December 31, 2008	803,279	72,624	415,666	946,156	483,962	(677,593)	2,044,094
5.	Total liabilities as at December 31, 2008	82,925	35,258	76,837	505,167	361,404	224,875	1,286,466

*Adjustments are primarily for general assets not assigned to a specific operating sector (such as investment in associated companies, cash etc.)

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6.2. Developments over the past three years

6.2.1. Below are explanations of developments in data pertaining to financial information set forth in section 6, above:

6.2.2. In the course of 2008, the Israeli economy slowed down (3.9% growth in relation to 2007), while in the second half of 2008, private-consumption demand dropped as well. Furthermore, 2008 was a volatile year for the Israeli shekel versus the dollar, as an average revaluation at a rate of approximately 13% occurred, as compared to 2007, totaling approximately 1.1% during the latter part of 2008, in addition to the 9% revaluation during 2007. At the beginning of 2009, the business sector had to deal with a freeze in demand resulting from the worldwide financial crisis which developed in 2008. The main decrease in demand was observed by a reduction in the demand for exports, leading to adjustments in the scope of employment and investment. Some recovery was noted starting from the second quarter of 2009, increasing in strength in most of the sectors of the Israeli market, in the Israeli capital market and significant increases were even noted in real estate property investments.

6.2.3. The imbalance between supply and demand in the global paper industry (beginning in 2008 as a result of the financial crisis and the deceleration of operations during the first half of 2009) caused an influx of low-priced paper into Israel, forcing the companies in Israel in both the fine paper sector as well as in the packaging paper sector to maintain a low price level, and even to lower prices throughout most of 2009. The erosion of sales prices was compensated by the continued decrease in inputs in 2009 (mainly fibers and chemicals). During 2009, electricity prices also decreased, offsetting the rise in the price of water during 2009, as compared with 2008.

6.2.4. There was a consistent rise in prices in the world packaging paper market throughout all of 2010. The trend of price rises in recycled products became more moderate towards the end of 2010.

6.2.5. At the beginning of 2011, the trend, continuing from 2010, of rising prices of recycled paper in the world was reflected in the publications of a number of recycled paper manufacturers in Europe regarding additional price rises are expected starting in February 2011, at a rate of approximately 10%.

6.2.6. Amnir collects paper waste, which constitutes the main raw material for the manufacture of packaging paper, from various sources throughout Israel. On January 19, 2001, the Formalization of Treatment of Packaging Law 5771 – 2011 (hereinafter: "the Packaging Law), 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 goes into effect on March 1, 2011, and certain regulations relating to the start of collection by a recognized body go into effect as of July 1, 2011. In light of the provisions of the Packaging Law, an adjustment will be required in the set-up of the Company's collection of paper and board, 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 and removal and collection of waste, and on the method of operation to be used by the recognized body to be established by power of the law. For details regarding the Packaging Law, see section 8.23.2, below.

6.2.7. Regarding printing and copying paper (fine paper), in 2010 there were rises in prices in the local market in light of the fact that a number of plants throughout the world stopped manufacture, causing a reduction in the supply of paper in the local market. At the same time, there was a rise in the price of pulp during 2010, as compared with 2009. During 2010, Hadera Paper Printing took steps toward increasing exports to the US, which contributed to the improvement of its 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.

6.2.8. During 2009, a decreasing trend was felt in input prices, mainly in the areas of fibers and chemicals. This trend turned during the last quarter of 2009, in light of awakening activities in the markets. As of the end of 2009, pulp prices began to rise steeply. These rises leveled out only towards the end of 2010. During 2010 starch prices decreased, as well as the price of electricity as compared with 2009. This diminishment of costs was offset by the rise in water prices.

6.2.9. The average revaluation of the shekel versus the dollar of approximately 5.1% in 2010, as compared with 2009, and the revaluation of the shekel versus the euro at the rate of approximately 9% during 2010 as compared with 2009 had a positive effect on the Company in terms of imported inputs, while - on the other hand - serving to erode selling prices in the Company's areas of operations where prices are quoted in dollars and euro.

6.2.10. Changes in currency rates could impact the Company's various areas of operations in different ways, so that the overall negative and positive effects are offset against each other, and therefore the Company's exposure to changes in currency rates is low.

The above information with regard to Company estimates of trends in the global market, in the paper industry and in selling prices, input and paper prices, demand growth trends and the impact of all these factors on Company results constitutes forward-looking information as defined in the Securities Act, and merely consists of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. These estimates may not materialize - in whole or in part - or may materialize in a different manner than anticipated, inter alia on account of factors that lie outside the control of the company, such as the impact of the crisis in the global credit and banking sectors, changes in global raw material prices and changes in the demand and supply of paper products worldwide, as well as changes and developments in regulation in the sectors of operation and/or the realization of any of the risk factors outlined in sections 8.26, 9.17, 10.23, 11.26 and 23, below.

6.2.11. For additional details regarding change in the sector of operations, see Sections 8, 9, 10, 11, 24, below.

7. The General Environment and Impact of External Factors on the Company

7.1. The economic recovery in most world financial and real markets continued during 2010, especially in awakening markets, and in Israel. At the same time, 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.

7.2. 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, when a 4.5% growth rate[6] was recorded as compared with 0.8% growth in 2009, thanks to the renewed rise in global demand. Growth was felt in the Israeli economy in the development of output in the paper and paper product industry beginning in the third quarter of 2009 through to the second quarter of 2010, reaching some 7%[7]. There was also a rapid expansion of export starting in the second half of 2009, resulting from an average devaluation in the exchange rate of the shekel vs. the dollar, at the rate of approximately 9%, as compared with 2008, and improvement in Israel's conditions of trade in light of a fall in prices of commodities throughout the world. This expansion continued on into 2010. Export of goods and services grew in 2010 at the rate of some 12.6%[8] as compared with a decrease of some 12.5% in 2009. Together with the recovery in exports, a certain recovery in local demand was also recorded: 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 was noted, of some 2.9%[9]. The growth in local demand stemmed from households, in light of the drop in unemployment rates, as well as from the real increase in average wages in the market, as well as in light of the rise in economic activity in general.

7.3. 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, alongside the concern from inflation increase ,on the other hand, caused the Bank of Israel to slowly and gradually increase the monetary interest rate, and at the same time to continue be involved in the foreign currency market, and lately, in cooperation with the Ministry of Finance, to also impose limitations on the short term movement of 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 instability in the Middle East could, under certain scenarios, negatively impact the status of the Israeli market.

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6 Growth data from the Central Bureau of Statistics, Dec-29-2010, "Preliminary Assessments for National Accounts for 2010".

7 Growth data for paper and paper products industry from publication by the Israel Manufacturers Association, "Status of the Israeli Industry, Trends and Forecasts 2010-2011".

8 Growth data from the Central Bureau of Statistics, Dec-29-2010, "Preliminary Assessments for National Accounts for 2010".

9 Data regarding consumption per capita from the Central Bureau of Statistics, Dec-29-2010, "Preliminary Assessments for National Accounts for 2010".

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Explanation of Responses:

7.4. 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 to 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 hold a positive influence on foreign investors who are while investing in Israel and may also serve to influence the credit rating of the State of Israel.

7.5. In the paper industry, the worldwide economic slowdown in 2009 forced companies in Israel to maintain a low price level. This trend changed during the last quarter of 2009 and in the beginning of 2010, and measures for raising sale prices for printing and copy paper and for packaging paper in the local market as well as in export markets were taken in 2010, following the improved economic situation and end of the recession. It looks as if this trend of high demand for packaging paper will continue into the beginning of 2011 as well.

7.6. Gas prices, denominated in US dollars, which represent a material input in the manufacturing chain of paper, decreased in 2010 by approximately 6% in relation to 2009 as a result of the revaluation of the NIS in relation to the average US dollar exchange rate during the period, by a rate of approximately 5.1% in relation to 2009. For additional details regarding the gas agreement, see section 19.8, below. However, recent geo-political developments in Egypt and uncertainty with regards to stability of governments could - under certain scenarios - negatively impact the Company's option of engaging under an agreement with gas provider EMG, one of the gas providers the Company has been negotiating with, in connection with gas supply. As of the date of this report, the Company cannot assess the impact the situation in the region will have on the option of said engagement with EMG, or said impact on possible conditions of engagement with other gas suppliers.

7.7. The developments in global markets, and especially in the euro bloc and in the United States, that also include 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.

7.8. Said information regarding the impact of Israel having joined the OECD and regarding trends in demand for packaging paper is considered forward looking information as defined in the Securities Law, and constitutes forecasts and assessments on the part of the company, the realization of which is not certain and based on information existing in the company as of the date of the report. These forecasts and estimates by the Company may not materialize, in whole or in part, or may materialize in a manner significantly different than that expected. The major factors that could impact this are business opportunities the company may have, dependence on external factors, changes in demand and supply, developments and changes in regulation and/or realization of any of the risk factors outlined in sections 8.26 and 23, below.

Chapter C – Business Description of the Corporation by Sector

8. The Paper and Recycling Sector

8.1. Structure of the packaging paper and recycling operating sector and changes thereto

8.1.1. The paper and recycling operations focus primarily on the manufacture and sale of packaging paper, used as raw materials in the corrugated board industry (hereinafter: "corrugators") as well as paper waste collection and recycling. Production and sales of packaging paper is conducted by the Company via its subsidiary, Hadera Paper Packaging. Paper waste collection and recycling is primarily conducted via the subsidiary, Amnir.

8.1.2. Packaging paper is intended, as mentioned, primarily 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 paper waste collection by the company is the level of economic activity in the market and the export volumes.

8.1.3. The majority of production conducted by the company in this sector consists of fluting paper (incorporated in corrugated board boxes as a wavy layer between the outer and inner box walls). All of the packaging paper produced by Hadera Paper Packaging, is made of recycled paper waste, collected from various sources throughout Israel. Globally, packaging paper is also produced from virgin fibers (pulp). In this sector of operations, the company also produces paper types made of 100% recycled fibers, that constitute a replacement for pulp-based packaging paper. For details regarding the development of paper from recycled fibers, as a replacement for paper from virgin fibers, see section 8.11, below.

8.1.4. The range of complementary services: For the purpose of the paper manufacturing operations, the company maintains a network of complementary services for the operations of group companies at the company site in Hadera. These services are provided through Hadera Paper Infrastructures. For details, see section 3.1, above.

8.1.5. Paper and board waste collection network - The collection activity of raw materials for paper production (paper and board waste) is carried out by Amnir. 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. Since the supply of such raw materials is vital for the production continuity of paper, Amnir's operations in collecting such waste constitute a crucial step in the packaging paper production process.

8.1.6. Amnir collects paper waste from various sources around Israel, and as of the report date it processes (sorting and compressing of paper waste) at its plants approximately 270,000 tons of paper waste annually (wood-free paper, wood-based paper and board). Approximately 78% of the paper waste handled by Amnir is used for in-house production of packaging paper by Hadera Paper Packaging, and 22% of it is sold as raw material to producers of tissue paper (Hogla-Kimberly, Shaniv Paper Industry Ltd., Panda Paper Mills (1997) Ltd. and White Paper Jerusalem (2000) Ltd.). The paper waste handled by Amnir also includes paper waste that Amnir purchases from various elements.

8.2. Limitations, Legislation, Regulations and Special Constraints applicable to the packaging paper and recycling operating sector

8.2.1. Due to the nature of the sector of operations, it is subject to a range of regulatory restrictions concerning environmental protection. For further details see section 8.22, below.

8.2.2. This sector of operations is subject to the directives of the Packaging Law. For details regarding the Packaging Law, see section 8.23.2, below.

8.2.3. In December 1988, the Company was declared a monopoly in the production and marketing of paper in rolls and sheets - by the Israel Antitrust Authority, by its authority pursuant to the Antitrust Act, 1988 (hereinafter: "the Antitrust Act"). In July 1998 this declaration was partially rescinded with regard to fine paper in rolls and sheets. However, in the area of packaging paper in rolls and sheets, the company still declared a monopoly. For restrictions applicable to the Company pursuant to the Antitrust Act, see section 8.23.8, below.

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 estimates that it is not actually a monopoly in this area. The response of the Antitrust Authority is yet to be received.

8.3. Changes to volume of operations in the packaging paper and recycling sector and its profitability

8.3.1. The global paper industry is 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 surplus production at relatively low prices at “cost plus” (i.e. covering the variable cost and a certain contribution toward fixed costs).

8.3.2. Based on internal Company estimates, consumption of packaging paper in Israel (excluding tissue) averaged approximately 950 million tons per year in recent years.

8.3.3. The company estimates, that the packaging paper market in Israel, recorded growth of approximately 3% in 2010, after it decreased by approximately 10% in 2008 and by an additional 6% in 2009.

8.3.4. The volume of paper recycling in 2010 amounted to 390,000 tons (including waste by corrugators). This constitutes an increase of approximately 14% in recycling in Israel since 2007.

8.3.5. The paper recycling rate, out of total paper consumption in Israel in 2010, was approximately 40% (as compared with a paper recycling rate of approximately 37% in 2009). Based on the above data, there currently exists - following the operation of Machine 8 - potential for growth in the volume of production of paper in Israel, at the expense of paper imports. Moreover, given the low rate of recycling in Israel (by comparison with the existing rates in Europe), there exists potential for continued growth in the volume of paper recycling. Note that based on data from the Confederation of European Paper Industries (CEPI), the average annual rate of paper recycling in recent years out of total paper consumption in Western Europe was 57% (as compared with 40% in Israel).

8.4. Developments in the packaging paper and recycling sector and changes to its customer profile

8.4.1. In recent years, the trend among customers has been toward the use of paper made from recycled fiber and away from using paper made of virgin fiber (originating from imports) - in order to reduce their production costs. The move to recycled paper was made possible by the technology change which allowed recycled paper to be used in the production of paper with strength qualities similar to pulp-based paper. Furthermore, in recent years awareness of environmental protection issues has grown, which may assist in the growth in the paper recycling rate. For further details with regard to developments in the field of paper from recycled fibers, see section 8.11, below.

8.4.2. There was a rise in prices in global paper markets in 2010, after a fall in prices during 2008 and during the first half of 2009. This fall in prices was the result of global surplus supply of packaging and packaging paper because of the effects of the economic crisis on the packaging and packaging paper industry, as a result of the reduction of global commerce. Following changes in global prices, recycled paper prices in Israel rose during 2010. In light of the improvement in the global situation which occurred during 2010, and the emergence out of the deep recession world markets had been in, world commerce took a turn and there was a rise in demand for merchandise, and as a result, a growth in demand for packaging and packaging paper. In the Company's estimate, this trend of high demand for packaging paper will continue into 2011 as well.

Information regarding the continuing trend of elevated demand for packaging paper constitutes forward-looking information, as defined by the Securities Act and merely consists of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. The aforementioned Company forecasts and estimates may not materialize, in whole or in part, or may differ from current forecasts and estimates, due to multiple factors, including changes in demand in markets in which the Company operates, global supply and cost of paper products, developments and changes to regulation of the operating sector and/or materialization of any of the risk factors set forth in sections 8.26 and 23, below.

8.4.3. In recent years, the trend of market transition to thinner packaging paper that is reinforced with starch of higher quality and purity levels continues. This paper was developed overseas and is produced by modern machines, that were built in recent years. The imported paper competes with the company's products. This trend necessitated a change in the range of paper produced by the Company, in order to allow it to face competition in this operating sector.

8.4.4. As part of the solutions for this challenge, the Company's Board of Directors approved, on November 19, 2006 and on October 15, 2007, the installation of a new packaging paper production system, known as "Machine 8" (hereinafter: "the new machine" or "Machine 8"). Machine 8 would enable the Company to meet growing demand in the local market, at a more competitive cost to the Company and with a higher paper quality vs. competing imports.

8.4.5. The setup cost for the entire system, which was approved by the Board of Directors, including additional investment in paper waste collection (to be used as raw material) amounts to NIS 700 million. The new machine was activated in January 2010. The running in process of the machine was successfully completed on May 31, 2010.

8.4.6. Even during 2010 and even thereafter, the improvement in the learning curve operating the machine is expected to continue, to the effect that an additional movement is expected in the output of the new machine and in the manufacturing costs (including items such as: lost fibers, energy costs, water, sewage etc.). The company estimates that the new machine will ultimately have an output capacity of approximately 230,000 tons per annum.

8.4.7. Moreover, upon completion of the learning process of the new machine, that is expected to take place in 2011, 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 (as compared with 270,000 tons during 2010, with the partial operation of Machine 8).

Information concerning the expected operation rate of the new machine, advantages of the new machine and increase in expected production capacity of the Company constitutes forward-looking information as defined in the Securities Act and merely consists of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. The aforementioned Company forecasts and estimates may not materialize, in whole or in part, or may differ from current forecasts and estimates, due to multiple factors, including business opportunities available to the Company, changes in demand in markets in which the Company operates, global supply and cost of paper products, developments and changes to regulation of the operating sector, technical malfunctions and/or materialization of any of the risk factors set forth in sections 8.26 and 23, below.

8.5. Critical success factors in the packaging paper and recycling sector of operations and changes therein

Several critical success factors may be indicated for Company operations in the packaging paper and recycling sector, which impact its operations:

8.5.1. Condition of Israel's Economy - Packaging paper is intended, as mentioned, primarily 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. As a result, extensive current economic activity has a positive material impact on the demand for packaging paper and on the volume of associated paper and board waste collection (that serves as raw material for the manufacture of packaging paper). On the other hand, an economic crisis or a slowdown in economic activity will possess an adverse impact on the aforesaid.

8.5.2. Financing and capital raising capabilities - Machines used in paper production are very costly, in terms of both acquisition and maintenance cost. Consequently, financing capabilities and the ability to raise funds, constitute an advantage in the sector of operations.

8.5.3. Local producer - In this operating sector, a local producer enjoys an advantage over imports, as the former is able to ensure constant supply of the product, at a relatively short lead time and at the size and quality required by customers, thereby saving them the need to maintain large inventories. The Company is the only packaging paper producer in Israel, and therefore enjoys an advantage in this operating sector.

8.5.4. Product quality and customer service - High product quality, availability and quality customer service are important success factors in this operating sector. A high level of quality and service are contributing to preserving the existing customers.

8.5.5. Packaging Law - In January 2011 the Packaging Law was passed by the Knesset, regulating, among other things, separation and collection of packaging waste. The Company is studying the impact of the law and the regulations enacted by power of the law in the matter of separation at source, removal and collection of waste on the Company's operations. For details regarding the Packaging Law, see section 8.23.2, below.

8.5.6. Landfill levy - Starting in July 2007, pursuant to the Cleanliness Law as set forth in section 8.23.3, below, a landfill levy is charged to waste sent for landfilling, ranging from NIS 10 per ton in 2007, up to NIS 50 per ton in 2011 and thereafter. In January 2011, regulations were enacted prescribing that the landfilling fee will continue to rise for a period. The company estimates that the enforcement of the said landfill levy may cause various entities to prefer transferring their waste for recycling over landfilling, in order to avoid the said landfilling levy. This may result in growth in the volume of waste collected for recycling, thereby lowering the company's collection costs.

The information regarding the implications of the landfilling levy is considered forward looking information as defined in the Securities Law, and constitutes forecasts and assessments on the part of the company, the realization of which is not certain and based on information existing in the company as of the date of the report. Company forecasts and estimates may not materialize, in whole or in part. Moreover, the actual results may differ from the current estimates and forecasts due to various factors, including regulatory developments and changes in the sector of operations and/or the realization of any the risk factors outlined in Sections 8.26 and 23, below.

Explanation of Responses:

8.6. Changes to suppliers and raw materials for the packaging paper and recycling operating sector

8.6.1. The increase in paper production capacity due to operation of Machine 8, as set forth in section 8.4, below, requires doubling, over the next few years, of the paper waste collection volume to be used as raw material in production of packaging paper. Amnir started as early as 2007 to increase the paper waste collection volume, in preparation for the construction of Machine 8. Amnir continued this activity in 2010 as well, and plans to continue and gradually expand the quantity of paper waste, according to well-detailed plans.

The information regarding the increase in the quantity of paper waste collected is considered forward looking information as defined in the Securities Law, and constitutes only forecasts and assessments on the part of the company, the realization of which is not certain and based on information existing in the company as of the date of the report. Company forecasts and estimates may not materialize, in whole or in part. Furthermore, actual results may differ from current forecasts and estimates, due to multiple factors, including business opportunities available to the Company, changes in demand in markets in which the Company operates, supply and cost of paper products globally, developments and changes to regulation of the operating sector and/or materialization of any of the risk factors set forth in sections 8.26 and 23, below.

8.6.2. For the aforementioned preparations, Amnir took, inter alia, the following steps: Intensifying collection operations with existing customers, establishment of a greater number of municipal paper collection points and development of new collection sources; adapting Amnir's organizational structure and re-organization in all operating areas, including marketing, logistics, facilities, maintenance, purchasing etc.; establishment of an alternative site for Amnir's facility to receive and process the necessary additional volume; accumulation of paper waste inventory pending operation of the new machine; cooperation with local authorities on paper waste collection (including cooperation on paper waste collection from apartment buildings); dedicated collection from private customers, inter alia, by means of installation of collection containers; removal of cardboard from streets; and marketing projects to increase awareness of waste recycling.

8.6.3. The prices of paper waste throughout the world, which fell significantly at the end of 2008 and during the beginning of 2009 in light of a reduction in demand and the economic crisis, began to increase in Israel and throughout the world during 2009, as a result of high demand for newsprint and board waste throughout the world (especially in Asia). This trend remained constant throughout 2010.

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8.6.4. Under the Cleanliness Law, starting in July 2007 there is a fee for landfilling waste. In the matter of the impact of the Cleanliness Law on the raw materials set-up in the sector of operations, see section 8.23.3 below.

8.6.5. Furthermore, in January 2011, the Packaging Law was passed by the Knesset, regulating, among other things, separation and collection of packaging waste. The Company is studying the impact of the law and the regulations enacted by power of the law in the matter of separation at source, removal and collection of waste on the Company's operations. For details regarding the Packaging Law, see section 8.23.2, below.

Information concerning the increase in the output capacity of the company and the impact of the Packaging Law and Cleanliness Law on the ability of the company to obtain the required raw materials for its operations, constitute forward-looking information as defined in the Securities Act and merely consist of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. Company forecasts and estimates may not materialize, in whole or in part. Furthermore, actual results may differ from current forecasts and estimates, due to multiple factors, including business opportunities available to the Company, changes in markets in which the Company operates, global demand, supply and cost of paper products, developments and changes to regulation of the operating sector and/or materialization of any of the risk factors set forth in sections 8.26 and 23, below.

8.7. Major barriers to entry and exit in the packaging paper and recycling sector and changes therein

There are several barriers to entry of any company to the field of paper production:

8.7.1. Initial capital - The paper industry is, by nature, capital intensive with heavy investment required in infrastructure and equipment (paper machinery, paper waste processing systems and associated infrastructure); entry into this operating sector requires a significant initial capital. Moreover, even after conducting the initial investments for establishing the necessary infrastructure for entering the sector, this area of operations is characterized by significant investments in ongoing equipment maintenance and in the energy systems.

8.7.2. Skilled staff - Manufacturing of products in this sector requires professional, skilled staff. A company starting operations in this operating segment would be required to recruit appropriate staff, which may prove to be a challenge to any company intending to operate in this segment.

8.7.3. Long penetration time - Penetrating into this operating sector requires a long time, mainly due to significant investments in installation of required equipment, staff training and the importance of reputation in this sector.

8.7.4. Local producer - In this operating sector, a local producer enjoys a significant advantage over imports, as the former is able to ensure constant supply of the product, at a relatively short lead time and at the size and quality required by customers, thereby saving them the need to maintain large inventories.

8.7.5. Few customers - This operating sector typically has a limited number of customers. This fact, along with the competitive environment of this operating sector, makes it difficult for new companies to penetrate the sector, because customers are hard to recruit as they often have long-term relationships with paper producers and/or paper importers.

8.7.6. The Company believes that there are no material exit barriers from this segment, except for the following: Immediate discontinuation of operations would require arrangements to be made with customers concerning conclusion of product inventory delivery as well as arrangement of payments to suppliers. Furthermore, with regard to the payment of fixed expenses, the Company would be required to make appropriate arrangements, since some of these fixed expenses relating to infrastructure services at the Company's site in Hadera cannot be immediately terminated.

8.7.7. Note that the paper waste collection area has no material barriers to entry, since no material capital investment or special licenses are required, and the time to penetrate the market is short. Furthermore, small players can operate in this sector.

8.8. Structure of competition in the packaging paper and recycling operating sector and changes thereto

8.8.1. The Company, via its subsidiary Hadera Paper Packaging, is the sole producer of packaging paper in Israel, and competes with self-imports by its customers. In the field of paper waste collection, competition is primarily from two companies - KMM Recycling Facilities Ltd. and Tal-El Collection and Recycling Ltd.. In addition, there are small collectors of paper waste.

8.8.2. For additional details regarding the competition in the sector, see Section 8.15, below.

8.9. Products and services in the packaging paper and recycling operating sector

The principal products and services in the area of operations are:

8.9.1. Packaging paper - The Company's operations in this operating segment involve the production and sale of packaging paper from recycled fiber (i.e. from paper waste collected for recycling). This paper is used as raw material for production of cardboard packaging by the corrugated board industry. As regards new products, see Section 8.11, below. For details regarding the manufacture of packaging paper by the company, see Section 3.1, above.

8.9.2. Paper waste collection and recycling - Through its Amnir subsidiary, the Company deals in the provision of paper waste collection and recycling services, to serve as raw materials and the manufacture of packaging paper. As of the date of the report, approximately 78% of the quantity of waste sold by Amnir serves for the internal manufacture of packaging paper by Hadera Paper Packaging, while the remaining waste sold by Amnir, accounting for approximately 22% of the quantity of the waste, as at the date of the report, is sold as raw material for manufacturers of tissue paper (Hogla Kimberly, Shaniv, Panda and Jerusalem Paper). In addition to paper waste collection, Amnir also purchases paper waste from various entities as needed. Amnir sorts and compresses the paper waste it collects at its facilities, as described in section 8.1.6, above. Amnir also provides information security services (shredding services), with the shredded waste also being used as raw material for its operations. Note that, to the best of the Company's knowledge and based on its internal estimates, Amnir has a 61% share of the paper waste collection market in Israel (excluding waste purchased from other entities, as set forth in section 8.15.6, below).

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8.9.3. Material changes expected in the corporation's share and product mix:

8.9.3.1. In January 2010, Machine 8 entered into operation, having completed its running-in period on May 31, 2010, which service to increase the manufacturing capacity of the company and will consequently allow the company to increase its share in the market for packaging paper from recycled fibers in Israel, while also expanding its export operations. For additional details regarding the new machine, see Section 8.4, above.

8.9.3.2. In January 2011, the Israeli Knesset passed the Packaging Law, whose impact on the company operations, including the demand for the services provided by the company in the paper waste collection sector, is currently being examined by the company. For further details see Section 8.23.2, below.

8.10. Distribution of revenues and profitability of products and services in the packaging paper and recycling operating sector

Most of the revenues in this sector of operations originate from the sale of packaging paper. Moreover, the sector also has revenues from the sale of paper waste to others. In 2008, the revenues of the sector from the sale of paper waste to others represent approximately 10% of total company revenues, whereas during the years 2009 and 2010, this percentage decreased and fell below 10%.

8.11. New Products

8.11.1. In the course of the last two years, the Company 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 (hereinafter: "The New Products"). The objective of the technological and operational development process of the new products is to continue and expand the volume of the potential market for recycled packaging paper. The development of the new paper types is based on fiber characterization, the development and implementation of various chemical additives and the use of advanced manufacturing technologies, both in the existing manufacturing lines and in the new production line. In 2010, the company recorded initial significant sales of the new products. The company estimates that the sales of the new products will grow even further in 2011. The cost of the new products is competitive in relation to the cost of pulp-based paper that is imported to Israel, while allowing an improvement in the profitability of the sector. The development of the products is continuing in an ongoing manner, while focusing on an additional improvement of the strength and resistance to humidity and refrigeration of the paper produced from recycled materials, to the extent that they will be able to replace a more significant share of the imported virgin packaging paper market, while meeting the required quality and expanding the market share of the company, alongside the sales of the company's other products. The development costs are immaterial to the company.

Information regarding the expected sales and the improved profitability as a result of the launch of the new products constitutes forward-looking information, as defined by the Securities Act and merely consists of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. The aforementioned Company forecasts and estimates may not materialize, in whole or in part, or may differ from current forecasts and estimates, due to multiple factors, including problems in the continued development, business opportunities available to the Company, changes in demand in markets wherein the Company operates, global supply and cost of paper products and/or materialization of any of the risk factors set forth in Sections 8.26 and 23, below.

8.12. Customers of the packaging paper and recycling operating sector

8.12.1. Packaging paper

8.12.1.1. As of the report date, the Company is dependent on four material customers, who produce corrugated board and cardboard packaging (corrugators), including Carmel, a subsidiary of the Company (hereinafter jointly in this section: "The Customers"). 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. The Company has no long-term agreements with the aforementioned customers. To the best of the Company's knowledge, the same applies to agreements between these customers and the Company's competitors. Contracting with each customer refers to an annual volume of packaging paper to be delivered to the customer, with the price usually being set in advance every quarter.

8.12.1.2. Due to the industry structure (one local producer and a limited number of customers), the sector is dependent 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 aforementioned customers are long-standing customers of the Group, and have been in business with the Company for many years; in actual fact, 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. During the years 2008 and 2009 a decrease was recorded in sales to local customers on account of importing at dumping prices, due to the global economic crisis and due to the increased exports operations of the company and the establishment of overseas markets, at the expense of the domestic market, as part of preparations for greater production as a result of 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.

8.12.1.3. In addition, Hadera Paper Packaging exports packaging paper to various customers overseas (mostly in Turkey, Italy, Greece and Egypt). 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 and represented a percentage of approximately 15% and 6% of the sales revenues during those years, respectively. Hadera Paper Packaging intends to increase its sales to export markets in 2011 as well. For further details see section 8.25.4, below.

Said information concerning the sales to the domestic market and the intentions of Hadera Paper Packaging to increase its domestic and export sales is considered forward looking information as defined in the Securities Law, and constitutes forecasts and assessments on the part of the Company, the realization of which is not certain and based on information existing in the company as of the date of the report. These forecasts and estimates by the Company may not materialize, in whole or in part, or may materialize in a manner significantly different than that expected. The principal factors that may affect this include changes in demand in the markets wherein the company operates, changes in demand and supply of paper products worldwide, prices of paper products globally and/or the materialization of any of the risk factors outlined in sections 8.26 and 23, below.

8.12.2. Paper waste

8.12.2.1. Approximately 78% of the paper waste sold by Amnir is used for in-house production of packaging paper by Hadera Paper Packaging, while 22% of the paper waste sold by Amnir is sold as raw material to external factors (primarily the four producers of tissue paper in Israel - Hogla-Kimberly, Shaniv Paper Industry Ltd., Panda Paper Mills (1997) Ltd. and White Paper Jerusalem (2000) Ltd.). Amnir has no dependence on any individual customer, nor has it any long-term agreements with said customers. Supply contracts are usually made for one year, while defining the quantity and prices according to which the engagement is made. Most of the customers are long-standing customers of the Group.

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8.12.3. Customer attributes

Below is a distribution of major packaging paper sales by customer attributes (excluding sales that were capitalized):

Revenues In NIS Millions	2010	2009
Domestic clients	192	145
Export customers	160	57

8.13. Marketing and distribution in the packaging paper and recycling sector

8.13.1. Marketing and distribution of products in the local market are conducted directly by company employees opposite 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 Hadera Paper Packaging 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 an agent were to discontinue its operations vis-à-vis the company, the impact to the company would be purely temporary, while incurring no additional significant cost as a result of the need to replace such an agent. The company therefore estimates that it has no dependence upon any of the agents.

8.13.2. Shipping to customers is made 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.

8.14. Order backlog in the packaging paper and recycling sector

8.14.1. Product delivery volumes are based on an overall annual forecast, determined and coordinated between the Company and its customers. Current supply is converted into orders, based on a few days in advance or even less, so the Company has no order backlog in this sector of operations. In export sales, a monthly quota is determined for the customer and is usually determined up to two months in advance. The packaging paper manufacturing plant operates according to a flexible production plan which allows delivery of a customer order within 24-48 hours, at the quality specified in the specifications.

8.15. Competition in the packaging paper and recycling sector

8.15.1. As mentioned above, Hadera Paper Packaging is the sole producer in Israel of packaging paper, hence the competition in the packaging paper business is against imports, made directly by customers. True to the date of the report, there exist no import limitations. Imports into Israel include all paper types produced in Israel at different paper qualities, depending on the supplier’s production machinery.

8.15.2. To the best of the Company's knowledge, its major competitors in Israel are the following foreign vendors: Varel - German and Modern Carton - Turkey.

8.15.3. 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).

8.15.4. As mentioned above, the Group competes in this operating sector by providing high-quality products, as well as by ensuring a high level of on-going delivery and service with a short lead time in relation to the other vendors, which affords it the benefit of local supplier.

8.15.5. On January 15, 2009, the Company filed the complaint with the Supervisor of Anti-Dumping Charges at the Ministry of Industry, Trade and Employment (hereinafter in this section: "The Supervisor"), regarding dumping imports of packaging paper from several European nations to Israel. The Company claimed that in recent years it has faced importing of packaging paper at extremely 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 its findings 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 euro per ton on the import of recycled packaging paper products from manufacturers in the European Union. In December 2009, the company announced that in 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 in place 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 regarding the levy and dumping had recommended that a levy be imposed for a limited period and the minister of trade employment and industry accepted its recommendation. However, following the objection of the Minister of Finance to approve the levy, no dumping levy was imposed on the import of recycled packaging products.

8.15.6. There are two major competitors in paper waste collection, which operate throughout Israel - 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 geography. The Company estimates, based on its internal estimates, that Amnir's market share as of the report date in the collection of paper waste (excluding purchasing of waste from other collectors) out of total paper waste collected in Israel, is equal to 61%.

8.16. Seasonality

In general, the demand in the marketing of board packaging products rises in the winter months, primarily between November and March of each year, due to demand arising from agricultural crops. The said seasonality in the demand for board packaging products does not possess a material impact on the area of operations that supplies this sector with packaging paper, due to the fact that the area of operations has thus far sold all of its output capacity. As for the other products of the packaging paper and recycling segment, there is no seasonal impact on demand.

8.17. Output capacity in the packaging paper and recycling sector

8.17.1. Packaging paper

8.17.1.1. The company's packaging paper manufacturing plant in Hadera houses three paper machines. Two machines operate at full capacity and possess an annual output capacity of approximately 320,000 tons together. It should be noted that on May 31, 2010, the running-in process of Machine 8 was completed, as mentioned in Section 8.4 above (although the machine continues to be in its output improvement stage and the overall output capacity stated above is based on the maximum output assumption, subsequent to the completion of the said process). One of the three machines (hereinafter: "The Additional Machine"), operates intermittently, according to market conditions and profitability, as examined by the sector from time to time, and possesses an output capacity of approximately 60,000 tons per annum. The machines (except for the additional machine as mentioned above) operate at nearly full capacity and their output capacity is therefore nearly entirely utilized. The paper machines operate 24 hours a day, in 3 shifts (except for planned maintenance stoppage).

Said information regarding the growth in the Company's anticipated output capacity is considered forward-looking information as defined in the Securities Law, and constitutes merely forecasts and assessments on the part of the Company, the realization of which is not certain and is based on information existing in the company as of the report date . The aforementioned Company forecasts and estimates may not materialize, in whole or in part, or may differ from current forecasts and estimates, due to multiple factors, including business opportunities available to the Company, changes in demand in markets in which the Company operates, global supply and cost of paper products, developments and changes to regulation of the operating sector and/or materialization of any of the risk factors set forth in sections 9.19 and 23, below.

8.17.1.2. Below are machine production data (in thousands of tons) for 2010 and 2009:

	Potential output capacity (As of report date)	2010	2009
Machine 1	60	10	52
Machine 2	90	91	90
Machine 8	230	170**	-
Total	380*	271	142

*As mentioned above, Machine 1 operates intermittently and the anticipated actual output without Machine 1 amounts to 320,000 tons.

**The running-in of the machine ended on May 31, 2010.

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8.17.2. Paper waste collection and recycling

Below are data with regard to sorting and compressing output (in thousands of tons) of collected raw material, primarily paper and board waste, compared to potential output capacity in 2010 and 2009:

	Potential output capacity (As of report date)	Actual output	
		2010	2009
Modi'in*	290	149	140
Hadera	130	107	95
Total	420	256	235

* In November 2010, the Amnir plant in Bney Brak was relocated to the logistics center in Modi'in.

8.18. Fixed assets, real estate and facilities in the packaging paper and recycling operating sector

8.18.1. Packaging paper machines - The Hadera site has three packaging paper manufacturing machines - as mentioned above - two of which are in operation at close to full capacity, of approximately 320,000 tons annually, while one operates intermittently according to market conditions. For additional details regarding Machine 8, that has completed its running-in process in 2010, see Section 8.4, above.

8.18.2. Energy systems - The company site in Hadera includes an energy center operated by Hadera Paper Infrastructures. The energy network provides steam that serves for the paper manufacturing process and provides approximately one half of the electrical consumption of the paper machines operated on-site. The energy center includes boilers for steam production, a steam turbine for electricity generation (providing on average of 13 megawatt-hour, with maximum generation capacity of 18 megawatt-hour), as well as cooling water systems, compressed air systems, water distilling systems, a cold water system and a control room for control of the energy production process.

8.18.3. For details of the Company facility in Hadera, see section 12.1, below.

8.18.4. Paper waste collection network - As of the report date, for collection and processing of raw material collected (paper and board waste), Amnir operates a fleet of 61 trucks of different types; 37 additional trucks are operated by sub-contractors.

8.18.5. Paper waste recycling - The company operates two plants where paper waste recycling takes place:

8.18.5.1. Amnir facility at Hadera, including: Plant for sorting, cleaning and compacting paper and board waste, where the principal fixed assets are: Two presses, paper sorting system and paper and magnetic media shredding system, as well as a paper salvage plant including guillotines and printing, rolling and cutting machines. The facility includes a storage area for paper and board waste. The area of the facility covers 40,000 square meters. For further details regarding the Company facility in Hadera, see section 13.1, below.

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Explanation of Responses:

8.18.5.2. Amnir plant at the new logistic center (hereinafter: "Logistic Center") in Modi'in, that has replaced the plant in Bney Brak since November and where is located: Plant for sorting, cleaning and compacting paper and board waste, where the principal fixed assets include three presses and a sorting system. Moreover, a large and innovative shredding center is planned to be constructed at the logistic center. the area within the logistic center that is designated for the Amnir operations covers some 40,000 m² and includes both open areas and buildings. The area of the plant in Bney Brak was sold to an unrelated third party and will be vacated by at Amnir in March 2011. For details regarding the Logistic Center, see section 12.6, below.

8.19. Research and development

8.19.1. During 2010 the Company purchased some 18.37% of the shares of Bondex (16.84% fully diluted), in consideration of $450 thousand. Bondex deals in research and development of bonder, a biological material (to be grown in tobacco leaves) designated for providing improved features in strength and water resistance of paper, still in the process of 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.

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

8.20. Raw materials and suppliers in the packaging paper and recycling sector

8.20.1. Paper waste constitutes the main raw material for the packaging paper and recycling operating sector. The paper waste collection operation is deployed nationwide, with the paper waste being collected by Amnir or purchased from thousands of suppliers throughout the country by Amnir and transferred on a regular basis to processing plants at the logistics center in Modi'in and in Hadera. An additional part of the waste that is consumed by the paper machines is the waste that is purchased from corrugated board packaging producers (waste created in the process of creating the packages by the corrugators' customers and sold to the company).

8.20.2. In 2010 and 2009, Amnir collected paper waste (wood-free paper, wood-based paper and board) amounting to 212,000 tons and 185,000 tons, respectively. In recent years, waste purchased by Amnir from other waste suppliers amounted to 20%-25% of total waste processed by Amnir. Amnir is not dependent upon any specific supplier.

8.20.3. During January 2011 the Packaging Law was passed by the Knesset, formalizing, among other things, separation and collection of packaging waste. The Company is still studying the impacts of the law and of the arrangements that are to be regulated by power thereof on the Company in the matter of separation at source and removal and collection of waste, and, among other things, the impact on the set-up of the Company's collection of paper and board, availability of raw materials needed for operations and on the costs of raw materials. For more details regarding the Packaging Law, see section 8.23.2, below.

8.20.4. In the paper and recycling sector there are purchasing contracts with suppliers for the purchase of auxiliary materials such as chemicals, adhesives, felt, screens, etc.

8.20.5. Starch – The Company purchases starch from Galam Ltd. (hereinafter: Galam"), used by the company in paper production. The sums purchased from Galam have increased significantly in 2010, following the expansion of operations due to the introduction of Machine 8. Galam is the only producer of starch in Israel, although there exist competing starch exports, at competitive prices.

8.20.6. Since July 2005, the company has been acquiring natural gas from Yam Tethys Partnership (the energy generation network described above is operated using natural gas). True to the report date, there exist several suppliers of natural gas in Israel: Yam Tethys, EMG and an additional potential supplier. Total Company purchases from Yam Tethys Partnership for the purpose of this sector of operations in 2010 and 2009, amounted to NIS 30 million and NIS 25 million, respectively, that represented 15.5% and 13.8% of total purchases in the packaging paper and recycling sector from suppliers, respectively. For more details on the aforementioned agreement, see section 19.8, below. The company estimates that it is dependent upon Yam Tethys in the provision of natural gas, since the replacement of the supplier may incur significant additional costs. For details regarding negotiations with gas suppliers, as well as regarding the termination of the Yam Tethys agreement on June 30, 2011, see Section 19.8, below. For information on this matter, see also section 8.26.3.1, below.

8.20.7. The company has an agreement dated July 2007 with Gas Routes for a period of six years, for the transportation of natural gas to the company site in Hadera. The agreement also includes an extension option for an additional period of two years. The transportation agreement is worded as approved by the Natural Gas Authority for transportation consumers, and is published on the website of the Ministry of National Infrastructure, with commercial terms agreed individually by the parties. The proceeds, pursuant to the agreement, include payment of a non-recurring connection fee upon connection, based on 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; (b) based on the actual gas volume delivered to the facility. True to the date of this report, the company is dependent upon Gas Routes. For further details regarding the agreement, see section 19.9, below.

Company estimates concerning the cost of replacing the natural gas provider, regarding the company's dependence upon Gas Routes and regarding the potential impact of the Packaging Law on the company's raw materials system, constitute forward-looking information as defined in the Securities Act and merely consist of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. Company forecasts and estimates may not materialize, in whole or in part. Furthermore, actual results may differ from current forecasts and estimates, due to multiple factors, including business opportunities available to the Company, changes in markets in which the Company operates, global demand, supply and cost of paper products, developments and changes to regulation of the operating sector and/or materialization of any of the risk factors set forth in sections 8.26 and 23, below.

8.20.8. It should be noted that in light of the transition to the use of natural gas, the company promoted the process opposite United Nations, within the framework of the Kyoto accord, whereby within the countries that have signed the accord, a company that has contributed to lowering greenhouse gases while making a global contribution could be rewarded economically for its efforts to prevent global warming, by way of exploiting greenhouse gas offsetting rights. These rights, when approved by a certified organ of the United Nations, are marketable in international markets between eligible companies and other companies that must improve due to their having deviated from the permitted quantities of greenhouse gas emissions. With this said transition to the use of natural gas, the company has received permission of the United Nations for rights as a result of the lowering of carbon emissions originating from the transition to natural gas. In this manner, the company recorded in 2010, revenues in the amount of NIS 1.8 million on account of the sale of greenhouse gas emissions for 2009, in accordance with an agreement signed by the company in February 2009 with TEP (Trading Emissions PLC), an investment company registered in the UK, specializing in the trade of carbon rights. The agreement enables TP to trade in company rights to carbon emissions from 2008 through to 2012.

8.21. Working Capital

8.21.1. Raw Material and Finished Goods Inventory Policy: The Company maintains operating inventory of raw materials and finished goods equivalent to consumption and delivery over 2-3 weeks. True to the report date , the company holds inventories of 7.5 weeks of wood-free paper waste. Over the last two years, in preparation for the initial operation of Machine 8, Amnir worked to accumulate raw material inventories (paper waste) beyond its current needs as set forth above. Close to the report date, Amnir has accumulated approximately 15,000 tons intended to be used by Machine 8 (as compared with approximately 100,000 tons at the end of 2009). These inventories are expected to serve for the manufacture of paper during 2011. In parallel, for the purpose of increasing inventories of paper waste as part of the regular activities, the company is also examining the possibility of importing paper waste. For further details on said estimates, see section 8.1.6, above.

8.21.2. Furthermore, the company maintains an inventory of maintenance materials to be used by production facilities, based on anticipated consumption levels and the need to maintain ongoing machine operations.

8.21.3. Goods return or replacement policy: Goods in this operating sector are sold as final sale to customers, and are returned in case of faulty product or due to mismatch between order and delivery. When a customer complains of a faulty or mismatching product, the complaint is reviewed and if correct, the goods are returned and the customer is credited. Based on past experience, the volume of returns is not material to total operation volume.

8.21.4. Average credit duration

8.21.4.1. Below are data regarding average volume of credit and duration for suppliers and customers in 2010 and 2009:

	Average 2010		Average 2009	
	Average volume of credit (NIS M)	Average credit days	Average volume of credit (NIS M)	Average credit days
Accounts receivable (customers)	154	99	103	98
Accounts Payable (Suppliers)	138	102	72	105

8.21.4.2. The average days of inventory in this sector of operations in 2010, totaled 26 days.

8.22. Environmental considerations in the packaging paper and recycling sector

For details regarding environmental issues, see Section 17, below.

8.23. Restrictions on and Supervision of Corporate Operations in the Packaging Paper and Recycling Sector

8.23.1. The Recycling Act:

8.23.1.1. The Collection and Removal of Waste for Recycling Law, 5753 – 1993 and the Regulations for Collection of Waste for Recycling (Duty to Remove Waste for Recycling) 5758 – 1998 (hereinafter in this section: :"the Recycling Laws") require local authorities and businesses to recycle waste at increasing rates, and allow the company to offer services and win tenders involving recycling operations. The absence of supporting enforcement of the Recycling Act is limiting the Company's ability to expand the collection of paper waste. Further to the passing of the Packaging Law in January 2011 as noted above, collection of packaging has been excluded from the Recycling Law.

8.23.2. Packaging Law

8.23.2.1. On January 19, 2011 the Formalization of Treatment of Packaging Law 5771 – 2011 was passed (hereinafter: "the Packaging Law), with the goal of regulating arrangements in the matter of treatment of packaging waste. The Packaging Law is based on the principle of manufacturer responsibility, under which the manufacturer or importer is responsible recycling the packaging for products manufactured or imported by it for sale in Israel, and to bear the cost involved in the collection and recycling of packaging waste. In order to perform said manufacturers' and importers' duties, manufacturers and importers must engage under a contract with a recognized body, which is a company whose sole objective is the performance of the duties of the manufacturers and importers it engages with, a body which has been recognized under the Packaging Law.

8.23.2.2. The Packaging Law establishes, inter alia, responsibility for recycling packaging waste, targets for recycling types of packaging waste, financial sanctions for failure to reach targets and instructions for the formalization of establishment of the recognized body and its operations. The Packaging Law also states that for the purpose of calculating attainment of targets for recycling types of packaging wastes, recovery of packaging(waste will be recognized up to the rate of 10% of the total weight of the disposable packages of all products the manufacturer or importer has sold during that year, and export of packaging waste up to the rate of 20% of the target for recycling according to type of material, for each type of material.

8.23.2.3. According to the Packaging Law, a local authority, and anyone required by law to collect and remove waste from properties owned or possessed by such, save a duty by power of a bylaw (hereinafter: “responsible for the removal of waste”) must prescribe an arrangement in the matter of separation of packaging waste from other waste within their areas, and an arrangement in the matter of collection and removal of packaging waste so separated. The Packaging Law also stipulates that notwithstanding the aforesaid, any business owner may engage (under direct engagement) with a recognized body in the matter of collection and removal of all or any packaging waste created at the place of business, respective to the terms of recognition of such recognized body.

8.23.2.4. The Packaging Law entered into effect on March 1, 2011, and certain provisions regarding the start of collection by a recognized body will enter into effect on July 1, 2011.

8.23.2.5. In light of the provisions of the Packaging Law, an adjustment in the set-up of the Company’s paper collection activities will be necessary. The Company cannot at this point assess the impact of the law on its activities, and this depends, among other things, on arrangements to be set by power of the law regarding separation at source, and in the matter of collection and removal of waste, and on the method by which the recognized body established by power of the law operates. The Company is exploring its preparations for possible collection solutions.

8.23.3. The Cleanliness Law

8.23.3.1. Under the Maintaining Cleanliness Law 5744 - 1984 (hereinafter: "the Cleanliness Law") there is a fee for landfilling waste in the amount of NIS 50 per ton, from 2011 onwards. In January 2011, regulations were enacted prescribing that the landfilling fee will continue to rise for a period. Remainders left after waste is sorted (in other words, waste that has been sorted at a transfer station for treatment and sorting of waste for purposes of recycling) will be charged by a lower fee for landfilling, in the amount of 4 NIS per ton from 2011 onwards. The company estimates that the enforcement of the said landfill levy may cause various entities to prefer transferring their waste for recycling over landfilling, in order to avoid the said landfilling levy. This may result in growth in the volume of waste collected for recycling, thereby lowering the collection costs.

The company estimates regarding the impact of the cleanliness law on the growth in the collection of paper waste for recycling and lowering of waste collection costs is considered forward looking information as defined in the Securities Law, and constitutes forecasts and assessments on the part of the company, the realization of which is not certain and based on information existing in the company as of the report date . Company forecasts and estimates may not materialize, in whole or in part. Moreover, the actual results may differ from the current estimates and forecasts due to various factors, including regulatory developments and changes in the sector of operations and/or the realization of any the risk factors outlined in Sections 8.26 and 23, below.

8.23.4. Work Hours Act

8.23.4.1. The Company is subject to provisions of protective labor legislation, including the Work and Rest Hours Act, -1951 (hereinafter in this section: "the Work Hours Act"). The Work Hours Act regulates, inter alia, the number of permitted working hours and the weekly rest to which all employees in Israel are entitled. As of the report date, the Company is in full compliance with all provisions of the Work Hours Act and regulations based there upon, and has obtained the permits required for its operations.

8.23.5. Business Licenses

8.23.5.1. Hadera Paper's business license, dated November 14, 2001, is contingent, inter alia, on existence of systems for the collection and transportation of waste water and ground water, transfer of all industrial waste water to a waste water pre-treatment facility, installation and operation of backup pumps, maintenance of bio-mass inventory and maintenance of a malfunction log. The license is also contingent on filing reports with the Ministry of Environmental Protection. To the best of the company's knowledge, the company is complying with all the requirements and demands of the said license, except for meeting the conditions of wastewater discharge, as discussed in the hearing held for the company at the ministry of the environment. For additional details regarding this matter, see Section 17, below.

8.23.6. Legislation on Issues of Environmental Protection

8.23.6.1. The Company is required to act in accordance with the provisions of a permit order given by the Director of the Government Authority for Water and Sewerage, under section 20-11 to the Water Law 5719 – 1959. For further details see section 17 below.

8.23.6.2. The Company is required to act in accordance with a permit for poisons given by the Ministry for Protection of the Environment, under the Hazardous Materials Law 5753 -1993. For further details see section 17 below.

8.23.7. Natural Gas Sector Law

Pursuant to provisions of the Natural Gas Sector Law (2002) (hereinafter: "the Gas Law"), the Natural Gas Authority was established in the Ministry of National Infrastructure, with the objective to supervise license terms and tariffs associated with the natural gas transportation, delivery and storage system. The Gas Law also stipulates certain preferences for buying "Made in Israel". Furthermore, in 2003 a Government Corporation - "Israel Natural Gas Routes Ltd." - (hereinafter: "Gas Routes") was established and charged with creation of natural gas transportation infrastructure in Israel. The Company is one of the first industrial facilities in Israel to connect to the natural gas system, and to convert to the use of natural gas. The Company is connected to the maritime route of the natural gas transportation system. For details regarding the Company's agreement with Gas Routes, see section 19.9, below.

8.23.8. Antitrust

8.23.8.1. In December 1988, Hadera Paper was declared a monopoly in the production and marketing of paper in rolls and sheets - by the Israel Antitrust Authority, by virtue of its authority pursuant to the Antitrust Act. 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. Regarding the petition filed by the company in February 2010 for rescinding this declaration, see Section 8.2.3, above. Other than directives related to the Anti-Trust Law, the company received no special instructions from the Anti-Trust Commissioner, regarding its declaration as a monopoly.

8.23.8.2. The Antitrust Act stipulates, inter alia, that a monopoly holder shall not abuse his market position in such manner as might restrict business competition or impact the public, including by means of setting unfair prices; decrease or increase of scope of assets or services offered other than via fair competition; setting different contract terms for similar transactions which may give an unfair advantage to certain customers or suppliers over their competitors; setting terms for contracting with regard to the monopoly asset or service, which by their nature or pursuant to common trading terms do not apply to the subject of the contract. Furthermore, the Antitrust Act stipulates that should the Antitrust Supervisor deem that, due to existence of a monopoly or to behavior of the monopoly holder, business competition or the public are impacted - the Supervisor may issue instructions to the monopoly holder with regard to steps the latter must take to avoid such impact. Statutory means set forth in the Antitrust Act confer on the Supervisor, inter alia, the right to appeal to the court for an order to divide the monopoly into two or more business corporations.

8.23.8.3. True to the report date, the declaration of the Company to be a monopoly had no material impact on its operations, profitability or financial standing. The Company is unable to estimate the future impact of said declaration, including such case where the Company may be issued special instructions by the Supervisor with regard to its operations declared to be a monopoly, on Company operations, profitability or financial standing.

8.23.9. Work Safety

8.23.9.1. The Company is subject to legislation concerning work safety and health. The Work Safety Ordinance (New Version), 1970 and regulations based thereupon, regulate issues of employee health, safety and welfare. Furthermore, the Labor Supervision Organization Act, 1954 and regulations based there upon regulate issues of supervision of work safety, safety committees, appointment of safety supervisors, safety programs, providing information regarding risk and employee training.

8.23.9.2. The Company places an emphasis on the matter of safety at work in general, and of the employees in particular, by implementation of a proactive safety policy (intended to prevent the causes of accidents by full and current reporting, investigating cases of near-accidents, drawing conclusions therefrom, while implementing the necessary procedural and physical changes, in order to prevent the accidents themselves from happening, to the extent possible). As of the report date, the Company is compliant with all safety regulations set forth in this section.

8.23.10. Quality Control and Regulation

8.23.10.1. The company operates its major production facility at Hadera subject to the following standards: ISO 9001/2000 – Quality Management; ISO 14001 – Environmental Protection and Israeli Standard 18001 - Safety. Moreover, paper and board waste collected and processed by Amnir is produced subject to international standards and to the paper waste standard, which is updated every few years. In addition, Amnir is recognized as an authorized service provider to the Ministry of Defense. Furthermore, Company operations at its facility are subject to provisions of product-related standards, municipal laws (primarily business license) and globally accepted standards.

8.23.11. SOX

8.23.11.1. By virtue of being a company whose shares are publicly traded in the United States, the company is subject to "Sarbanes Oxley" (SOX) in its entirety, including Section 302 (proper disclosure and evaluation of controls in the organization), Section 404 (Management Assessment of Internal Controls) and Section 906 (Criminal responsibility for breach of this section). The main points of the law have to do with increasing reporting and disclosure, the authorities and duties of the Audit Committee, manager responsibilities, enforcement, sanctions and penalties and increasing the independence from external accountants. The controls instigated by the company for the implementation of the law are regularly inspected by the company's auditing team and by the external accountant. Since 2007, with the introduction of the directives of the said law in the United States, the company is complying with the demands of the law.

8.23.11.2. Note that on February 16, 2010 the Securities Authority responded positively to the Company's request that its reporting in Israel regarding the effectiveness of internal control be performed using the SOX format, applicable to the Company by power of its registration for trading on the NYSE. The Authority granted permission conditional upon the Company's undertaking to examine its compliance with the conditions described in the application to the Authority quarterly, including any changes in the laws in Israel and in the US, changes in the Company's status and in the context of these laws, changes in the applicability of SOX and any change likely to impact disclosure provided by the Company.

8.24. Material agreements in the packaging paper and recycling sector

8.24.1. Agreement with Yam Tethys Group - An agreement was signed by the Company and partners of the Yam Tethys Group (Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Avner Oil Exploration Limited Partnership and Delek Investment and Assets Ltd.) For details regarding the engagement, see section 19.8, below.

The company is dependent upon Yam Tethys, as detailed in Section 8.20.6, above. The company is conducting discussions with EMG and with the potential additional suppliers, regarding the purchase of natural gas, for its continuing operations, subsequent to the termination of the agreement with Yam Tethys, as well as for the power station whose establishment is being analyzed by the company. For complete details regarding the power generation station, see Section 21.8, below. Moreover, for additional details regarding the potential impact of the latest developments in Egypt, see Section 8.26.4.1, below.

8.24.2. Agreement with Israel Natural Gas Routes Ltd. - The company entered into an agreement with Gas Routes for the transportation of natural gas to the company site in Hadera. For complete details, see Section 19.9, below.

8.24.3. Agreements for purchase of major equipment for "Machine 8" - In conjunction with the set-up of a new packaging paper production system known as "Machine 8", as set forth in section 8.4, above, the Company has entered into agreements for the purchase of major equipment for the aforementioned production system and for building construction to serve for the said equipment. The said equipment was acquired from the leading companies in the world in the manufacture and sale of paper machines, with the central equipment for the manufacturing array being ordered from Italian company Voith, while additional complementary items were ordered from Finnish company METSO and Italian company SEEI. Most of the machine construction process ended on January 15, 2010, while the running in process of the machine ended on May 31, 2010. The machine is now operational and is on a learning curve, to improve output and manufacturing costs.

8.25. Anticipated development over the next year for the operating sector

8.25.1. As set forth in section 8.4, above, a new packaging paper production system, known as "Machine 8", was constructed over the past several years and will allow the Company to meet the demand on the domestic market, at a more competitive cost to the Company and with higher paper quality compared to competing imports. As mentioned above, true to the date of the report, Machine 8 is currently in the last stages of its learning curve for improving the output and reducing manufacturing costs. The operation of Machine 8 requires a significant increase, over the coming years, of collection volume of paper waste to serve as raw material for packaging paper production. Amnir is working to increase the volume of waste collection, inter alia, by intensifying collection activity from existing customers and the development of new collection sources, adaptation of its organizational structure, examining the possibility of importing waste from overseas, relocation to the new logistics center and inventory accumulation.

8.25.2. The Packaging Law entered into effect on March 1, 2011. The Company cannot at this point assess the impact of the law on its activities, and this depends, among other things, on arrangements to be set by power of the law regarding separation at source, and in the matter of collection and removal of waste, and on the method by which the recognized body established by power of the law operates.

8.25.3. In 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 development process is gradual and is currently in advanced stages and is intended to expand the volume of the potential market for packaging paper and the gradual launch of products that started at the end of 2009. For additional details, refer to Section 8.11, above.

8.25.4. Upon the operation of the new manufacturing system, the significant expansion in the output capacity of recycled packaging paper will allow for the expansion of the sector's operations both in Israel and overseas. Together with the process of developing pulp-replacement packaging paper products on the basis of 100% recycled fibers, as mentioned above, this will enable the sector to expand the sale of such products, as a substitute for pulp-based packaging paper in international markets. The new products create an improved profit potential and have started to be sold at a significant price supplement per ton of exported paper, as compared with the selling prices of basic paper types. The company worked in 2009 and 2010 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. Pursuant to the operation of Machine 8, this activity is expected to bring about a gradual increase in exports by the company, alongside the diversification of the company's product and markets portfolio within the sector of operations.

Information concerning the new developments of the company, the continuing development of export markets by the company, the improved profitability potential and the preparations for increasing the quantity of raw materials, all constitute forward-looking information as defined in the Securities Act and merely consists of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. The aforementioned Company forecasts and estimates may not materialize, in whole or in part, or may differ from current forecasts and estimates, due to multiple factors, including business opportunities available to the Company, changes in demand in markets in which the Company operates, global supply and cost of paper products, factors related to the completion of development and/or the materialization of any of the risk factors set forth in sections 8.26 and 23, below.

8.26. Risk factors in the packaging paper and recycling operating sector

8.26.1. For details of macro-economic risk factors, see section 23, below.

8.26.2. Sector-Specific Risk Factors

8.26.2.1. Regulation - Operations in the packaging paper and recycling sector are subject to regulation of various issues (for further information see section 8.23, above). Changes in regulation may impact companies operating in this operating sector, e.g. stricter environmental protection regulations and government decisions concerning the raising of minimum wages.

8.26.2.2. Competition - This operating sector is competitive, with competition against imported products (see Section 8.15, above). There is also competition in raw material collection. There are many collectors operating in Israel, of which two have significant market share, to the best of the Company's knowledge.

8.26.2.3. Raw materials - The anticipated increase in the capacity of the paper machines of the company, based on paper waste for recycled fiber, require 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 needs to significantly increase the quantities of paper waste, and is even examining the possibility of importing paper waste. A 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. Absence of enforcement of the Recycling Act, which mandates waste recycling, would make it more difficult to obtain alternative sources for raw materials at a competitive cost. Nevertheless, approval of the Cleanliness Law 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 Company estimate. The Packaging Law may also serve to significantly affect the collection operations of raw materials, although this impact is the pendant upon the regulations that will be set by virtue of the law and the actions of the recognized body that will be established by virtue of the law. For additional information, see Sections 8.23.2 and 8.23.3, above.

8.26.2.4. Increase in input prices - Such as gas, electricity, transportation and starch - may serve to impair the company's profitability. Regarding gas, in July 2011, the gas supply agreement with Yam Tethys is scheduled to terminate and the company is examining alternatives for the said agreement. 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. For details see Section 19.8, below.

8.26.2.5. Environment - Requirements of the Ministry of Environmental Protection with regard to this sector and its facilities require the Company to allocate financial resources to this issue. These requirements may expand and proliferate due to increasing awareness toward environmental protection and developing regulation in this area, which may force the Company to allocate further financial resources associated with this operating sector.

In the matter of quality of sewage, 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. The Ministry found 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. It was further found that if the Company did not fulfill the values prescribed in the permit order for discharging into the Hadera Stream, granted on August 11, 2010, the Ministry's Director of the Haifa District would issue, under his authority, 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 actions there is already an improvement in the quality of the treated waste water flowing into the stream. At the same time, the company at this stage 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 required values. For additional details regarding this matter, see Section 17, below.

Furthermore, as the Company deals, inter alia, in dangerous and toxic materials, it is exposed to damages likely to be caused because of these products, including health damages, environmental damages, damages resulting from flammable materials catching fire and the like. Hence the Company is exposed to claims which may negatively impact the business results of the operating sector as well as Company reputation.

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8.26.2.6. Customers – Because of the small number of customers in Israel for packaging paper finished products, there is a dependency on customers in Israel, and a decrease in the number of customers could impair the results of operation. However, due to the advantages of being a local producer, this risk is estimated as mediocre by the company. Regarding export customers, sales are conducted through foreign sales agents. Since these agents are not the final customer, they may be replaced within relatively short periods of time and the dependence on them is therefore low.

8.26.2.7. Closure of ports – The Company imports raw materials and spare parts used for the manufacture of its products, and exports finished products though the Israeli ports. Closure of ports in Israel could harm import of raw materials and spare parts, and directly impact the Company’s operations, and could also harm export of finished products and impact the Company’s profitability. However, since the Company maintains an inventory of raw materials, only a prolonged closing of the ports will have a medium impact on its activity.

8.26.3. Special Factors

8.26.3.1. Dependence on gas supplier - As stated in Section 8.20.6, above, the company is dependent upon the natural gas supplier, Yam Tethys, that to the best knowledge of the company, true to the report date , is one of two natural gas suppliers in Israel. Termination of the contract with said supplier would require the Company to contract with an alternative supplier or to convert to use of diesel, which is significantly more expensive than natural gas as of the report date. For information regarding the contract with Yam Tethys, see Section 19.8, below. See also 8.26.4.1, below.

8.26.3.2. Dependence on gas transporter - For delivery of gas to the Company's Hadera facility, the company is dependent on Gas Routes, which transports natural gas to the Hadera site via the maritime pipeline to Hadera and a land pipeline to the Hadera facility. Termination of the contract with the gas transporter may materially impact the operating sector. For information regarding the contract with Gas Routes, see section 19.9, below.

8.26.3.3. Monopoly - The Company has been declared a monopoly in the packaging paper sector in rolls and sheets, as defined in the Antitrust Act (for information on declaration of the Company as a monopoly and the petition submitted by the company for rescinding this declaration, see Sections 8.2.3 and 8.23.8, above), and is subject to laws applicable to a monopoly in Israel. Statutory means set forth in the Antitrust Act confer on the Supervisor, inter alia, the right to intervene on matters which may impact the public, including setting business restrictions on the corporation, including price supervision. Such restrictions, should they be enforced, may negatively impact results of the operating sector.

8.26.3.4. The Company's manufacturing and distribution sites - The production operations of this operating sector are concentrated in a limited number of sites. Impact to one or more of the production and/or distribution sites may materially impact the financial results of this operating sector.

8.26.4. General factors

8.26.4.1. Geo-political developments in Egypt - Recent geo-political developments in Egypt and uncertainty with regards to stability of governments could negatively impact the Company's option of engaging under an agreement with gas provider EMG, one of the gas providers the Company has been negotiating with in connection with gas supply. As of the report date, the Company cannot assess the impact the situation in the region will have on the option of said engagement with EMG, or said impact on possible conditions of engagement with other gas suppliers.

8.26.5. The extent of impact of risk factors

Following below is a list of the risk factors and their degree of impact on the sector of operations: For details of macro-economic risk factors, see section 23, below.

Risk Factors	Degree of Impact		
	Considerable Influence	Medium Influence	Small Influence
Sector-related factors	-Competition -Raw Materials	-Closing of ports -Accounts receivable (customers) -Environmental protection	-Regulation
Special Factors		-Dependence on gas transporter -Dependence on gas supplier	-Monopoly -Geopolitical developments in Egypt

9. Office Supplies Marketing sector

9.1. Structure of the Office Supplies Marketing sector

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. At the company, the office supplies marketing sector is conducted by its subsidiaries Graffiti and Attar. The company, through the said subsidiaries, deals in the marketing of office supplies to business customers, institutional customers, chains and stores, using sales methods that includes sales agents, telephone sale and service centers and a B2B e-commerce website. This sector is characterized by numerous local and international brands.

9.2. Changes of volume of operations in the sector and its profitability

The office supplies sector in Israel is a relatively stable market, yet it 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 this sector are imported, including: Various pens, office supplies, shredders, binding machines, disposable paper products etc. Moreover, the Israeli market also deals in the marketing of products acquired from local producers and suppliers, including: Office furniture, printers, fax machines, computers and peripherals, cameras, food products, toiletry products, etc.

9.3. Technological changes that can potentially impact the sector of operations

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.

9.4. Critical success factors in the sector of operations

9.4.1. Several critical success factors may be indicated for Company operations in the office supplies marketing sector, which impact its operations:

9.4.2. Elevated quality of service supported by complex logistics - Availability and strong customer service are critical success factors in this sector. A high level of quality and service are contributing to preserving the existing customers. Graffiti intends to relocate to an advanced logistics center during 2011, operated using the most advanced automatic and semiautomatic systems in the world of modern logistics. The company estimates that the improvement in the logistics capabilities will contribute to a significant rise in the quality of service.

Information regarding the improvement in the logistics capabilities and the rise in the quality of service constitutes forward-looking information, as defined by the Securities Act and merely consists of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. These forecasts and estimates by the Company may not materialize, in whole or in part, may differ from the existing estimates and forecasts or may materialize in a manner significantly different than that expected. The major factors that could impact this include the dependence on external factors, the efficiency and assimilation of systems upon relocation to logistics center, changes in demand and supply, developments and changes in regulation and/or realization of any of the risk factors outlined in sections 9.17 and 23, below.

9.4.3. Lowering of costs by improving the sources of acquisition with an emphasis on the transition to acquisitions from the Far East - Graffiti invests considerable efforts in cutting brokerage fees in the supply chain by arriving at direct agreements with manufacturers throughout the Far East, at the expense of local purchasing.

9.5. Structure of competition in the office supplies marketing sector

9.5.1. Graffiti has many competitors in the marketing of office supplies sector. For details on competition in this sector of operations, see section 9.10, below.

9.6. Products and Services in office supplies sector of operations

9.6.1. Graffiti specializes in providing comprehensive solutions for office supplies by directly supplying institutions and businesses. Graffiti offers approximately 12,000 different items to its customers nationwide. Moreover, 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 has a B2B (Business-to-Business) website for online ordering, allowing Graffiti customers to enter their orders and to control and manage their purchasing budgets. This tool allows Graffiti to serve a wider variety of customers with no significant increase in marketing costs.

9.6.2. Through Attar - a wholly-owned subsidiary - Graffiti also serves as the exclusive distributor for international brand name products in the office supplies sector, such as Artline (Sachihata Inc.) (hereinafter: "Artline), Mitsubishi (Uni-Mitsubishi Pencil Co.) (Hereinafter: "Mitsubishi), Max (Max Co. Ltd.) (hereinafter: "Max), Schneider (Schneider Schreibgerate GmbH) (hereinafter: "Schneider) and Fellowes (Fellowes Distribution Services B.V.) (hereinafter: "Fellows").

9.6.3. Graffiti's products include office supplies and office automation products, as well as office equipment and inter alia, toner and inkjet cartridges, software, peripheral equipment, computers, training and visual aids, filing systems, paper products, office furniture as well as other office supplies such as food and cleaning products. Graffiti's subsidiary, Attar, deals in the sale and distribution of brands in the office supplies sector.

9.6.4. The demand for products marketed in this sector of operations is relatively rigid, since it consists mostly of basic consumer goods. Despite the aforesaid, during times of recession it is evident that consumption habits tend to change, due to the desire to save and cut-backs across organizations, that also include their office supplies. The mix of products is rather similar across different organizations that constitute the customer base in this area. The office supplies market is a traditional market where no significant changes tend to take place. Most of the changes in terms of products concern office technology (printers, fax machines etc.), yet these are not changes that are material to the operations in the sector. All products marketed by Graffiti have competing products sold by many suppliers and distributors.

9.6.5. In this operating segment, there is no single product category for which Company revenues account for over 10% of total revenues.

9.7. Customers in the marketing of office supplies sector

9.7.1. Graffiti sells its products to thousands of diverse customers in the business and institutional sectors, in Israel only. Large local and national organizations number 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.

9.7.2. During 2010 and 2009, approximately 34% and 32% of Graffiti's sales - respectively - came 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.

9.7.3. During 2010 and 2009 there was no single customer that accounted for 10% or more of the company's total revenues during those periods. Furthermore, as of the date of this report, Graffiti is not dependent upon any single customer.

9.8. Marketing and distribution in the marketing of office supplies sector

9.8.1. 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.

9.8.2. Graffiti maintains three storage and distribution centers, located at Rosh Ha'Ayin, Tiberias and Be'er Sheva. 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. Graffiti maintains service and sales offices in Be'er Sheva, Jerusalem, Tiberias and Rosh Ha'Ayin. (It should be noted that during the second half of 2011, Graffiti is expected to vacate the site in Rosh Ha'Ayin and relocate it to the new logistics center in Modi'in, as detailed in Section 9.12 below).

9.8.3. On the matter of Attar's being an exclusive agent for a number of suppliers in Israel, see section 9.6.2, below.

9.9. Order backlog in the marketing of office supplies

There is no order backlog in this sector of operations. Orders are handled within a short time, usually by the day following the order.

9.10. Competition in the marketing of office supplies sector

9.10.1. The names of Graffiti's major competitors in this sector of operations are: Kravitz (1974) Ltd., Office Depot (Israel) Ltd.(that was purchased during 2010 by the New Hamashbir Lazarchan(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.

9.10.2. 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 dominate primarily: (a) Customers dealt with primarily by tenders; and (b) strategic customers (such as banks and local municipalities). In addition to these players, there are also a large number of competitors in the business customer market holding small market shares, mainly active in smaller geographic areas.

9.10.3. 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.

9.10.4. During January 2010, Graffiti received notice from the Ministry of Industry Trade and Employment regarding the investigation of a complaint lodged by DC Paper and Plastic Industries Ltd. to the Supervisor of Commerce Fees at the Ministry of Industry Trade and Employment (hereinafter in this section: "the Supervisor"), regarding imported dumping of paper cups from China to Israel, by Graffiti, among others. On November 22, 2010, the Supervisor imposed a temporary guarantee on the import of paper cups from China to Israel. The Supervisor in his decision name 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.

9.10.5. Graffiti deals with its competitors by maintaining high standards of quality and service. The size and variety of Graffiti's products also give it an advantage over its competitors. Graffiti has an advanced sales and service center, providing fast turnaround times for its customers.

9.11. 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. During the second half of 2010, Graffiti's sales were approximately 14% higher than the first half of that same year, and the sales during the second half of 2009 were approximately 18% higher than the first half of that same year.

9.12. Fixed assets, real estate and facilities in the marketing of office supplies sector

At the present time, Graffiti leases the buildings at various sites:

9.12.1. Main logistics center in Rosh Ha'Ayin - Graffiti rents a building at Afek Park in Rosh Ha'Ayin, covering an area of 5350 m², serving as a central logistics center and as the Graffiti headquarters, of which 120 m² are sublet. The rental agreement is expected to terminate in October 2011. At this date, the logistics center is scheduled to be relocated to the new logistics center in Modi'in. For details regarding the Logistic Center, see section 12.6, below.

9.12.2. Graffiti also leases stores, warehouses and sales centers throughout the country.

9.12.3. Moreover, Graffiti operates a distribution network consisting of 38 distribution vehicles, of which 29 are under operating leases, while 9 distribution vehicles are owned by the company.

9.13. Suppliers in the marketing of office supplies sector

9.13.1. Graffiti does not itself manufacture office supplies, it purchases supplies from a large number of suppliers (Hewlett Packard Ltd., Brother – Reshef Engineering Solutions Ltd., Xerox Israel Ltd., Hadera Paper Printing, Hogla-Kimberly, Strauss-Elite Ltd., Afik Printing Products Ltd., Canon-Karat Israel Ltd. and more), and markets these to its customers.

9.13.2. Graffiti is working to expand the volume and range of imports, in order to increase the diversity and create a relative advantage vis-à-vis its competitors. Graffiti is not dependent upon any single supplier of those mentioned above.

9.13.3. Graffiti has contracts with major suppliers, covering issues such as: Quality of service, returns, repairs and the like. Agreements, as mentioned, are usually annual framework agreements, and the quantity of the product actually ordered is determined according to demand during that year. Regarding other suppliers, the purchase price is determined from time to time in negotiations between the parties, with most of the categories of products having at least two suppliers, allowing for an improvement of Graffiti's purchasing capability.

9.13.4. Hadera Paper Printing, a subsidiary of the company as of December 31, 2010 (as detailed in section 11.1, above), is a main supplier of fine paper to Graffiti. Graffiti engages with Hadera Paper Printing under an annual framework agreement which sets out the commercial principles, among other things, with regard to cost and linkage mechanism, with the quantity being determined according to demand over the course of the year. Graffiti’s rate of purchase of Hadera Paper Printing’s fine paper during 2010 and 2009 was 26.4% and 22.3% of total office supply purchases, respectively.

9.13.5. Graffiti is not dependent upon any single supplier of those mentioned above.

9.14. Working Capital

9.14.1. The levels of inventories of finished products in the area of office supplies are operational levels that are adjusted to the period of supply and the need to maintain variety. On average, inventory levels are about 2 months’ worth of expected delivery.

9.14.2. Product return and replacement policy and product warranty - Goods in this operating sector are sold as final sale to customers, and are returned in case of faulty product or due to mismatch between order and delivery. When a customer complains of a faulty or mismatching product, the complaint is reviewed and if correct, the goods are returned and the customer is credited. The volume of returns is insignificant in relation to the total volume of operations of Graffiti. Graffiti provides warranty on the products it markets and sells according to the warranties provided by the manufacturers of such product (if any).

9.14.3. Average credit duration

Data with regard to the average period and the volume of credit from suppliers and customers during reporting periods over the years 2010 and 2009 are provided below:

	Average 2010		Average 2009	
	Average volume of credit in NIS millions	Average credit days	Average credit volume In NIS millions	Average credit days
Accounts receivable (customers)	59	104	49.15	102
Accounts Payable (Suppliers)	45.2	93	41.77	110

- The average days of inventory in this sector in 2010 is 67 days.

9.15. Restrictions on and Supervision of Corporate Operations in the Office Supplies Marketing Sector

9.15.1. Work Hours Law – This area of operations is subject to the provisions of the protection laws in the area of labor law, including Work and Rest Hours Law 5741 – 1981. For further details see section 8.23.4, above.

9.15.2. Consumer Provisions - The companies in this area of operations are subject to various consumer provisions, including by power of the Consumer Protection Law 5741 – 1981 and the Liability for Faulty Products Law 5740 – 1980. For further details see section 24.1.24.2, below.

9.15.3. Work Safety - The companies in the sector are subject to legislation concerning work safety and health. For details see section 9.16, above.

9.15.4. Packaging Law - The sector of operations is subject to legislation related to the packaging law, by virtue of the company being an importer of propackaged ducts. For details regarding the Packaging Law, see section 8.23.2, above.

9.15.5. Business licenses - Graffiti holds a perpetual business license, for storage and marketing of office equipment and paper.

9.15.6. Quality Control and Regulation - Graffiti is committed to the highest standards and conforms with Israeli standards and with ISO 9001:2000 standards for distribution of office supplies to businesses and organizations. Graffiti is an authorized supplier to the Ministry of Defense. Moreover, some of the products marketed by this segment of operations possesses standards issued by the Israeli Institute of Standards. Beyond the above, there are no special restrictions on this sector of operations.

9.16. Forecast for developments in the sector of operations for the coming year

9.16.1. The company is studying the expansion of this sector of operations through acquisitions or ventures with small suppliers of office supplies. The company is also studying and focusing on creating strategic ventures in order to improve Graffiti's operations base through purchase, sales methods and computerized support for Graffiti's information systems.

9.16.2.

Moreover, the company intends to relocate the Graffiti site from Rosh Ha'Ayin to the new logistics center in Modi'in in the second half of 2011. Accordingly, investments will be necessary in storage and distribution equipment. For details regarding the Logistic Center, see section 12.6, below.

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9.17. Risk factors in the marketing of office supplies sector

For details regarding macro-economic risk factors, see section 23, below.

9.17.1. Sector-Specific Risk Factors

9.17.1.1. Accounts Receivable Risks - Most sales in this sector of operations are performed in Israel, and some of the sales are performed without full collateral. The sector of operations routinely studies the quality of its customers so that it may determine if provisions must be made for doubtful debts, and the amount thereof. The company estimates that the financial statements reflect appropriate provisions for doubtful debts.

9.17.1.2. Competition - The sector operates in a competitive market with a considerable degree of competition, in this matter see Section 9.10, above. The entry of new competitors and/or expansion of existing competitors' operations could detrimentally impact the company's scope of operations in this sector, as well as the financial outcome of the sector of operations.

9.17.2. Special Factors

9.17.2.1. Exclusivity - As stated in section 9.6.2, above, Graffiti (via Attar) is the exclusive distributor in Israel of a number of international brand name products in Israel, in the area of office equipment. Should such aforesaid exclusivity be terminated in a comprehensive manner, this could impact this sector of operations. At the same time, in light of the fact that Graffiti is an exclusive agent of a large number of suppliers, it is Graffiti's estimate that the aforesaid termination of exclusivity will not be substantial in terms of its impact.

9.17.3. The extent of impact of risk factors

The company's estimates regarding the types and measure of the influence of the aforesaid risk factors on the sector of operations appears below. For details regarding macro-economic risk factors, see section 23, below.

	Degree of Impact		
Risk Factors	Considerable Influence	Medium Influence	Small Influence
Sector-related factors	-Competition	-Accounts Receivable Risks	
Special Factors			-Exclusivity

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10. Packaging products and cardboard sector

10.1. The packaging products and cardboard operating sector and changes therein

10.1.1. The packaging products and cardboard 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 cosmetics.

10.1.2. The cardboard shelf-packaging production and sales operations are carried out via the subsidiaries Carmel and Frenkel-CD.

10.1.2.1. Carmel is engaged in the design, manufacture and marketing of cardboard packaging products. Moreover, Carmel possesses unique capabilities in digital printing on various materials, with a wide format. On October 4, 2010, the company completed a full tender offer according to Section 336 of 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. For additional details, refer to Section 2.8, above.

10.1.2.2. Tri-Wall Containers (Israel) Ltd. (hereinafter: "Tri-Wall") – is a subsidiary wholly-owned by Carmel. Tri-Wall engages in the design, manufacture and marketing of special triple-walled board containers (produced by Carmel), integrated with other materials such as wood, layering materials and the like, for the packaging and shipping of goods mostly for the hi-tech market, bulk shipments and other uses. In addition, Tri-Wall manufactures wooden shipping pallets for the local market and for export.

10.1.2.3. Frenkel- CD, a subsidiary in joint ownership between the company, Carmel and Frenkel & Sons Ltd., is among the leading companies in designing, producing and marketing packaging for consumer goods from compacted board. 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.

10.2. Changes in the volume of operations in the packaging products and cardboard operating sector

10.2.1. The global paper industry is 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).

10.2.2. The company estimates that the entire packaging products and board sector in Israel grew by approximately 3% in 2010, as compared with its level in 2009.

10.2.3. The Cardboard 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 products and cardboard and the derived volume of waste collection is the level of economic activity in the market and the export volumes of its customers.

10.3. Developments in the packaging products and cardboard sector and changes to its customer profile

10.3.1. Paper is a central component in the manufacture of cardboard packaging. Following a decrease in prices in the years 2008-2009 (as a result of surplus supply coupled with the impact of the global economic crisis on the packaging industry), the prices of paper increased dramatically in 2010, such that a significant increase was recorded in raw material costs in this sector of operations, accompanied by a decrease in operating income.

10.4. Critical success factors in the packaging products and cardboard sector of operations and changes therein

Several critical success factors may be indicated for Company operations in the packaging products and cardboard sector, which impact its operations:

10.4.1. The economic situation in the Israeli economy - The cardboard industry caters to the local industry, agriculture and food and beverage industries. As a result, extensive current economic activity has a positive material impact on the demand for packaging products and cardboard. An economic crisis would obviously have an adverse effect.

10.4.2. Investment in necessary production equipment - Machines used in the production of packaging products and cardboard are very costly, in terms of both acquisition and maintenance cost. Consequently, financing capabilities and the ability to raise funds, constitute an advantage in the sector of operations.

10.4.3. Product quality and customer service - High product quality, availability and quality customer service are important success factors in this operating sector. High level quality and service contribute to preservation of existing customers and to increasing the number of customers.

10.4.4. Reputation - Due to the nature of this operating sector, reputation is a key success factor in this sector.

10.5. Changes to suppliers and raw materials for the packaging products and cardboard sector

10.5.1. 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.

10.5.2. The paper that serves in the manufacture of the packaging and board products of this sector of operations is partially acquired from imports (all natural paper products that serve in manufacture - approximately 45% of total raw materials) and partially from a local producer (all the recycled paper products that serve in manufacture - approximately 55% of the total raw materials). The local producer from which the raw material is purchased is Hadera Paper Packaging, a subsidiary of the company that forms part of the packaging paper and recycling sector.

Explanation of Responses:

10.5.3. In this context it should be noted that in Europe between 85% 90% of the raw material serving for the manufacture of packaging products and board, consists of recycled materials. Likewise, in Israel there also exists a trend of the rising use of recycled materials in the packaging products and cardboard sector.

10.5.4. The price of paper rose sharply in 2010, to the effect that a significant increase was recorded in raw material costs in this sector of operations, accompanied by a decrease in operating income.

10.6. Major barriers to entry and exit in the packaging products and cardboard sector and changes therein

10.6.1. There are several barriers to entry of any company to the field of packaging products and cardboard production:

10.6.1.1. Initial capital - The packaging products and cardboard industry is, by nature, capital intensive with heavy investments required in infrastructure and equipment (paper machinery, paper waste processing systems and associated infrastructure); entry into this operating sector requires a significant initial capital. Furthermore, even following the initial capital outlay, this operating sector requires significant investment in equipment maintenance.

10.6.1.2. Skilled staff - Manufacturing of products in the packaging and cardboard sector requires professional, skilled staff. A company starting operations in this operating segment would be required to recruit appropriate staff, which may prove to be a challenge to any company intending to operate in this segment.

10.6.1.3. Reputation - A penetration of this sector would require an extended period of time, due to the importance of reputation in the sector.

10.6.1.4. The Company believes that there are no material exit barriers from this segment, except for the following: Immediate discontinuation of operations would require arrangements to be made with customers concerning conclusion of product inventory delivery as well as arrangement of payments to suppliers.

10.7. The structure of the packaging products and cardboard operating sector and changes therein

10.7.1. 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 flexible wrapping for beverages and plastic crates for slaughter houses.

10.7.2. For additional details regarding the competition in the sector, see Section 10.13, below.

10.8. Products and services in the packaging products and cardboard operating sector

Major products and services:

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

10.8.1.1. 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: (1) "standard" corrugated board containers - boxes manufactured in different sizes, which are closed by sealing the upper flaps and bottom of the box; (2) 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; (3) Cardboard crates for agriculture: trays that are formed only using tray forming machines with matching molds, in geographic proximity to the final customers.

10.8.1.2. Corrugated board sheets – These are used as raw materials and marketed to corrugated board processors, who use them as raw materials for the manufacture of packaging. Cardboard processors are small processing plants, which sell their produce to small and medium-sized customers. Carmel, as well as an additional local competitor, specialize in the unique manufacture of triple-wall sheets that are used for specialized packaging, among others by the subsidiary Tri-Wall, mainly for the high-tech industry. Alongside local manufacture, there exist imports of triple-wall boards, against which Carmel possesses an advantage, being a local manufacture.

10.8.1.3. 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 embossing.

10.8.2. Cardboard shelf packaging - The subsidiary, Frenkel-CD, designs, produces and markets shelf packaging and display stands.

10.8.3. Containers and pallets - The Company is engaged, via the Tri-Wall subsidiary, in the production of the following products:

10.8.3.1. 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.

10.8.3.2. 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. In the course of 2010, Tri-Wall began to provide outsourcing services, following the establishment of operations for the manufacture of packaging using a manufacturing line that would operate on-site at the customer's premises.

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

10.9. Distribution of revenues and profitability of products and services in the packaging products and cardboard operating sector

The following data presents the distribution of revenues from products and services in the years 2010, 2009 and 2008:

NIS millions	2010			2009*			2008		
	Revenues	Percentage of Company Revenues		Revenues	Percentage of Company Revenues		Revenues	Percentage of Company Revenues	
Sales of packaging and cardboard products	343	31	%	334	37.40	%	360	84	%
Shelf packaging	130	12	%	117	13.10	%	117	100	%

* The packaging and cardboard products sector was consolidated within the company's financial statements starting September 1, 2008.

10.10. Customers in the packaging products and cardboard operating sector

10.10.1. Cardboard

10.10.1.1. The bulk of the Carmel subsidiary'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.

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

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10.10.1.3. Carmel has a material customer, the revenues from which to Carmel in 2010 and 2009 amounted to NIS 43.5 million and NIS 55.5 million, respectively, which accounted for 11% and approximately 14.4%, respectively, of its total revenues. The nature of Carmel's agreement with this customer is identical to its agreements with other customers, as detailed below.

10.10.1.4. Carmel is not dependent on any customer whatsoever.

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

10.10.2. Cardboard shelf packaging

10.10.2.1. Most of the sales of Frenkel-CD are made to the domestic market, while 6% are directed toward direct exports. Nevertheless, some of the company's local customers channel the packaging that is purchased toward indirect exports.

10.10.2.2. The manufacture provision of products with customers is usually performed according to customer orders made with the company, that are unique to the ordering party. For each order, the delivery dates are determined, and sometimes framework orders are made for extended periods, for which packaging is produced for inventories.

10.10.2.3. The company 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.

10.10.2.4. Frenkel-CD is not dependent upon any single customer.

10.11. Marketing and distribution in the packaging products and cardboard operating sector

10.11.1. The marketing and distribution in this sector of operations are conducted in various ways, including direct sales to final customers and sales through distributors.

10.11.2. Transportation to the customer is conducted primarily using external shippers, while the company does not have any exclusive agreements with any of the said shippers. The Company also has no dependency on any of these shipping companies.

10.12. Order backlog in the packaging products and cardboard operating sector

Product delivery volumes are based on an overall annual forecast, determined and coordinated between the sector and its customers. Current supply is converted into orders, based on a few days in advance or even less, so the Company has no order backlog.

10.13. Competition in the packaging products and cardboard operating sector

10.13.1. 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 flexible wrapping for beverages.

10.13.2. To the best of the company's knowledge and based on its internal information and assessment, the cardboard packaging market in Israel is dominated by four principal companies: Carmel Container Systems Ltd., 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 and 2009 amounted to 27% in each one of the years of the total market.

10.13.3. In addition, there are 30 cardboard packaging manufacturers with small market shares, which perform 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 the years 2010 and 2009, the total annual volume of the corrugated board industry amounted to 315 thousand tons and 300 thousand tons, respectively, and the estimated sales in 2010 and 2009 amounted to NIS 1,400 million and NIS 1,200 million.

10.13.4. The methods employed by companies in this sector for dealing with competition within the sector, include the following parameters: The advantage of a major market player in terms of size and seniority, efficiency in production and supply, the level and quality of service to the customer and competitive prices.

10.14. Seasonality

10.14.1. Generally speaking, most of the demand for cardboard packaging products is in winter months, primarily November and March (Q1 and Q4), due to the dynamic seasonal export of citrus and bell pepper crops. Sales of cardboard packaging products during the first and fourth quarters of the year are higher by an average of approximately 10% in relation to the sales during the second and third quarters. As for the other products of the packaging products and cardboard segment, there is no seasonal impact on demand.

10.15. Output capacity in the packaging products and cardboard operating sector

10.15.1. Carmel's corrugated cardboards are manufactured in two sites. The first is located in Caesarea (working in two shifts, with some of the production lines operating 24 hours a day, except for weekends). The second plant is located in Carmiel (working only one shift, except for weekends). Most of the activity takes place at Caesarea, using 12 processing machines and including all of the corrugation operations and most of the processing work.

10.15.2. In 2010, two new processing machines were acquired and installed at the company site in Caesarea: a) An advanced printing machine; b) an innovative processing machine. The new machines replaced two previous machines.

10.15.3. The manufacturing operations in the packaging products sector by Frenkel-CD are conducted at the Frenkel-CD plant in Caesarea, that operates 24 hours a day, in three shifts, except for the weekends.

10.15.4. The Tri-Wall container manufacturing activities are conducted at a plant in Netanya, that is usually active in one shift and is supplemented as required, except for the weekend. Pallets are manufactured at a plant in Netivot, operating in one shift, except for the weekend.

10.15.5. As of December 31, 2010, Carmel's production capacity for corrugated board in its Caesarea plant is estimated at 100,000 tons, and at the Carmel plant in Carmiel - at 15,000 tons. Actual production currently utilizes 80% of production capacity at the Caesarea plant and 85% of production capacity at the Carmiel plant.

10.16. Research and development in the packaging products and cardboard operating sector

10.16.1. Carmel, together with Galbital RFID Solutions (hereinafter: "Galbital"), in equal parts, conducts research and development activity regarding new implementations in packaging and transportation. The company and Galbital are currently in the process of registering a patent for the implementation of RFID technology in the area of inventory management.

10.17. Fixed assets, real estate and facilities in the packaging products and cardboard operating sector

10.17.1. Real Estate

10.17.1.1. Carmel owns some 15,000 square meters in Netivot. Carmel leases land and buildings from a company owned by the controlling member of the Company in the industrial area in Caesarea, and the Company leases buildings in Carmiel, at Kibbutz Mishmarot and in Netanya, all for the following periods and under the following conditions:

10.17.1.2. Caesarea, lease agreement for Carmel’s central site, located on an area of some 90,000 m², where corrugated board manufacturing operations are concentrated. The lease agreement was signed with Gev-Yam Properties Ltd., a company controlled by the Company's controlling shareholder, in April 1994, for a period of 20 years from the date of population of the building, in 1996.

10.17.1.3. Netanya, Tri-Wall’s manufacturing site, spread over an area of 22,000 m². The lease agreement is for a period of two years ending in December 2012.

10.17.1.4. Caesarea, Frenkel CD site in Caesarea, spread over an area of some 21,000 m², used for manufacture, storage and supply of merchandise. The lease agreement was signed in 2005 for a period ending in 2020 (including an extension option). The landlord is a company owned by the minority shareholders in Frenkel CD.

10.17.1.5. Furthermore, the sector of operations also has additional warehouses at Kibbutz Mishmarot and another manufacturing site in Caesarea.

10.17.2. Fixed Assets

10.17.2.1. Carmel's fixed assets primarily include machinery and manufacturing equipment for paper corrugation and processing machines, which perform cutting, printing, gluing and folding, to complete the final product. Carmel owns two corrugators and approximately 12 processing machines. Carmel also owns two digital printing machines capable of printing on corrugated board and other rigid materials, with a high printing quality, a range of sales promotion applications, display stands and billboards.

10.17.2.2. Carmel has a vehicle fleet, which includes cars, under an operating lease, and fork-lifts, some of which are owned by the Company and some under an operating lease. Carmel operates a truck fleet through sub-contractors.

10.17.2.3. Frenkel CD owns four printing machines and 21 additional machines.

10.17.2.4. Tri-Wall owns two processing lines for the manufacture of pallets and two lines for the manufacture of special packaging.

10.17.2.5. Carmel has established current liens on its assets in benefit of the banks and the State of Israel. Moreover, Frenkel CD has established current and permanent liens on its assets in favor of the banks and the State of Israel.

10.18. Raw materials and suppliers in the packaging products and cardboard operating sector

10.18.1. In the packaging products and board sector there are purchasing contracts with suppliers for the purchase of auxiliary materials such as chemicals, adhesives and various packaging materials.

10.18.2. Prices are determined by negotiation with suppliers, every month, accounting for market conditions and prices of competing imports.

10.18.3. The main raw material in the production of corrugated board is paper. This raw material forms the central component of the cost of sales, representing approximately 50% of the final product’s cost. Carmel has two central suppliers in the paper sector: (1) Hadera Paper, the shareholder in Carmel, that supplies recycled paper, from whom the purchasing in the years 2010 and 2009 amounted to NIS 70.1 million and NIS 69.8 million, respectively, representing 37% and 47%, respectively, of the total annual paper consumption of Carmel during those same years; and (2) International Forest Products, a member of the Kraft group, provider of virgin paper, from whom the purchasing in the years 2010 and 2009 amounted to NIS 36.7 million and NIS 39.7 million, respectively, that represented 19% and 23%, respectively, of the total annual paper consumption of Carmel during those same years.

Explanation of Responses:

10.18.4. The principal auxiliary materials that are used by Carmel in the manufacture of corrugated board include starch and fuel oil. Starch constitutes the main component in the adhesive that glues the paper sheets. The starch provider is Galam Ltd. Carmel also utilizes auxiliary materials such as embossing devices and printing plates, purchased from several local suppliers, as well as wooden pallets produced by Tri-Wall.

10.18.5. The main raw materials used by Tri-Wall for the manufacture of containers (in its Netanya plant) are triple-wall boards manufactured by Carmel as well as varied packaging materials such as plywood, padding materials and metal parts which are acquired from several local suppliers.

10.18.6. The principal raw materials used by Frenkel CD in the manufacture of cardboard shelf packaging include duplex board and some corrugated board. Duplex cardboard is mostly imported directly from Europe and the US and is purchased in part from local agents (indirect imports). Corrugated board supply from Carmel accounts for 20% of Frenkel-CD's raw materials.

10.18.7. Carmel, Frenkel-CD and Tri-Wall are not dependent on any supplier.

10.19. Working Capital

10.19.1. Raw Material and Finished Goods Inventory Policy

10.19.1.1. Raw material and finished goods inventory - The Company maintains operating inventory of raw materials - primarily paper - and finished goods, equivalent to consumption and delivery over 3 to 4 months.

10.19.1.2. Maintenance material inventory - The Company has an inventory of maintenance materials for use with means of production, based on expected consumption volume and the need to maintain continuous operation of the machines, at a quantity that is variable in line with the orders.

10.19.2. Goods return or replacement policy

10.19.2.1. Goods in this operating sector are sold as final sale to customers, and are returned in case of faulty product or due to mismatch between order and delivery. When a customer complains of a faulty or mismatching product, the complaint is reviewed and if correct, the goods are returned and the customer is credited. Based on past experience, the volume of returns is not material to total operation volume.

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10.19.3. Average credit duration

Below are data regarding average credit duration and amount for suppliers and customers in 2010 and 2009:

	Average 2010		Average 2009	
	Average credit volume	Average credit days	Average credit volume	Average credit days
Accounts receivable - trade	NIS 182 million	144	NIS 164 million	134
Accounts Payable	NIS 108 million	111	NIS 104 million	117

10.19.4. Customer credit days have increased, following their agreed extension opposite the clients, one obtaining appropriate collateral. Supplier credit days have decreased in 2010 following a change in the payment terms and in the mix of suppliers.

10.19.5. The average days of inventory in this sector of operations in 2010, totals 57 days.

10.20. Environmental protection in the packaging products and cardboard operating sector

This part was discussed as part of the environmental discussion at the corporate level. See Section 17, below.

10.21. Restrictions and regulation on corporate operations in the packaging products and cardboard operating sector

10.21.1. Work Hours Law – This area of operations is subject to the provisions of the protection laws in the area of labor law, including Work and Rest Hours Law 5741 – 1981. For further details see section 8.23.4, above.

10.21.2. Consumer Provisions - The companies in this area of operations are subject to various consumer provisions, including by power of the Consumer Protection Law 5741 – 1981 and the Liability for Faulty Products Law 5740 – 1980. For further details see section 24.1.24.2, below.

10.21.3. Business Licenses -

10.21.3.1. Carmel has a business license in effect from April 9, 1998. Furthermore, the Ministry for the Protection of the Environment has set out additional conditions for the business license in a document from October 2006. To the best of the Company's knowledge, the Company complies with all the requirements and conditions required under the license as mentioned, and all other conditions.

10.21.3.2. Frenkel CD holds a business license since 1995. To the best of the company's knowledge, the company is in compliance with all the terms and conditions related to the validity of the license.

10.21.4. Work Safety

The companies in the sector are subject to legislation concerning work safety and health. For additional details, refer to Section 8.23.9, above.

10.21.5. Quality Control and Regulation

10.21.5.1. Carmel and Frenkel CD operate in accordance with quality and control standards as customary for international companies, and are compliant with the requirements of international standard 2000: ISO-9001 and the HACCP and BRC/IOP international standards for food-safety management. In addition, Carmel was certified for the Environmental Quality Standard 14001 and Safety 18001. Carmel was awarded a Platinum Award from the Israeli Institute of Standards, as one of 20 companies in Israel possessing five quality standards.

10.21.5.2. Tri-Wall operates in accordance with quality and control standards as customary for international companies, and is compliant with the requirements of international standard: 15 ISPM 9001, ISO, standard for disinfection in agriculture.

10.21.5.3. Furthermore, Company operations at its facility are subject to provisions of product-related quality standards, municipal laws (primarily business license) and globally accepted standards.

10.22. Anticipated development over the next year for the operating sector

10.22.1. Moreover, Carmel is interested in gradually expanding the proportion of recycled paper out of the raw materials that are used for the production of its products, at the expense of virgin paper. It should be noted in this respect that in Europe, between 85% and 90% of the raw materials that serve in the manufacture of packaging products and cardboard are recycled materials and that there exists a trend of a rise in the use of recycled materials in this sector in Israel as well.

10.23. Risk factors in the packaging products and cardboard operating sector

For details of macro-economic risk factors, see section 23, below.

10.23.1. Sector-Specific Risk Factors

10.23.1.1. Regulation- Operations in the packaging products and cardboard sector are subject to regulation of various issues (for further information see section 10.21, above). Changes in regulation may impact companies operating in this operating sector, e.g. stricter environmental protection regulations, including the Packaging Law and government decisions concerning the raising of minimum wages.

10.23.1.2. Competition - This operating sector is competitive, with competition against three principal competitors in Israel, as well as against imported products (in this respect, see Section 10.13, above).

10.23.1.3. Raw materials - A rise in the prices of raw materials, primarily paper - which is a material component in the production cost of cardboard, as well as an increase in the prices of other inputs, such as gas, electricity, transportation and starch - may impact the profitability of companies in this sector of operations.

10.23.1.4. Environment - Requirements of the Ministry of Environmental Protection with regard to this sector and its facilities require the Company to allocate financial resources to this issue. These demands could expand and increase because of the growing awareness toward protection of the environment, which could force the companies in this sector to allocate additional resources.

10.23.1.5. Furthermore, as the Company deals, inter alia, in dangerous and toxic materials, it is exposed to damages likely to be caused because of these products, including health damages, environmental damages, damages resulting from flammable materials catching fire and the like. Hence the Company is exposed to claims which may negatively impact the business results of the operating sector as well as Company reputation.

10.23.1.6. Exposure to foreign currency - The operations in the packaging products and board sector are exposed to risks on account of the changes in currency exchange rates, since a large part of the raw materials are imported. Changes in exchange rates of various currencies vis-à-vis the NIS may erode profit margins and cash flows.

10.23.1.7. Closure of ports- The companies in this sector of operations import many raw materials used for the manufacture of their products. Shutting down the ports in Israel will harm the imports of raw materials and will directly impact the operations of companies in the sector. However, since the companies in the sector maintain an inventory of raw materials, only a prolonged closing of the ports will have a medium impact on operations.

10.23.2. The extent of impact of risk factors

The company’s estimates regarding the types and measure of the influence of the aforesaid risk factors on the sector of operations appears below. For details of macro-economic risk factors, see section 23, below.

Risk Factors	Degree of Impact		
	Considerable Influence	Medium Influence	Small Influence
Sector-related factors	-Prices of raw materials	-Closing of ports	-Regulation
	-Competition		-Raw Materials
			-Environmental protection
			-Exposure to foreign currency

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11. Fine paper sector

Hadera Paper Printing manufactures fine paper (printing and writing paper), and sells imported paper, such as coated paper and special paper, complementary to its product range. Following below are additional details regarding the fine paper sector and its operations.

11.1. Structure of the fine paper sector

11.1.1. The fine paper sector deals in the manufacture and marketing of writing and printing paper, including special paper types and coated paper. Operations in this sector are conducted by the company through the subsidiary Hadera Paper Printing (formerly "Mondi Hadera paper Ltd."). 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 opposite smaller customers.

11.1.2. Hadera Paper Printing is a privately held company that was established in 1999. As part of a transaction conducted between the company and an Austrian company that is a member of Mondi Business Paper Ltd. Group. (hereinafter: MBP"" or "Mondi Group") in February 2000, Mondi Group acquired 50.1% of the shares of Hadera Paper Printing (the company operations in the fine paper sector was separated prior to the transaction and transferred to Hadera Paper Printing, that was established for this purpose).

11.1.3. On September 7, 2010, the company signed an agreement with a subsidiary of Mondi Group that held - prior to the transaction - 50.1% of the issued and outstanding share capital of Hadera Paper Printing, pursuant to which Mondi Group will sell to the company 25.1% of the issued and outstanding share capital of Hadera Paper Printing in consideration of €10.364 million (hereinafter: "The Acquisition Transaction").

11.1.4. The Acquisition Transaction includes, inter alia, the amendment of the existing shareholder agreement between the parties, pertaining to their holdings in Hadera Paper Printing, including also the changes necessary as a result of the modification of the holding percentages, as well as the amendment of the existing agreements between the shareholders and Hadera Paper Printing, all as detailed below.

11.1.5. The approval of the Antitrust Supervisor regarding the merger of the companies was received on November 4, 2010 and as of December 31, 2010, the acquisition transaction was finalized. Pursuant to the transaction, the company holds 75% of the shares of Hadera Paper Printing, whose results have been consolidated with those of the company. True to the date of the report, the shareholders of Hadera Paper Printing include Hadera Paper (that holds, together with the subsidiary AIPM Marketing (1992) Ltd., 75% of the issued and outstanding share capital of Hadera Paper Printing) and Mondi Group (that holds 25% of the issued and outstanding share capital of Hadera Paper Printing). Regarding the accounting implications, see Note 17 to the financial statements of the company, dated December 31, 2010, that are attached to this report.

11.1.6. For additional details regarding the acquisition transaction, see section 11.24.2, below.

11.2. Developments in the fine paper sector and changes to its customer profile

11.2.1. The fine paper sector in Israel is a stable market characterized by slow growth. The variables that affect this market include primarily the ratio between global supply and demand for paper products and the overall level of economic activity, that affect the amount of printing and advertising products. In the course of this period, the operations of several global plants were discontinued and the global supply of paper has decreased.

11.3. Critical success factors in the Fine Paper sector of operations and changes therein

Several critical success factors may be indicated for Company operations in the Fine Paper sector, which impact its operations:

11.3.1. Investment in necessary production equipment - Machines used in paper production are very costly, in terms of both acquisition and maintenance cost. Consequently, financing capabilities and the ability to raise funds, constitute an advantage in the sector of operations.

11.3.2. Local producer - In this operating sector, a local producer enjoys a significant advantage over imports, as the former is able to ensure a constant supply of the product, at a relatively short lead time and at the size and quality required by customers, thereby saving them the need to maintain large inventories.

11.3.3. Product quality - The high quality of products is a critical success factor in the sector.

11.4. Changes to suppliers and raw materials in the sector

The price of pulp, one of the central raw materials in this sector, has increased significantly globally in 2010.

11.5. Major barriers to entry and exit in the sector of operations and changes therein

Most of the products marketed in this area in Israel, are manufactured products in which the company possesses an advantage as the local producer, capable of supplying small quantities at short lead times, although there also exist imported products. Due to entrance barriers into the sector, as detailed below, the structure of competition in the area is relatively stable.

11.6. Dividend distribution

11.6.1. Hadera Paper Printing did not distribute dividends to shareholders in 2009.

11.6.2. On July 26, 2010, the board of directors of Hadera Paper Printing approved the distribution of NIS 5,920 thousands as dividend to the shareholders. The dividend was distributed on August 11, 2010.

11.6.3. On December 31, 2010, the board of directors of Hadera Paper Printing approved the distribution of NIS 8,528 thousands as dividend to the shareholders. The dividend was distributed on January 31, 2011.

11.6.4. As of December 31, 2010, Hadera Paper Printing has distributable profits in the amount of NIS 118.7 million.

11.6.5. Dividend Distribution Policy: The shareholders agreement between Hadera Paper and MBP, that was signed as part of the acquisition transaction on September 7, 2010, defines a profit distribution policy, pursuant to which starting in 2011, subject to restrictions stipulated by law and as defined in the shareholders agreement, Hadera Paper Printing will distribute to its shareholders at least 50% of its earnings every year ("Minimum Distribution Sum"), all as described in the shareholders agreement. Notwithstanding the aforesaid, the board of directors of Hadera Paper Printing will be permitted to lower the minimum distribution sum in the event that distribution of the full aforesaid amount, together with capital expenses fixed in the annual budget, will cause a breach of Hadera Paper Printing's financial undertakings versus financial institutions. If Hadera Paper Printing's board of directors resolves to distribute an amount lower than the minimum distribution sum, the undertaking to distribute the balance of the amount not distributed out of the minimum distribution sum will be carried over to the following year (for a period not exceeding two years).

11.6.6. Pursuant to financial covenants which Hadera Paper Printing has undertaken to the banks, for the purpose of receiving credit facilities, the ratio of shareholders' equity to total assets will not be less than 22% and therefore, no dividend will be distributed as a result of which the ratio of shareholders' equity to total assets will fall below 22%, after taking into account an approved investment budget. True to the date of the report, Hadera Paper Printing is in compliance with the financial covenants outlined above.

11.7. Economic environment and the impact of external factors on operations in the fine paper sector

11.7.1. 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, yet in light of the discontinuation of operations in several plants worldwide, the supply of paper on the local market decreased throughout most of 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. Light of the raising of selling prices, despite this 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.

11.8. Products and services in the fine paper sector

Manufacture of Fine Paper

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

11.8.2. The annual production volume produced by Hadera Paper Printing amounted to 141,000 tons in 2010, as compared with 139,000 tons in 2009. 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.

11.8.3. During 2010, approximately 101 thousand tons of paper produced by Hadera Paper Printing were 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 the United States, where profit margins are higher than in the Middle East. The company intends to continue to work toward expanding exports, while placing special emphasis on increasing exports to the United States.

The above information concerning the expansion of Hadera Paper Printing's direct export to the United States constitutes forward-looking information as defined in the Securities Act, and comprises forecasts and estimations whose realization is not absolute and is based upon Hadera Paper Printing's existing information as of the date of this report. The sector's forecasts and estimates may not materialize, all or in part, or may materialize in a way which is materially different than anticipated. The principal factors that could influence this are dependent upon external factors, developments and changes in regulation in the sector of operations, changes in supply and demand in the sector and/or the realization of any of the risk factors listed in Sections 11.26 and 23, below.

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

11.8.5. Growth was recorded in 2010 in the sales of Hadera Paper Printing to direct exports, as compared with 2009, in the sum of approximately NIS 8 million.

11.9. Sales of imported paper

11.9.1. As aforesaid, Hadera Paper Printing compliments its basket of products by the importing of paper from Europe (such as coated and special papers that it does not manufacture) and the Far East. The annual volume of imports by Hadera Paper Printing in 2010 amounted to approximately 40,000 tons of paper, which are marketed by the company exclusively to the domestic market, as compared with 37,000 tons of paper in 2009.

11.9.2. 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. The Company began working with an additional supplier in 2009 - Moorim Group - that is also one of the largest global producers of coated paper. For additional details regarding suppliers, see Section 11.8, above.

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11.10. Distribution of revenues and profitability of products and services in the fine paper sector

11.10.1. The sales turnover of the fine paper sector in 2010 amounted to NIS 728.7 million, up from NIS 669.2 million in 2009. The selling prices of fine paper on the global market are affected by the ratio of supply to demand and the ability of the companies to raise prices as a result of changes in input prices. The trend that began in mid-2008 consisting of a sharp decrease in pulp prices (a principal component in the manufacture of paper), came to an end by the end of 2009, followed by a sharp rise in pulp prices in 2010. Due to lacking demand in relation to the global supply of paper, the worldwide prices of paper did not rise significantly as warranted by the rise in pulp prices. As opposed to this trend of a moderate increase in paper prices worldwide, on the local market, due to the discontinuation of manufacturing by several global plants, the supply of paper decreased until the fourth quarter of 2010, as Hadera Paper Printing raised prices on the domestic market, as warranted by the rise in pulp prices. This accounts for the increase in the sales turnover of the company in 2010, as compared with the decrease in the sales turnover in 2009.

11.10.2. For further financial information regarding Hadera Paper Printing, see its financial statements as at December 31, 2010, attached to this report.

11.11. Customers of the fine paper sector

11.11.1. Hadera Paper Printing markets its products to a large variety of customers in Israel and abroad. During 2010, approximately 101 thousand tons of paper produced by this sector were marketed in the local market. The remainder, consisting of some 34 thousand tons, was designated for exports.

11.11.2. In Israel, Hadera Paper Printing possesses approximately 450 customers, with the central customers being printing houses (approximately 21%), paper wholesalers (approximately 19%), office supplies wholesalers (approximately 32%), manufacturers of paper products (approximately 28%) and end users.

11.11.3. Overseas, Hadera Paper Printing markets to big wholesalers in the paper sector, as well as to large printing houses and manufacturers in Jordan.

11.11.4. As part of the export operations, in 2010, Hadera Paper Printing expanded its exports to the United States, where profit margins are higher than in the Middle East. The company intends to continue to work toward expanding exports, while placing special emphasis on increasing exports to the United States.

The above information concerning the expansion of Hadera Paper Printing’s direct export to the United States constitutes forward-looking information as defined in the Securities Act, and comprises forecasts and estimations whose realization is not absolute and is based upon Hadera Paper Printing’s existing information as of the date of this report. The sector's forecasts and estimates may not materialize, all or in part, or may materialize in a way which is materially different than anticipated. The principal factors that could influence this are dependent upon external factors, developments and changes in regulation in the sector of operations, changes in supply and demand in the sector and/or the realization of any of the risk factors listed in Sections 11.26 and 23, below.

11.11.5. 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.

11.12. Marketing and distribution in the fine paper sector

11.12.1. Hadera Paper Printing possesses a local distribution system that provides it with the ability to market its products to a variety of 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.

11.12.2. 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.

11.12.3. Hadera Paper Printing distributes its products from two logistic sites - the logistics center in Modi'in and from Hadera.

11.12.4. The large principal site is the company site in Hadera, that is in close proximity to the manufacturing and finishing facilities of Hadera Paper Printing. Paper is distributed from this site to the company's customers in Israel and overseas. Paper that is designated for export, is transferred to containers that are sent to the seaports 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 detailed below in this section. True to the date of the reports, approximately 103,000 tons per annum are distributed from the Hadera site.

11.12.5. In November 2010, Hadera Paper Printing moved its logistics center to the new Logistics Center in Modi'in, replacing the sites in Holon and in Haifa, as detailed below. The Logistics Center worked, advancing on the learning curve with constant progress during December 2010, until reaching full capacity. 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, all the imports of writing and printing paper is directly taken in at the Logistics Center (some of the imported paper is transferred directly to the customers from the sea ports). Distribution from the Logistics Center is performed using trucks belonging to 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. For details regarding the Logistics Center, see Section 12.3 above and Note 14e to the company's financial statements as at December 31, 2010.

11.12.6. The above information with regard to the planned volume of distribution from the logistics center, constitutes forward-looking information as defined in the Securities Act, and merely consists of forecasts and estimates by Mondi which are not certain to materialize and are based on information available to in the sector as of the report date. The sector's forecasts and estimates may not materialize, all or in part, or may materialize in a way which is materially different than anticipated. The principal factors that could influence this are dependent upon external factors, the efficiency and assimilation of the systems at the logistics center, developments and changes in regulation in the sector of operations, changes in supply and demand in the sector and/or the realization of any of the risk factors listed in Sections 11.26 and 23, below.

11.12.7. Upon the transition to the logistics center, the leasing contracts of the company in the sector, at 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, while the Nesher site located in proximity to Haifa, catered to customers in the northern region of the country.

11.12.8. As of the date of the report, the sector is not dependent upon any single marketing site listed above in this section.

11.13. Order backlog in the fine paper sector

There is no order backlog in the sector. The orders are made with short lead times and on the basis of customer forecasts.

11.14. Competition in the fine paper sector

11.14.1. The entry barriers to manufacturing fine paper are high due to the heavy investments in paper machinery required for its production. On the other hand, Hadera Paper Printing is exposed to competition from paper importers who do not come up against 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 deal with its competitors.

11.14.2. 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. The company estimates that the market share of Hadera Paper Printing in this sector in the domestic market is approximately 50%. We emphasize that the aforementioned market share is based on the company's internal assessment as of the report date.

11.14.3. Due to the global economic crisis, competition on the part of paper importers has increased and consequently, surplus supply has been created in the fine paper market at dumping prices. On February 26, 2009, the Company announced that Hadera Paper Printing filed a complaint with the Supervisor of Anti-Dumping Charges at the Ministry of Industry, Trade and Employment (hereinafter in this section: "The Supervisor"), regarding 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, 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 the company in the past as a result of imports at dumping prices, the company announced that it does not object to the Supervisor's decision, given the changes in the market.

Explanation of Responses:

11.15. Seasonality

In the fine paper sector, the seasonality does not affect demand.

11.16. Output capacity in the fine paper sector

Under Hadera Paper Printing's proprietorship is a paper production machine for fine paper. As of the date of this report, it is operating at full capacity all year round, 24 hours a day, in 3 work shifts (except for planned maintenance stoppages). Furthermore, under Hadera Paper Printing's ownership is equipment for processing the aforesaid finished products, at a high production rate (approximately 55%) in 2-3 shifts as needed.

11.17. Fixed assets, real estate and facilities in the fine paper sector

11.17.1. Hadera Paper Printing leases most of its areas and the buildings used for production and storage in Hadera, from the Company. The lease term is 24 years and 11 months, starting in November 1999. Pursuant to the agreement, each party is entitled to cancel the agreement by providing an advance notice of 10 years, in addition to which each party is entitled to cancel the lease of parts of the leased property by providing a one-year advance notice.

11.17.2. Hadera Paper Printing leases the areas and building used at the Modi'in Logistics Center from the Company, also serving Amnir and Graffitti, its subsidiary companies. The lease agreement is for a period of 15 years starting November 2010, and is a back to back lease agreement to the lease agreement the Company signed with Gev Yam Ltd., the lessor of the property. Pursuant to the agreement, each party is entitled to cancel the agreement once ten years have passed, by providing an advanced notice of 180 days, in addition to which each party is entitled to cancel the lease of parts of the leased property by providing a one-year advance notice.

11.17.3. The distribution sites of Hadera Paper Printing in Holon and Nesher have been relocated to the new logistics center in Modi'in at the end of 2010. For details regarding the Logistics Center, see Sections 8.18.6.2 and 12.6, below and Note 14e to the company's financial statements as at December 31, 2010.

11.17.4. Fixed assets: Following construction work and investments made by Hadera Paper Printing in the past on the paper machine, the output capacity of the paper machine reached 144,000 tons in 2008. Investments were made by Hadera Paper Printing in the machine during the years 2010 and 2009 at sums that were immaterial and whose purpose was only to preserve the existing situation. For details regarding the sector in Hadera, see Section 12, below.

11.18. Raw materials and suppliers in the fine paper sector

The operations in this sector require the following raw materials:

11.18.1. Pulp –

11.18.1.1. The principal raw material used in the production of paper is pulp.

11.18.1.2. Engagement for purchase of pulp is performed by the holder of the minority interests in the company - MBP - in a centralized manner for the sector and for its other plants in Europe, allowing for a constant supply of pulp as well as economies of scale. For details regarding assistance from MBP in the purchasing of raw materials, see Section 11.24.2.4, below. Under the annual negotiations that are conducted between MBP (in coordination and in cooperation with the responsible officer in the sector) 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 the sector 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 only in order to cover its costs. Hadera Paper Printing purchases approximately 116,500 tons of pulp annually, 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 the use by the sector, the company 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.

11.18.1.3. The principal pulp supplier for Hadera Paper Printing is International Forest Products Corporation. The supplier is located in the United States and the volume of purchasing from the supplier the years 2000 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.

11.18.1.4. The sector is not dependent upon any particular pulp supplier.

11.18.1.5. The sector 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.

11.18.1.6. Coated paper - Hadera Paper Printing imports coated paper mainly from APP Group and from STORA ENSO. Hadera Paper Printing has no dependency whatsoever on APP and Stora Enso as the aforesaid paper suppliers. However, in the event that Hadera Paper Printing were to cease collaborating with the suppliers, it would incur a certain short-term damage, since it would need to purchase coated paper from other suppliers, a process that could potentially increase the purchasing cost in the short-term.

11.18.1.7. PCC - Another important raw material in the production of fine paper is PCC (Precipitated Calcium Carbonate). In May 2005, an agreement was signed between Hadera Paper Printing and Swiss company Omya International AG (hereinafter: "The Supplier") for supplying PCC. In accordance with the aforesaid agreement, the supplier set up a factory in Israel for manufacturing PCC and began supplying it to Hadera Paper Printing in April 2006. The original agreement was for a 10-year term. This amendment to the original agreement stipulates that the original agreement would be extended by a further four years through December 31, 2020 and a different price mechanism was put in place, compared to the original agreement, starting from the signing date of the amendment. In September 2005, the agreement was transferred to UniCrystal Shefaya, Ltd. (which changed its name to Oumya Shefaya, Ltd., an Israeli company wholly owned by the supplier. The agreement with the supplier reduced the cost of PCC for Hadera Paper Printing both by the price reduction as well as the high technological efficiency of the purchased product. Hadera Paper Printing does have a dependency on the aforesaid PCC supplier. The proportion of purchases from the said supplier represented 3.5% and 4.2% respectively, in the years 2010 and 2009, out of total purchases of raw materials made by Hadera Paper Printing.

11.18.1.8. Starch – Hadera Paper Printing purchases starch from Galam Ltd. (hereinafter: "Galam") for its paper production. Until 2009, Hadera Paper Printing was dependent on Galam as a single producer of starch in Israel, however, following the appearance of competing imports of starch, at prices competitive to those of Galam, this dependence has now decreased significantly. With respect to the other products, the dependence remains.

11.18.1.9. The engagement with Galam is for 11 years, terminating in 2011. Should Hadera Paper Printing's contract with Galam be terminated and not be renewed, Mondi would be required to import starch, which may increase its expenses for purchasing starch from alternative sources, such as the sector's overseas suppliers. Nevertheless, in light of competing imports, it would appear that no significant increase in the starch purchasing costs is to be expected. The proportion of purchases from the said supplier represented 2.3% and 3.6% respectively, in the years 2010 and 2009, out of total purchases made by Hadera Paper Printing.

11.18.1.10. The above information with regard to manufacturing costs, constitutes forward-looking information as defined in the Securities Act, and merely consists of forecasts and estimates by the sector which are not certain to materialize and are based on information available to the sector as of the report date. The sector's forecasts and estimates may not materialize, all or in part, or may materialize in a way which is materially different than anticipated. The main factors that could affect the aforesaid are dependence on external factors, changes in demand and supply in the market, and/or realization of any of the risk factors detailed in Section 12.1.22, below.

11.18.2. Hadera Paper Printing imports pulp and supplementary papers in foreign currency. As a result, there is a risk arising from fluctuations in the exchange rate (for further details regarding the aforesaid risk, see Section 12.1.22, below).

11.18.3. Hadera Paper Printing consumes natural gas as part of its energy supply system. For details regarding the agreement for the provision of gas, see Section 8.20.6, below. As to the impact of risk factors on energy prices, see Section 11.24.2, below.

11.19. Working Capital

11.19.1. As of the date of this report, Hadera Paper Printing's working capital, as a percentage of its sales, stands at 22.4%. Hadera Paper Printing makes a policy of closely controlling its working capital, to ensure it is equal to the level required operationally.

11.19.2. Hadera Paper Printing's inventory is managed by its logistics department. Stocking up on the purchased inventory of raw materials, auxiliary materials and finished products is carried out with a look toward keeping minimal inventory levels, Hadera Paper Printing's operational requirements as well as business opportunities.

11.19.3. In Hadera Paper Printing's routine operations, there are no returns of merchandise above the amount that is reasonable for its activities. All returned merchandise (following customer complaints concerning quality or incompatibility with its requirements) is approved by Hadera Paper Printing's competent authorities. The products are sold as a final sale to the customers and are returned as a result of a flaw or lack of compliance between the order and the delivery. When a customer complains of a faulty or mismatching product, the complaint is reviewed and if correct, the goods are returned and the customer is credited.

Below are data regarding average credit duration and amounts for suppliers and customers in 2010 and 2009:

	Average 2010		Average 2009	
	Average credit volume NIS M	Average credit days	Average volume of credit (NIS M)	Average credit days
Accounts receivable – trade	180	94	176.5	92
Accounts Payable	169	114	165	111

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11.19.4. The gap between customer and supplier credit days originates from different market characteristics - customer credit days are influenced by short term credit granted to export markets while suppliers offer longer credits terms.

11.19.5. The average days of inventory at Hadera Paper Printing in 2010, total 80 days.

11.19.6. Hadera Paper Printing has customer credit procedures. It continuously monitors the credit extended to its customers through its financial department, concerning the making of timely payments. As of December 31, 2010, the Company's average number of credit days (in local and foreign markets) stood at 94. Hadera Paper Printing maintains a credit insurance policy

11.19.7. A large part of the credit terms extended by suppliers is set by their agreements within MBP Group's collective agreements. As of December 31, 2010, the average number of credit days extended to Hadera Paper Printing by its suppliers stood at 114.

11.20. Financing

11.20.1. Hadera Paper Printing only utilizes bank credit facilities. It does not have any non-bank credit sources (besides supplier credit).

11.20.2. As of December 31, 2010, Hadera Paper Printing has long-term loans of NIS 13 million, of which NIS 3.6 million are repayable in 2011. As of December 31, 2010, the average interest on these loans was 5.72% linked to the CPI, while the effective interest rate was almost identical to the average interest rate. As of the date of this report, all the loans are being serviced as required.

11.20.3. As of the date of this report, Hadera Paper Printing has bank-approved credit facilities totaling NIS 306 million (these include the aforesaid long-term loans). It is Hadera Paper Printing's estimation that these credit facilities will meet its expected requirements for the coming years. Hadera Paper Printing has committed not to pledge any asset without prior consent of the banks.

11.20.4. As a financial covenant for the said loans and facilities, Hadera Paper Printing undertook vis-à-vis the banks that the ratio of equity to balance sheet total would be no less than 22%. As of the date of this report, the Company meets this covenant.

The aforesaid information concerning the fact that the credit facilities of the company are suitable for its needs for the next three years, constitutes forward-looking information as defined in the Securities Act, based upon the Company's estimations as of the date of this report as well as the existing information at the disposal of the company as of the date of this report. These estimations may not materialize, in whole or in part, or even materialize in a manner essentially different than expected. The major factors that could influence this are changes in supply and demand, macro-economic factors, not meeting objectives and/or the realization of any of the risk factors listed in Section 12.1.22, below.

11.21. Taxation

For details see Note 23 to the financial statements of Hadera Paper Printing as at December 31, 2010, attached to this report.

11.22. Environmental issues in the fine paper sector

For a discussion regarding environmental issues, see Section 17, below.

11.23. Restrictions on and Supervision of Corporate Operations in the Fine Paper Sector

11.23.1. Work Hours Law – This area of operations is subject to the provisions of the protection laws in the area of labor law, including Work and Rest Hours Law 5741 – 1981. For further details see section 8.23.4, above.

11.23.2. Work Safety- The sector is subject to legislation concerning work safety and health. For additional details, refer to Section 8.23.9, above.

11.23.3. Business Licenses - - Hadera Printing Paper has a business license for its operations at the Hadera site as part of the Company's business license. The Company also has an independent business license for the Modi'in site.

11.23.4. Consumer Provisions - The companies in this area of operations are subject to various consumer provisions, including by power of the Consumer Protection Law 5741 – 1981 and the Liability for Faulty Products Law 5740 – 1980. For further details see section 24.1.24.2, below.

11.23.5. Quality Control and Regulation - The sector operates its major production facility at Hadera subject to the following standards: ISO 9901/2000 – Quality Management; ISO 14001 – Environmental Protection and Israeli Standard 18001 - Safety.

11.23.6. Furthermore, Hadera Paper Printing operations at its facility are subject to municipal laws and standards and globally accepted standards.

11.24. Material agreements in the fine paper sector

11.24.1. Oumya Shefaya Ltd. agreement - see Section 11.18.1.7 above.

11.24.2. Shareholders agreement at Hadera Printing Paper: Details below of the principles of the issues agreed upon between Hadera Paper and MBP under the shareholders' agreement signed between the parties as part of the purchase transaction of September 7, 2010 , finalized on December 31, 2010, under which the Mondi Group, which held 50.1% of Hadera Printing Paper, sold the Company 25.1% of Hadera Printing Paper's issued and outstanding share capital, in return for the sum of 10.364 million euro, from the Company's own resources. For further details see section 11.1 above . For legal opinion regarding the allocation f o the cost of purchasing Hadera Paper Printing see the Company's financial statements as at December 31, 2010 (hereinafter: "The Shareholder Agreement").

11.24.2.1. Structure of the board of directors: Hadera Printing Paper's board will include up to six directors.

So long as MBP holds at least 25% of the issued and outstanding capital of Hadera Printing Paper, MBP will be entitled to appoint two directors. In the event that MBP's rate of holdings in Hadera Printing Paper falls lower than 25%, but remains higher than 12.5% of the issued and outstanding share capital of Hadera Printing Paper, MBP will be entitled to appoint one director. If MBP's rate of holdings in Hadera Printing Paper falls lower than 12.5%, MBP will not be entitled to appoint any director at Hadera Printing Paper.

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So long as the Company holds at least 75% of the issued and outstanding share capital of Hadera Printing Paper, the Company shall be entitled to appoint up to four directors.

Subject to the veto rights in the shareholders' agreement (to be set out below), resolutions will be passed by the board of directors by a majority vote.

11.24.2.2. Veto Rights: So long as MBP holds at least 12.5% of the issued and outstanding share capital of Hadera Printing Paper, Hadera Printing Paper will not take certain actions set out in the shareholders' agreement without the approval of (1) MBP and the Company, in the event the action requires shareholders' approval; or (2) approval of one director appointed by MBP together with one director appointed by the Company, if the action has been passed by the board of directors. The actions named in the shareholders' agreement include, inter alia, amendment of articles of association, transactions between interested parties, appointment of a CEO and CFO, appointment of an accountant, liquidation, merger, sale of substantial assets, change in the capital structure, allocation of securities of any type, changes in the rights assigned to shares, changes in the corporate structure, purchase of a substantial asset, entry into a new area of activities, agreements for the distribution of profits, granting exclusive rights in Hadera Printing Paper's assets and the like.

11.24.2.3. Policy regarding distribution of profits: Starting in 2011, subject to the restrictions provided by law and in the shareholders' agreement, Hadera Printing Paper will distribute at least 50% of its profits every year to its shareholders (the "Minimum distributed amount"). Notwithstanding the aforesaid, the board of directors of Hadera Paper Printing will be permitted to lower the minimum distribution sum in the event that distribution of the full aforesaid amount, together with capital expenses fixed in the annual budget, will cause a breach of Hadera Paper Printing's financial undertakings versus financial institutions.

If Hadera Paper Printing's board of directors resolves to distribute an amount lower than the minimum distribution sum, the undertaking to distribute the balance of the amount not distributed out of the minimum distribution sum will be carried over to the following year (for a period not exceeding two years).

11.24.2.4. Non-competition: MBP undertook, in its name and in that of its affiliated companies (as this term was defined in the shareholders' agreement) , for a period of three years after the event of the earlier of the following: (A) The rate of MBP's holdings or those of affiliated companies is not less than 25% of the issued and outstanding share capital of Hadera Printing Paper, (B) the rate of the Company's and/or its subsidiary companies and/or affiliated companies is not less than 25% of the issued and outstanding share capital of Hadera Printing Paper; or – (C) MBP's rights to appoint a director for Hadera Printing Paper expires (hereinafter: "“non-competition period”).

According to the shareholders' agreement, and subject to legal restrictions, MBP has undertaken to assist Hadera Printing Paper in the purchase of raw materials (including pulp) from its sources, for preferred prices, provided such purchase is targeted for Hadera Printing Paper's needs only.

The shareholders agreement further prescribes arrangements regarding cooperation in the transfer of information, the right to participate in allocation of securities of Hadera Printing Paper, future funding of the Company and the like.

11.24.2.5. Restriction agreement on transfer of shares: As part of the purchase transaction described in section 11.24.2 above, the restriction agreement on transfer of shares between the Company, MBP, American Israeli Paper Mills Marketing Ltd. and Hadera Printing Paper (hereinafter: "Restriction agreement on transfer of shares"). The principles of the Restriction agreement on transfer of shares are as follows:

11.24.2.6. Blockage Period: MBP undertook not to transfer the shares in Hadera Printing Paper, save in the cases named in the Restriction agreement on transfer of shares, for a period of three years from the date of completion of the purchase transaction (hereinafter: "the “blockage period”).

11.24.2.7. Right of First Refusal: Transfer of shares is subject to right of first refusal in cases set out in the agreement, such as transfer to an affiliated company (as the term was defined in the Restriction agreement on transfer of shares).

11.24.2.8. Call Option: To be realized after the party in breach has received notice to correct the breach and has not done so within 30 days, unless the breach is fundamental, repeating and intentional, where no option for correction will be given if over a period of two years three fundamental breaches have occurred. Upon occurrence of a breach (as the term was defined in the share transfer restriction agreement), including, inter alia, intentional violation of certain provisions of the agreements between the parties, bankruptcy, imposition of a lien for the purpose of enforcing a judgment against one of the parties for a substantial sum, the other party shall have the option to purchase all the violating party's holdings in Hadera Printing Paper, at a price based on the an average multiplier of Hadera Printing Paper's profits before tax, all as set forth in the share transfer restriction agreement, and in any event shall not be less than the minimal sum named in the agreement.

11.24.2.9. Put Option: In addition to the above, in the event of a breach event by the Company or by an affiliated company, MBP shall have the right to sell all its holdings in Hadera Printing Paper to the Company at the price described in section 11.24.2.8 above.

11.24.2.10. Additional Put Option: Any time after the conclusion of the blockage period, MBP has the option to sell the Company its holdings in Hadera Printing Paper at a price 20% lower than the value of Hadera Printing Paper (as defined in the share transfer restriction agreement) and this value shall not be less than the sum named in the agreement, as stated. Notwithstanding the aforesaid, MBP shall have the right to realize this option before the end of the blockage period in one of the following cases: (A) additional raising of capital for Hadera Printing Paper (by way of allocation of shares and/or owners' loans) in which MBP has decided not to participate (B) transfer of shares in Hadera Printing Paper by the Company to a third party, where after such transfer, the Company ceases to held by Hadera Printing Paper by a majority of shares, or (C) changes in control of Hadera Printing Paper.

11.24.3. In addition to the agreements set out above, attached below are details of arrangements existing between Hadera Printing Paper's shareholders and Hadera Printing Paper:

11.24.3.1. The Company leases the properties and buildings necessary for its operations in Hadera and at the Modi'in Logistics Center to Hadera Printing Paper.

11.24.3.2. The Company provides Hadera Printing Paper maintenance services and infrastructure.

11.24.3.3. MBP, via an affiliated company, granted Hadera Printing Paper the exclusive rights to use the Mondi brand name for products in Israel, as defined in the license agreement for the trademark in effect from December 31, 2010 (hereinafter: "the "license agreement") for a period of one year from the date of signing the license agreement, free of charge. MBP may cancel said awarded rights of use in the event its affiliated companies transfer all holdings in Hadera Printing Paper shares.

11.24.3.4. Hadera Printing Paper was appointed distributor of MBP products in Israel. Distribution rights granted are exclusive for a period of non-competition as set forth in section 11.24.2.4 above. MBP was appointed by Hadera Printing Paper on a non-exclusive basis, as distributor of Hadera Printing Paper products in territories named in the marketing agreement in effect from December 31 2010, including in Europe.

11.25. Anticipated development over the next year for the operating sector

Business Objectives and Strategy: As of the date of this report, the sector's main objectives are:

11.25.1. Expanding the fine paper marketing, with an increased focus on branded paper for office use (A4).

11.25.2. Focus on local market activity and direct export markets to the Middle East and the United States – markets wherein the company possesses logistic and commercial advantages.

11.25.3. Expansion of the paper machine's production capacity, in accordance with the demands for the sector's products, with the aim of expanding sales to the local market and export markets, and reducing manufacturing costs per ton of paper, in order to create an advantage in a competitive market.

11.25.4. Complementing this sector's variety of papers marketed through the import of those that are not worthwhile to produce on its paper machine. Expanding the aforesaid variety will serve to complement the Company's basket of customer products and will provide the sector with synergy in terms of its clients.

11.25.5. Building and implementation of a marketing concept that positions the customer as the major asset for Hadera Paper Printing, while building a system of activities and communication to support this concept.

11.25.6. The sector's strategic goals as laid out above are based on the company's objectives and ambitions as of the reporting date and could change in accordance with the relevant decisions made by the company.

The aforesaid information constitutes forward-looking information as defined in the Securities Act, based upon the Company's estimations as of the date of this report as well as the existing information that it has as of the date of this report. These estimations may not materialize, in whole or in part, or even materialize in a manner essentially different than expected. The major factors that could influence this are changes in supply and demand, macro-economic factors, not meeting objectives and/or the actualization of one of the risk factors listed in Sections 11.26 and 23, below.

11.26. Risk factors in the fine paper sector

11.26.1. Macro-economic risk factors

11.26.1.1. Economic slowdown - An economic slowdown in the global market or an economic slowdown in the Israeli market, may potentially harm the demand for the type of products that the sector produces or imports, while increasing the competition from imports, thereby causing a decline in sector sales and harming its profitability.

11.26.1.2. Inflation - A high inflation rate may impact the sector's payroll expenses, which are adjusted over time to changes in the consumer price index.

11.26.1.3. Exchange Rate - The selling prices of approximately 50% of the customers in this sector are denominated in US dollars or linked thereto, while the remainder is denominated in NIS. A devaluation of the USD (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 the sector's production costs, are denominated in USD. Accordingly, significant changes in the exchange rate may impact the sector's results and profitability.

11.26.2. Sector-Specific Risk Factors

11.26.2.1. Competition - The sector operates in a competitive market where there exists competition against imported paper. For additional details, refer to Section 11.14, above.

11.26.2.2. Raw materials - Pulp is the main raw material used in paper manufacture. Material price hikes in pulp prices could harm the sector's profitability. Moreover, the company is also exposed to rises in the price of chemical inputs, such as starch.

11.26.2.3. Dependence on energy prices – The sector operations are dependent on energy consumption. A rise in energy prices or material delays in their supply could harm the sector's operations. However, due to the transition to natural gas, the impact of energy prices on this sector has decreased significantly. Regarding the influence of risk factors on energy prices, see Sections 8.20.6, 19.8 and 8.26.4.1.

11.26.2.4. Accounts Receivable Risks - 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. At the same time, 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 the Company.

11.26.3. Special Factors

Dependence upon a single supplier - This sector is dependent upon Oumya Shefaya Ltd., the supplier of PCC (precipitated calcium carbonate). For additional details, refer to Section 12.1.13, above.

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11.26.4. The extent of impact of risk factors

Following below is a list of the risk factor types and their influence upon the sector:

Risk Factors	Degree of Impact		
	Considerable Influence	Medium Influence	Small Influence
Macro-economic factors		-Economic slowdown -Exchange Rates	-Inflation -Energy prices
Sector-related factors	-Competition -Raw material prices	-Accounts Receivable Risks	
Special Factors		-Dependence upon a single supplier	

Hogla Kimberly Sector

For details regarding the sector of operations, see Section 24.1, below.

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Chapter D – Additional Information Regarding the Company10

12. Fixed assets, real estate and facilities

Following below are details on the fixed assets and facilities in use by the Company:

12.1. The main management's offices and the central production and storage facilities of the company are located in Hadera (hereinafter: "The Company Site"), on a site covering 350,000 m² (hereinafter: "The Plot"), part of which is owned by the Company (approximately 274,000 m²) and part (68,000 m²) is leased from the Israel Land Administration (hereinafter: "ILA"). Pursuant to the leasing agreements, the leases end between the years 2012 and 2056. Some of the leasing agreements involve discounting terms.

Some of the plot is rented to associated companies that operate in the site.

12.2. Moreover, the company leases from the ILA an area of 25,000 m² in Nahariya, that is under lease until 2018, that is rented out to an associated company (Hogla Kimberly), where a plant for the manufacture and processing of paper is located. The Company also faces the contractual rights by virtue of a development agreement, to an additional plot of 3500 m² in Nahariya, that is also rented out the Hogla Kimberly.

12.3. Amnir, a subsidiary of the Company, previously leased a plot in Bney Brak of 9,000 square meters from the Israel Land Administration, which housed a plant for the collection and recycling of paper and cardboard waste. This plot was sold - pursuant to an agreement dated July 25, 2010 - to an unrelated third party, in consideration of NIS 20 million, that are paid in installments until delivery of possession over the property. As to the capital gains from the sale of the property, see Note 15 (L) to the Company's financial statements dated December 31, 2010, attached to this report. Possession over the property is expected to be handed over at the end of March 2011.

12.4. On June 1, 2010 the Company entered into an agreement for the sale of its rights in a property covering 7,600 square meters in Tel Aviv (hereinafter: "The Plot"), that 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 overall sum of NIS 64 million, (hereinafter: "The sale agreement"). The purchasing parties are Gav Yam Property and Building Group Ltd., ("Gav Yam"), company indirectly controlled by IDB Development Company Ltd., the controlling shareholder of the company and by Amot Investments Ltd. ("Amot"), with shares of 71% and 29%, respectively. The agreement stipulates two contingent preconditions, regarding the extension of the eligibility period for construction rights and regarding the land inspection costs. As at December 31, 2010, no confirmation has been received that the preconditions have not been met. The sale agreement was approved by the Audit Committee and the Board of Directors of the company on May 31, 2010, and by the general meeting of the company on July 27, 2010. For additional details, see the company reports dated June 2, 2010, June 13, 2010 and July 11, 2010; reference numbers 2010-01-507615, 2010-01-518157 and 2010-01-550647, respectively. As to the accounting treatment of the sale of the property, see Note 7(d) to the Company's financial statements dated December 31, 2010, attached to this report.

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10 The information included in this Chapter D - "Additional Information About the Company" does not include associated companies (the business operations of Hogla Kimberly and its subsidiaries).

12.5. 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, Afulah, Migdal Haemek, Caesarea, Carmiel, Holon, Haifa, Zrifin and more. In this matter, see Sections 8.18, 9.12, 10.17, 11.17 and 24.1.15, above.

12.6. Agreement for leasing of a Logistics Center: On November 3, 2008, the Company's General Meeting approved the lease agreement signed on September 18, 2008 between the Company and Gev-Yam Land Ltd. ("the lessor"), a public company controlled by the Company's indirect controlling shareholders, whereby the Company would lease a plot in Modi'in with an area of 74,500 square meters, as well as buildings to be constructed by the lessor for the Company, with a total constructed area of 21,300 square meters, to serve as a logistics center, industrial and office space ("Logistics Center") for the Company's subsidiaries, which would - in part - replace existing lease agreements. The Leasing Period shall be 15 years from the date of receiving possession of the Leased Property. The Company will also hold an option to extend the lease by an additional 9 years and 11 months. Each party is entitled to cancel the agreement once ten years have passed, by providing an advanced notice of 180 days, in addition to which each party is entitled to cancel the lease of parts of the leased property by providing a one-year advance notice. During the fourth quarter of 2010, the logistics center was populated by Amnir and by Hadera Paper Printing, while during the second half of 2011, Graffiti is also expected to relocate its distribution site to the logistics center. For further details, see the Company's report dated September 25, 2008.

12.7. On November 1, 2009, the Company announced that it examined the need for a provision for the impairment of the packaging paper sector as a cash generating unit and has arrived at the conclusion that no recognition is necessary of a loss on account of the impairment of fixed assets. Due to said indications occurred on 2009 the Company examined in 2010 the need for a provision for the impairment of the packaging paper sector for Decembe4r 31, 2010 and has arrived at the conclusion that no recognition is necessary on the account of the impairment. The company also examined the need for a provision for impairment on account of the consolidated subsidiary Carmel Container Systems Ltd. as a cash generating unit and has arrived at the conclusion that no recognition is necessary of a loss on account of the impairment. For additional details, see the company's report dated November 1, 2009 and also see Note 4(c)4 and 5(a)1 to the attached financial statements dated December 31, 2010.

12.8 An agreement was approved by the Audit Committee on February 28 and by the board of directors on March 6, 2011, for the Company's leasing roof area at the Company's Hadera plant to Clal P.V. Projects Ltd. ("Clal PV"), a private company held and controlled indirectly by Clal Industries and Investments, in an overall area of up to 19,200 m2 (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 m2), for construction of installations for the production of electricity using photovoltaic technology and transfer of this electricity to the electricity grid during the lease period, under a production license to be granted to Clal PV. Rental fees come to between NIS 90 thousand and NIS 802 thousand per year, according to the area actually leased, and will be determined on the basis of the fee for production of Kw/h electricity approved for Clal PV in the production license granted. The agreement also states that the Company will be paid additional rental fees up to the sum of NIS 70 thousand per year for surplus electricity output capacity (if any) according to the provisions of the agreement. The lease period will begin at the time of delivery of possession of the leased property, and will terminate at the end of 20 years from the time of commercial operation of the leased property (as defined in the agreement), and Clal PV has the option to extend for an additional period, subject to the overall lease period not exceeding 24 years and 11 months. Customary conditions for cancellation of the agreement were provided in the agreement, and the Company was given an option to cancel the agreement in the event it notifies of its desire to make use of the leased property for its own activities, which do not allow for the operation of the installations at the property, and in such case, Clal PV agrees to vacate the leased property within a time period stipulated as against payment of the economic value of the production installations according to an external economic valuation. 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 (in light of its being a transaction in which CII possesses a personal interest) and other conditions.

13. Human Resources

13.1. Company's organizational structure

The following is the organization structure diagram of the Company and its subsidiaries as at the report date:

Marketing

Purchasing and logistics

Office Supplies Marketing
(211)

Marketing

Purchasing and logistics

Finance

Manufacturing

Headquarters

Fine Paper
(305)

Headquarters

Manufacturing

Finance

Purchasing and logistics

Marketing

Packaging and cardboard products
(755)

Finance

Manufacturing

Supply Chain

Marketing

Headquarters

Information Systems

Packaging paper & recycling sector
(774)

Packaging Paper and Recycling Sector

Packaging and cardboard

Fine Paper

Office Supplies Marketing

Company CEO and headquarters
(28)

Headquarters &
miscellaneous

Finance

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The Company's most important and main resource is its human capital. The development of human capital is a top priority for The Company, and it invests in training and seminars for its employees, including designated training for specific positions.

The Company is implementing a talent management process, within whose framework it conducts performance analysis, while mapping in identifying the management potential at the group and creates personal development programs. In addition, a group-wide mentoring process was conducted, with the participation of management members that provided personal mentoring to managers who possess the highest development potential at the group. A management development program has been in place across the entire group for two years now, to promote change and improvement in perception, processes and B2B sales management practices.

13.2. Staff employed according to areas of activity

As of the reporting date, the Company, through its subsidiaries, employed staff in the four segments of operation as follows: In the packaging paper and recycling segment - 774 employees, in the office supplies segment - 211 employees, in the packaging products and cardboard segment - 755 employees and in fine paper - 305 employees. The total number of employees employed by the company and its subsidiaries together is 2,073 and 1,680 as of December 31, 2010 and 2009, respectively. Most of the growth in the number of employees between 2010 and 2009 is attributed to Hadera Paper Printing having become a subsidiary of the Company, as stated in Sections 2.8.2 and 11.24.2, above.

13.3. Employment agreements

As of the reporting date, employees of the Company and its subsidiaries are employed under two types of agreements. 711 employees are employed under collective agreements and general extension orders in the field of industry that apply thereto, and 1,362 employees are employed under personal contracts.

13.3.1. Collective Labor Agreements

As aforesaid, as of the reporting date, 711 of the employees of the Company and its subsidiaries operating in Hadera and at the logistics center are employed under a special collective agreement - "integrated edition" (hereinafter in this section: "The Agreement"), which consists of the collective agreement signed in 1972 between Hadera Workers' Council, the company's workers committee and the company, as well as agreement renewals that were signed between the parties from time to time. The agreement is renewed with the parties' consent every two-three years.

The agreement applies to all the employees that are employed in Hadera by the company and its subsidiaries as at the signing of the agreement and employees that will be employed by the company in the future, except for administrative workers, experts, teenagers, handicapped workers and day workers.

Once a position becomes available or a new position is created, the Company may issue an in-house tender amongst its employees, thereby granting first priority to its own workers. Every worker accepted for employment is considered a provisional worker for a period of 36 months after which, according to management's decision, a permanent employee status is granted to him/her. In addition, the company may hire "temporary" employees for a period of up to 12 months.

The employees' wages are determined based on a table of wages and seniority at the company, that is updated in accordance with the agreements that apply to the company. In addition, the employees are entitled to various benefits such as: A continuing study fund and provident/pension fund, incremental pay for work in shifts and for special calls, and other benefits.

13.3.2. Personal employment agreements

As aforesaid, as of the reporting date, 1,362 employees of the Company and its subsidiaries are employed under personal employment contracts. Personal employment contracts, under which some of the company's workers are employed, include the terms of employment, information on employees' related rights (such as: annual vacation and advanced notice), provisions for pension funds and severance pay funds, as well as provisions for vocational study funds. Pursuant to said employment contracts, the employees are paid a monthly salary which increases from time to time by the amount of the cost-of-living increment, in accordance with the agreement between the Histadrut (Israel's Labor Union) and the Manufacturers Association of Israel. Additional pay increments are added to the salary on a personal basis and are subject to the company's discretion. In addition, in accordance with the personal contracts, the employee is entitled to one bonus monthly salary per year (13th month salary), as well as to the reimbursement of travel fare or a portion of his/her car expenses or alternatively, a company car provided to the employee.

The personal employment contracts also include a non-competition clause, for certain terms as defined in those specific employment contracts. Moreover, according to the employment contracts, each party may terminate the agreement by providing advanced written notice of between one and three months.

13.4. Agreements with senior officers

13.4.1. Senior management employees of the Company are employed under personal contracts. For details regarding personal employment contracts, see section 13.3.2, above.

On May 13, 2007, the Board of Directors of the Company approved the employment agreement of the company's CEO, Mr. Avi Brener, who retired as the company's CEO on December 31, 2009 and who ended his employment at the company on January 31, 2010. Regarding the terms of retirement of the CEO, according to his employment terms, in addition to the release of funds accumulated in a directors' insurance/provident fund etc., at the date of retirement, the CEO shall be paid a retirement bonus in the sum of his last monthly salary prior to the retirement multiplied by the number of years he worked at the group (as of August 1988). On March 23, 2010, the audit committee and the Board of Directors approved the payment of a special non-recurring bonus in the sum of NIS 5 million, to the retiring CEO. For additional details regarding the terms of retirement of the CEO and the special bonus, see the immediate reports published by the company on March 8, 2010 and on March 23, 2010.

On November 24, 2009, the company's Board of Directors approved the employment agreement of the Company's new CEO, Mr. Ofer Bloch, who assumed his position January 1, 2010. The principal terms of the CEO's employment agreement include: In the event of dismissal or resignation, advanced notice of 3 months will be provided. The CEO's monthly salary will total NIS 100,000 and will be linked to the Consumer Price Index. Moreover, 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 6-9 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 relevant year, 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: Company car (including tax rebate), bonus 13th month 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, after 180 days from the date of commencement of employment of the CEO, the board of directors of the Company will establish a stock 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. Regarding the Company's existing stock options plan, see section 13.4.5, below. As of 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 will be covered by the Company's existing executives insurance liability policy (as it shall be from time to time) and will also receive a letter of indemnification from the Company, which is identical to the letters of indemnification granted to officers of the Company (see sections 13.4.3 and 13.4.4, below). For additional details regarding the employment agreement with the company CEO, see the company's report dated November 24, 2009.

On March 6, 2011, the Board of Directors of the company approved the payment of the bonus to Ofer Bloch in the sum of NIS 750 thousands, on account of his contribution to the company operations in 2010. For additional details regarding the bonus that was approved, see the immediate report published by the Company on March 7, 2011.

13.4.2. Remuneration of Directors

In accordance with the resolution of the Audit Committee and the Board of Directors of the Company, the annual remuneration and participation rewards of all directors of the Company has been approved on May 31, 2010, including directors that are controlling shareholders or their relatives and external directors of the Company for 2010. The annual remuneration for directors, including external directors and including directors that are controlling shareholders or related thereto, is NIS 59,100, while the meeting participation remuneration is NIS 2,200, with no change from the updated director remuneration that was approved on June 8, 2009.

On March 7, 2011, the company announced a resolution of the audit committee and the Board of Directors of the company regarding the approval of 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 company regulations (directives regarding remuneration and expenses for external directors), 2000 (hereinafter: "remuneration directives"), subject upon meeting regulation 1a(2) to the company ordinance (relief in transactions with interested parties), 2000 (hereinafter: "relief directives") regarding directors who are not controlling shareholders or related thereto, and directive 1b(3) to the relief directives regarding directors who are not controlling shareholders or related thereto, as stated in the company announcement.

13.4.3. Letters of indemnification

Pursuant to the resolutions of the general meetings of the company dated June 21, 2006 and July 14, 2004, 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. Zvika Livnat and Mr. Itzhak Manor), by virtue of being controlling shareholders in IDB Holdings, which is an indirect controlling shareholders of the company. For additional details see footnote 2, above. For details on the letter of indemnification see section 19.1, below.

13.4.4. officers and directors insurance at the group

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' liability insurance policy for the period commencing June 1, 2010 until November 30, 2011. The volume of coverage of the policies $6 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 the policy's coverage is identical to the amount of coverage of previous policies for 2009 and 2008. The annual premium as part of the policy ($37,000) is lower than the premium paid in 2009 ($51,800) and is 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 also include position holders and the directors of Carmel and its subsidiaries.

13.4.5. Employee stock option plans

13.4.5.1. Bonus plan for employees in the group 2008

(a) On January 14, 2008, following the approval of the Audit Committee, the board of directors of the Company approved a bonus plan for senior employees at the company and/or in subsidiaries and/or in associated companies of the Company, (hereinafter in this section: "The Plan"), pursuant to which up to 285,750 option warrants (hereinafter in this section: "option warrants"), 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 which, on the date of approval of the allotment, accounted for 5.65% of the issued share capital of the company. The offerees in the said plan are not interested parties in the Company, except for the retiring CEO, who was an interested party by virtue of his position. Pursuant to the conditions of the said option warrants, the offerees who will exercise the option warrants 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 warrants at the exercise date only. In the course of the first quarter of 2008, a sum of 250,500 stock options were granted as aforesaid, and on January 8, 2009, a sum of 34,000 stock options were granted, out of 35,250 stock options that were allocated to the trustee, as a reservoir for future granting. On August 9, 2009, the remaining options held by the Trustee, totaling 1,250 options, were cancelled.

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.

The plan's impact on the consolidated financial statements during the years of the plan is estimated at NIS 13.8 million.

The option warrants are not registered for trading. The company has obtained approval from the TASE and NYSE to list for trading the ordinary shares allotted to the offerees upon the exercise of the option warrants.

(b) Vesting period for the option warrants

a. The option warrants may be exercised at the following dates, provided the offeree is employed by the company and/or a subsidiary and/or an associated company, on that date:

a. Each offeree shall be entitled to exercise one quarter of the amount of the option warrants offered to him pursuant to the plan (hereinafter: "the first tranche") at the end of one year from the determining date of January 14, 2008 (hereinafter: "the end of the vesting period of the first tranche") and up to four years from the determining date. Subsequent to the said four years, all the option warrants included in the First Tranche and not yet exercised will expire and shall offer no rights whatsoever.

b. Each offeree shall be entitled to exercise another (second) quarter of the amount of the option warrants offered to him pursuant to the plan (hereinafter: the second tranche") at the end of two years from the determining date (hereinafter: "the end of the vesting period of the second tranche") and up to four years from the determining date. Subsequent to the said four years, all the option warrants included in the Second Tranche and not yet exercised will expire and shall offer no rights whatsoever.

c. Each offeree shall be entitled to exercise another (third) quarter of the amount of the option warrants offered to him pursuant to the plan (hereinafter: the third tranche") at the end of three years from the determining date (hereinafter: the end of the vesting period of the third tranche") and up to five years from the determining date. Subsequent to the said four years, all the option warrants included in the Third Tranche and not yet exercised will expire and shall offer no rights whatsoever.

d. Each offeree shall be entitled to exercise another (fourth) quarter of the amount of the option warrants offered to him pursuant to the plan (hereinafter: the fourth tranche") at the end of four years from the determining date (hereinafter: the end of the vesting period of the fourth tranche") and up to six years from the determining date. Subsequent to the said six years, all the option warrants included in the Fourth Tranche and not yet exercised will expire and shall offer no rights whatsoever.

(c) Economic value of the options

As of the approval date of the aforementioned allocation (January 14, 2008), the economic value of each option warrant was NIS 96.43. This economic value was computed using the "Black and Scholes" formula taking into consideration the closing price of the company's shares on the stock exchange on January 13, 2008 (the last trading day before the board of directors' resolution), which was NIS 237.40 per share, while the weekly standard deviation was 4.3%. The following assumptions were taken into consideration in the calculation of the economic value: a. All the option warrant shall be exercised on the last day of their exercise period; b. assuming the exercise of all the option warrants and theoretically assuming the allotment of the maximum amount of exercise shares. It is hereby clarified that pursuant to the plan, the maximum allowable allotment, is only in the amount of the bonus; c. The computation of the economic value does not take into account the fact that the option warrants will not be registered for trading on the stock exchange, and does not take into account the restriction on the options during the restriction periods set forth in the plan; d. the standard deviation was computed in accordance with the weekly returns of an ordinary share of the company for the six months ended on December 31, 2007; e. the annual discount rate for the option warrants was set at 4.5%.

(d) The exercise price

The option warrants were allocated to the Offerees free of charge.

The exercise price of each of the option warrants shall be NIS 223.965 per share. The exercise price is determined according to the average closing price of an ordinary share of the company on the stock exchange in the thirty (30) trading days preceding the date of the Board of Directors' decision on the approval of the plan (January 14, 2008), after deducting 10% (hereinafter: "The Exercise Price").

On the exercise date the offerees will not be required to pay the exercise price and the exercise price will only be used to determine the amount of the bonus and the amount of exercise shares that will actually be allotted to the offerees will be calculated according to the terms of the compensation plan. The payment that the Offerees will actually make to the Company upon exercise of the options will only be equal to the level of the par value of the shares actually allocated (or transferred) to them upon the exercise.

(e) Additional Provisions

The plan also includes additional provisions with regard to the manner of calculation of the exercise price, adjustments in case of changes to capital and dividend payment, and eligibility to exercise the options in case of termination of employment.

13.5. Pay Cuts

In 2009, 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, executives in various levels gave their consent to a pay cut ranging between 8% and 10% for this year.

13.6. Hadadit Fund

On Dec. 22, 2010 the Hadera Paper Group received a refund of participation fees in an overall amount of NIS 10 million (hereinafter: "the Refund") from the employers' mutual fund (Hadadit), as a refund for participation fees it paid into the fund. The Refund was performed subject to the Group's undertaking to return this sum, or part thereof, in certain cases, which the Company estimates are unlikely to occur. For details regarding net income recorded for the Company for this refund, see Note 15(L)(3) in the financial statements of Dec. 31, 2010, part C below.

14. Restrictions and Supervision of the Company's Operations

14.1. Enforcement Policy

Pursuant to the Securities Law and the Companies Law, the company is bound by reporting duties and is forbidden from using inside information.

In this capacity, on August 8, 2007, the board of directors of the company adopted a plan that includes an enforcement procedure concerning the duties of reporting in accordance with securities laws and an enforcement procedure concerning the prohibition to use inside information. The plan was approved in the framework the company's policy to enhance transparency and ensure maximum control over the management of its business. Under the plan, the company's legal counsel was placed in charge of the enforcement and execution of the plan. The plan includes two main procedures: One, an enforcement procedure concerning the company's duties of reporting under securities laws. This procedure is designed to ensure that the company complies with all the reporting duties applicable thereto (inter alia, the annual reports, quarterly reports and immediate reports) and that it adequately reports the approval of transactions with officers and controlling shareholders. Under this framework, the company approved the establishment of a remuneration committee and to authorize it to approve the terms of employment of officers, except for the CEO, which do not constitute unexceptional transactions. The second procedure is an enforcement procedure concerning the prohibition to use inside information. This procedure was designed to assist in ensuring the existence of regulations that prohibit the use of inside information for the purpose of trading in securities of the company. The procedure will help the company to reduce the risks that arise from the use of inside information. Under this procedure, a person was made responsible of inside information affairs, and is in charge of handling the issue. Among others, the procedure establishes different guidelines and limitations that apply to "insiders" in the company in connection with trades in securities of the company and regarding the provision of information on the company.

14.2. Efficiency for Enforcement Procedures Law

On January 17, 2011, the third reading for the memorandum for the Efficiency for Enforcement Procedures at the Securities Authority (Legislation Amendments) 5777 - 2011 bill was approved by the Knesset. The law will go into effect 30 days from the date of its publication in the Official Gazette.

The aim of this law is to streamline enforcement of the provisions of laws which the Securities Authority is responsible for, laws formalizing the field of securities, including the Securities Law, the Arrangement for Dealing in Investment Consultancy, Investment Markets and Management of Portfolios Law, 5755 – 1995, and the Joint Investment in Trust Law, 5754 – 1994.

The law prescribes an administrative enforcement mechanism mainly dealing with certain types of violations of the said laws as part of an administrative process in which various means of enforcement are imposed on the party in violation, including: Financial sanctions, payment to the party injured by the violation, prohibition on serving as a senior officer in a supervised body for a certain period of time, and cancellation of or imposition of conditions on a license, authorization or permit. In certain cases where the violating party is a corporation, the law states that responsibility for such falls also on the CEO, except under certain conditions, including where the corporation has procedures for prevention of violations. The proposed bill also includes a mechanism of agreed arrangements as an alternative to holding a criminal or administrative procedure, also allowing for imposing said means of enforcement.

As part of the Company's preparation towards this law coming into effect, the Company is studying the option of adopting procedures for strengthening strict measures in the Company for performing the provisions of the Securities Law and other relevant laws and reliability of financial statements and disclosure, among other things.

15. Financing

The Company finances its activity from independent sources and bank loans. It should be noted that the company has issued five series of bonds.

On April 8, 1992, the Company issued NIS 48 million of registered debentures (Series 1) to institutional investors, each of NIS 0.01 par value (hereinafter: "Series 1 Debentures"). The debentures bear an interest rate of 3.8% per annum while the principal and interest are linked to the CPI. The debentures were repaid in full in June 2009.

On December 17, 2003 and on December 23, 2003, the Company issued, by way of a private placement by tender, to institutional investors, NIS 200 million of registered debentures of NIS 1 par value each (hereinafter – "Series 2 Debentures"). The outstanding portion of the debentures bear an interest rate of 5.65% per annum while the principal and interest are linked to the CPI. The principal is repayable in seven equal installments starting December 2007. The balance of debentures as of December 31, 2010, in the amount of NIS 101.0 million, is repayable in three equal annual installments in December of each of the years 2011-2013. The debentures are not convertible into shares of the company. As part of the issuance of the debentures (Series 2) on December 21, 2003, the Company entered into a deed of trust with the Trust Company of Bank Leumi Le'Israel Ltd. Under the deed of trust, the Company has undertaken to indemnify the trustee in certain cases, such as: Expenses incurred by the trustee in the course of managing the trust, expenses related to authority and permission vested in the trustee by the deeds of trust as well as with regard to legal proceedings and claims related to the trust.

The debentures (Series 2) may be redeemed immediately under the following cases: Dissolution of the Company, imposition of attachment on its assets, placing of the Company in receivership and any event which materially impacts the rights of bond holders.

On July 14, 2008, the Company issued two bond series pursuant to the shelf prospectus published by the Company on May 26, 2008. The company allocated a sum of NIS 187,500 thousands par value of registered debentures (hereinafter: "Series 3 Debentures", CPI-linked) , each with a par value of NIS 0.01, in return for financial remuneration of NIS 187,500 thousands. The unpaid balance of the debentures bears an interest of 4.65% per annum, while the principal and interest of the debentures are linked to the known CPI (base: May 2008 CPI). The balance of outstanding debentures (Series 3) as of December 31, 2010, in the amount of NIS 179.8 million, is repayable in 8 equal annual installments on July 10 of the years 2011 through 2018. As of the reporting date, the debentures are not convertible into shares of the Company.

In July-August 2008, the Company issued debentures (Series 4) and expanded this series pursuant to a shelf prospectus published on May 26, 2008. The Company allocated NIS 235,557,000 par value of shekel debentures (Series 4) for a financial consideration of NIS 240,360,000. The unpaid balance of debentures bears an interest rate of 7.45% per annum. The balance of outstanding debentures as of December 31, 2011 in the amount of NIS 196.3 million is repayable in 5 equal annual installments on July 10 of the years 2010 through 2015. As of the reporting date, the debentures are not convertible into shares of the Company.

AS part of the issuance of bonds (Series 3 and 4), the Company signed on May 26, 2008 a deed of trust with Hermetic Trust Corporation (1975) Ltd. As part of this deed of trust, the Company committed to indemnify the trustee in certain cases, such as: Expenses incurred by the trustee in the course of managing the trust, expenses related to authority and permission vested in the trustee by the deeds of trust as well as with regard to legal proceedings and claims related to the trust.

The bonds (Series 3) and the bonds (Series 4) may be redeemed immediately in cases such as: Dissolution of the Company, imposition of attachment on its assets, placing of the Company in receivership and any event which materially impacts the rights of bond holders.

On May 23, 2010, the Company issued a bond series (Series 5) pursuant to the shelf prospectus published by the Company on May 26, 2008. The Company has allotted NIS 181,519 thousand par value in NIS-denominated bonds (Series 5), for total consideration of NIS 181,519 thousand. Net of issuance expenses, the Company received net proceeds amounting to NIS 179,886 thousand. The unpaid balance of debentures bears an interest rate of 5.85% per annum. The balance of debentures as at December 31, 2010, in the amount of NIS 181.5 million, is repayable in 5 equal annual installments on July 10 of each of the years 2013 through 2017. As of the reporting date, the debentures are not convertible into shares of the Company.

As part of the issuance of the debentures (Series 5), the Company entered into a deed of trust with the Trust Company Strauss Lazar Trust Corporation (1992) Ltd. As part of this deed of trust, the Company committed to indemnify the trustee in certain cases, such as: Expenses incurred by the trustee in the course of managing the trust, expenses related to authority and permission vested in the trustee by the deeds of trust as well as with regard to legal proceedings and claims related to the trust.

The debentures (Series 5) may be redeemed immediately under the following cases: Dissolution of the Company, imposition of attachment on its assets, placing of the Company in receivership and any event which materially impacts the rights of bond holders.

For further information regarding these bonds, see Note 10 to the Company's financial statements as of December 31, 2010, attached to this report.

Below are details of the volume of loans assumed by the company and the average interest paid thereupon as at December 31, 2010, 2009 and 2008:

31.12.2010		Sources of Finance	Actual Sum (In NIS millions)	Average Interest		Effective interest		Repayment Date
Short-term loans	Linked to Prime	Banks	144.6	3.36	%	3.40	%	April 2011
Long-term loans	Linked to Prime	Banks	207.8	4.29	%	4.36	%	2010-2014
Long-term loans	CPI-Linked	Banks	18.2	5.00	%	5.10	%	2010-2015
Long-term loans	Unlinked	Banks	15.8	5.50	%	5.61	%	2013
Long-term loans	Unlinked	Institutionals	90.0	6.30	%	6.40	%	2010-2017
Long-term loans - Bond Series 2	CPI-linked	Institutionals	101.0	5.65	%	5.65	%	Up to 2013
Long-term loans - Bond Series 3	CPI-linked	Institutionals	179.8	4.65	%	4.65	%	Up to 2018
Long-term loans - Bond Series 4	Unlinked	Institutionals	196.3	7.45	%	7.59	%	Up to 2015
Long-term loans - Bond Series 5	Unlinked	Institutionals	181.5	5.85	%	5.94	%	Up to 2017

31.12.2009		Sources of Finance	Actual sum (NIS millions)	Average Interest		Effective interest		Repayment Date
Short-term loans	Linked to Prime	Banks	91.3	2.40	%	2.43	%	April 2010
Short-term loans	Linked to Prime	Institutionals	40.0	2.68	%	2.72	%	2011
Long-term loans	Linked to Prime	Banks	130.7	4.22	%	4.28	%	2010-2014
Long-term loans	CPI-Linked	Banks	28.4	4.87	%	4.96	%	2010-2015
Long-term loans	Unlinked	Banks	22.8	5.50	%	5.61	%	2013
Long-term loans	Unlinked	Institutionals	100.0	6.30	%	6.40	%	2010-2017
Long-term loans - Bond Series 2	CPI-linked	Institutionals	131.3	5.65	%	5.65	%	Up to 2013

Long-term loans - Bond Series 3	CPI-linked	Institutionals	196.7	4.65	%	4.65	%	Up to 2018
Long-term loans - Bond Series 4	Unlinked	Institutionals	237.9	7.45	%	6.95	%	Up to 2015

The Company has also undertaken a negative pledge to a bank in connection with an NIS loan taken in 2009, in the amount of NIS 70 million, as well as toward an institutional entity in relation to long-term credit assumed from that entity in 2009, in the amount of NIS 100 million. The balance of the loan as at December 31, 2010 totals approximately NIS 90 million.

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In 2006, the Frenkel CD subsidiary entered into agreement with one of the banks for receipt of long-term loans aggregating NIS 56 million for periods up to 7 years, at interest rates ranging between 4.95% and 5.33% (linked to the Consumer Price Index) as well as a short-term facility of NIS 30.6 million. To receive this credit facility and those loans, the subsidiary has undertaken to comply with financial covenants pursuant to which the subsidiary's shareholders' equity, net of goodwill will be no less than 18.5% of total consolidated assets, net of goodwill. The subsidiary is in compliance with the financial covenants.

The subsidiary Hadera Paper Printing has agreed with various banks regarding the acceptance of long-term loans and short term facilities. To receive this credit facility and those loans, the subsidiary has undertaken to comply with financial covenants pursuant to which the subsidiary's shareholders' equity, will be no less than 22.0% of the balance sheet total. The subsidiary is in compliance with the financial covenants. For additional details regarding the financing terms of the Hadera Paper Printing subsidiary, see Section 11.20, above.

Except for the aforementioned commitments of the Company and its subsidiaries, the Company does not have additional financial covenants.

As of the reporting date, the company has a bank credit facility of NIS 890.3 million, of which, as of December 31, 2010, a sum of NIS 379.7 million has been used.

On-call loans held by the Company are with a variable interest rate. Interest update is carried out at the time of the Bank of Israel’s change in interest rates. During 2010, 2009 and 2008, the average interest rate in respect of the aforementioned loans was 2.8%-3.3%, 2.6%-3/1% and 3.8%-5.1%, respectively.

Interest rates on prime-linked loans in 2010 was 3.3%-4.7%. The weighted interest rate on prime-linked loans in proximity to the date of the report was 4.32%.

The average interest rate in proximity to the reporting date was 3.1%.

The Company has repaid liabilities toward Hogla-Kimberly (an associated company) in 2009, to cover a capital note in the amount of NIS 33 million.

The corporation has obtained a rating by Maalot (Standard and Poor’s) for the bonds (Series 2-5) issued by the Company; these are rated A+/Negative Outlook. 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, 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, Maalot the rating company 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. For details see the Company Report dated October 5, 2009. Pursuant to the Company's request to raise additional debt by issuing bonds amounting up to a total of NIS 200 million, the Company was issued a rating of A+ / Negative Outlook for its bond issuance (Series 5). For further details, see the company's report dated May 10, 2010. 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. For details see the Company Report dated February 2, 2010.

The Company forms part of the IDB Group and is therefore influenced by the Israel Banking Supervisor's "Correct Banking Management Regulations", which include amongst others, limits regarding the volume of loans an Israeli bank can issue to a single borrower; to a single "borrowing group" (as this term is defined in the said regulations), and to the six largest borrowers and "borrowing groups" at a bank corporation. IDB Development, 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 ability of member companies in Hadera Paper Group to borrow additional sums from Israeli banks as well as upon their ability to carry out certain business transactions in partnership with entities that drew on the aforesaid credit.

16. Taxation

For details see Note 13 to the financial statements of the company as at December 31, 2010, attached to this report.

17. Environmental Protection

17.1. Environmental Risks and Management thereof

The environmental risks which are likely to have substantial impact on the company are:

17.1.1. Production processes in the Company's plant involve emission of pollutants into the air, which are mainly the product of the burning of natural gas. Uncontrolled emissions of these materials over time can cause damage to people and to the environment. By moving over to natural gas, the Company significantly reduced the rates of these emissions, and it takes all the necessary means to ensure it complies with the requirements of the emission standards and controls the risks involved in these activities.

17.1.2. At its sites, the Company uses hazardous materials (mainly flammable materials) which if not controlled could cause damages to people and to the environment. These materials are stored by the Company according to the conditions of the poison permit granted by the Ministry for the Protection of the Environment and in accordance with the required safety rules.

17.1.3. During the Company's production processes sewage is created containing materials having the potential to harm water sources (rivers and sewerage systems) if they reach these sources without being properly treated. The Company discharges wastewater (sewage after being treated) into the Hadera River under a permit order given by the Director of the Government Authority for Water and Sewerage, under the Water Law 5719 – 1959. The wastewater is released after treatment designed to raise their quality to the values prescribed in the permit order. A hearing was held for the Company in this matter, see section 17.3 below.

17.1.4. The Company's Hadera plant operations have the potential to cause noise nuisance to nearby residents. The Company takes the necessary measures to comply with the relevant standards prescribed in the Regulations for Prevention of Hazards (Unreasonable Noise) 5750 – 1990.

17.2. Substantial Ramifications of the Law on the Corporation

The provisions of law in effect on the date of this report having substantial ramifications on the Company, including on its capital investments, profits and competitive status:

17.2.1. The Company's business license is conditional upon terms prescribed by the Ministry for the Protection of the Environment, designed to protect the environment and prevent nuisances. These conditions are customary for plants of this type. The business license does not require renewal from one period to another.

17.2.2. The Company stores hazardous materials under a permit granted by the Ministry for the Protection of the Environment. The poison permit is granted under conditions dealing mainly in the manner of storage and use of these materials for the prevention of any incidents. The conditions in the poison permit are customary for plants of this type. The Company's poison permit is renewed every year. The current permit is in effect through July 2011.

17.2.3. The Company discharges wastewater into the Hadera river after treatment under a purification process in the Company's installation, under a permit order given by the Director of the Government Authority for Water and Sewerage (hereinafter: "the Water Authority") for 2010, expiring on December 31, 2010, and in accordance with the conditions thereof. This permit specifies, inter alia, conditions regarding quality of treated waste water discharged into the stream. In December 2010, the Company submitted an application for renewal of the permit order for 2011, which is currently in discussion opposite the committee granting permission for discharging water into the river in this matter.

17.2.4. 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, during 2010, while expanding production installations and the amount of sewage accordingly, the Company continued to run a pilot program for desalination, studying special desalination technology. The pilot is a necessary step towards the construction of a future desalination installation at the Hadera site, planned for operation in 2012, allowing full return of all treated water into the plant as part of the Company's vision of becoming a "no sewage plant".

17.2.5. The Company anticipates that in 2011 total environmental investments/ costs, both the current ones, expected over the Company's ordinary business operation, as well as those relating to the continued promotion of the desalination installation and improvement of water treatment, will amount to NIS 25 million.

Information regarding the desalination project, construction of the future desalination installation, its operation and application, as well as regarding expected environmental investments and costs are forward-looking information, as defined in the Securities Law and constitute a forecast and estimates only on the part of the Company, realization of which is not certain, and is based on the Company's assessments as of the date of this report, and on information available to the Company as of the date of the report. The aforementioned Company forecasts and estimates may not materialize, in whole or in part, or may differ from current forecasts and estimates, due to multiple factors, including changes in demand in markets in which the Company operates, global supply and cost of paper products, developments and changes to regulation of the operating sector, technical malfunctions, a need for additional investments, unexpected occurrences and/or materialization of any of the risk factors set forth in sections 8.26 and 23, below.

17.3. Details Regarding Events or Issues Relating to The Company's Activities Which Caused or Could Cause Harm to the Environment

17.3.1. Suspected water pollution by discharge of waste water

17.3.1.1. 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 river. 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.

17.3.1.2. 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.

17.3.1.3. 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. For further details on this matter, see the Company's report dated February 8, 2011.

17.4. Legal or Administrative Processes Related to Environmental Protection

Below are details regarding substantial legal or administrative processes relating to environmental protection which the Company or its senior officers are a party to, and the results of each said process which ended during the past year, as of the date of the report:

17.4.1. Suspicion of water pollution by discharge of waste water: See section 17.3.1 above.

17.5. The Corporation's Policy on Management of Environmental Risks, Manner of Exercise and Manner of Supervision

17.5.1. The Company acts in accordance with an environmental management system managed using environmental protection procedures. The principles of environmental protection procedures are consistent with the requirements of Israeli standard ISO 14001/2004, and all of the Company's divisions have been authorized by the Israel Standards Institute with regards to this standard. Furthermore, the Company acts in accordance with the environmental requirements of the Kimberly-Clark and Mondi partners, and representatives of these international companies inspect the Company once a year. The Company has appointed a Ph.D. in environmental engineering as the responsible party for the matter of environmental protection.

17.6. Details Regarding Amounts Ruled, Provisions Recognized in Financial Statements and Environmental Costs

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

17.6.2. The current investment budget (not including anticipated expenses for the desalination installation) for environmental protection for 2011 is approximately NIS 4.32 million.

18. Insurance

The Company and its subsidiaries are insured by Clal Insurance Ltd., a company controlled by IDB Development, under the insurance policies specified hereunder: (a) Fire damage and loss of revenue insurance; (b) Terror damage insurance; (c) Mechanical breakage insurance; (d) Employer liability insurance; (e) Third party insurance; (f) Goods-in-transit insurance; (g) Product liability insurance; (h) Installation insurance for Machine 8 and (i) Officer liability insurance (as set forth in section 13.4.4 above). The policies are at market terms and in effect until July 31, 2011 (except for the insurance of contracting work at the logistics center, that will expire upon completion of the construction on June 30, 2011, except for the insurance of Carmel and its subsidiaries that will expire May 31, 2011 and except for director and officer liability insurance that will expire November 30, 2011, as mentioned above). The Company is working to include the appropriate coverage for the operations of the logistics center in Modi'in, as part of the available property and elementary insurance policies existing at the company. Moreover, the Company has compulsory and all damage insurance for all its vehicles, including the trucks. In addition, the Company has additional insurance policies in immaterial amounts, such as a marine insurance, credit insurance and overseas travel insurance. In the Company's estimation, the Company has appropriate insurance coverage.

Despite the aforesaid, it should be noted that Hadera Paper Printing is not included in the Company's elementary insurance (as opposed to liability insurance), since it handles its elementary insurance as part of the insurance network of the Mondi group.

Starting October 1, 2010, Hogla Kimberly, at its own request, was removed from the elementary insurance coverage and the company's liability insurance (except the equipment and property of Hogla Kimberly at the Hadera site). Hogla Kimberly ensures the liabilities, property, equipment and buildings of its remaining additional sites through the network of insurance of Kimberly Clark.

19. Material Agreements

19.1. Letters of indemnification - Pursuant to the resolutions of the general meetings of the Company dated June 21, 2006 and July 14, 2004, the company issues letters of indemnification to all the directors and officers of the Company, including directors that are considered controlling shareholders in the Company (Mr. Tzvika Livnat and Mr. Itzhak Manor), as they may be from time to time. Under the letters of indemnification, the Company provides all the directors and officers therein, as they may be from time to time, indemnification in advance, in accordance with the Company's Articles of Association and the provisions of the Companies Law in respect of any liability or expenses imposed on the officer in consequence of actions he has taken and/or will take by virtue of being an officer of the company, which are related directly or indirectly, to one or more of the type of events outlined in the letters of indemnification, such as: (a) transactions and/or actions executed directly and/or indirectly in the course of Group business; (b) offering, issuance and buy-back of securities by the Company or by Company shareholders; (c) any event arising from the Company being a public company, or arising from the fact that its shares have been offered to the public or arising from the fact that its shares are traded on a stock exchange in Israel or overseas; (d) events related to investments made by the Company in any corporation; (e) action with regard to obtaining licenses and permits; (f) action directly or indirectly related to employer/employee relationships within the Company or to the Company's trade relationships; (g) action with regard to any statutory reports or notices filed; (h) provision of information required by statute to companies that are interested parties in the Company; (i) actions with regard to voting rights in investees; (j) all of the aforementioned transactions, actions and events shall include all decisions, agreements, notices, disclosure documents and reports related thereto, as well as any other matter related to any of the foregoing, either directly or indirectly, whether or not the aforementioned transactions and/or actions are completed for any reason whatsoever.

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. It is furthermore noted that, in the event where an officer receives indemnification from the insurer of the officers' insurance policy, concerning the matter which is the subject of indemnification, the indemnification shall amount to the difference between the amount of financial liability imposed on him and legal expenses, and the amount received from the insurer in respect of the same matter, provided the amount of indemnification to which the company has committed does not exceed the maximum amount of indemnification

19.2. Agreement for leasing of a Logistics Center: On September 18, 2008, a lease agreement was signed between the Company and Gev-Yam Land Ltd. ("the lessor"), a public company controlled by the Company's indirect controlling shareholders, whereby the Company would lease a plot in Modi'in with an area of 74,500 square meters, as well as buildings to be constructed by the lessor for the Company, with a total constructed area of 21,300 square meters, to serve as a logistics center, industrial and office space ("Logistics Center") for the Company's subsidiaries, which would - in part - replace existing lease agreements. The Leasing Period shall be 15 years from the date of receiving possession of the Leased Property. The Company will also hold an option to extend the lease by an additional 9 years and 11 months. During the fourth quarter of 2010, the logistics center was populated by Amnir and by Hadera Paper Printing, while during the second half of 2011, Graffiti is also expected to relocate its distribution site to the logistics center. For additional details, refer to Section 12.6, above.

19.3. [removed]

19.4. Tender offer for full purchase of all public holdings in Carmel: 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, that has become a privately held company. For details regarding Carmel’s activities and regarding the tender offer, see sections 2.8 and 10, above.

19.5. Mondi - Hadera Paper Printing transaction: As at December 31, 2010 the Company acquired 25.1% of the issued and outstanding share capital of Hadera Paper Printing from a subsidiary of 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 the report, the Company holds approximately 75% of the shares of Hadera Paper Printing, that was consolidated within the financial statements of the Company, with a subsidiary of Mondi Group holding the remaining shares of Hadera Paper Printing. For details regarding Hadera Printing Paper’s activities and details regarding the acquisition transaction, see section 11.1, above.

19.6. Sale of property in Bney Brak: Amnir, one of the Company’s subsidiary companies, sold a plot of land covering 9000 m² in Bney Brak on July 25, 2010. This property served as a waste paper and cardboard collection and recycling plant. Consideration paid was in the amount of NIS 20 million. For full details, see section 12.3, above.

19.7. Sale of property in Tel Aviv: On June 1, 2010, the Company entered into an agreement for the sale of its rights to a property of 7600 m² in Tel Aviv, which in the past served as one of the Company’s paper manufacturing plants, in return for the sum of NIS 64 million, subject to certain conditions. For full details, see section 12.4 Error! Reference source not found., above.

19.8. Agreement with Yam Tethys Group - On July 29, 2005, a natural gas purchase agreement was signed by the Company and partners of the Yam Tethys Group (Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Avner Oil Exploration Limited Partnership and Delek Investment and Assets Ltd.). The gas to be purchased, pursuant to this agreement, is intended to fulfill the Company's requirements in the coming years, for the operation of its energy generation plants using cogeneration at the Hadera plant. The gas is being supplied to the company since August 2007, pursuant to the agreement (hereinafter: "Gas Flows Start Date"). Gas delivery is scheduled to end upon the earlier of: (1) 5 years from gas flow start date, as set forth in the agreement; (2) completion of gas purchase amounting to 0.43 BCM; but no later than July 1, 2011. Based on company estimates regarding the consumption of natural gas during the period of the agreement and the volume of consumption of natural gas by the company, starting in 2007 as mentioned above, the overall estimated financial volume of the transaction totals approximately 33 million dollars over the entire period, as stated above. In July 2011, the gas supply agreement with Yam Tethys is scheduled to terminate and the Company is examining alternatives for the said agreement. 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.

True to the date of the report, there exist several suppliers of natural gas in Israel: Yam Tethys, EMG and an additional potential supplier. The Company is dependent upon Yam Tethys, as detailed in Section 8.20.6, above. The Company is conducting discussions with EMG and with the potential additional suppliers, regarding the purchase of natural gas, for its continuing operations, subsequent to the termination of the agreement with Yam Tethys, as well as for the power station whose establishment is being analyzed by the Company. For details regarding the power generation station, see Section 21.8, below. Moreover, for additional details regarding the potential impact of the latest developments in Egypt, see Section 23.5, below.

19.9. Agreement with Israel Natural Gas Routes Ltd. - The Company has an agreement dated July 11, 2007 with Gas Routes for a period of six years, for the transportation of natural gas to the Company site in Hadera. The agreement also includes an extension option for an additional period of two years. The transportation agreement is worded as approved by the Natural Gas Authority for transportation consumers, and is published on the website of the Ministry of National Infrastructure, with commercial terms agreed individually by the parties. The proceeds, pursuant to the agreement, include payment of a non-recurring connection fee upon connection, based on 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; (b) based on the actual gas volume delivered to the facility. True to the date of the report, the company is dependent upon Gas Routes, as detailed in Section 8.20.7, above. In the agreement, the Company undertook to make a fixed annual payment even if it makes no actual use of the transport, amounting to NIS 2 million per year. The agreement addresses the indemnification of Natural Gas Routes as part of the payment of compensation due to harm to adjacent land. Compensation lawsuit is currently being deliberated against Natural Gas Routes by owners of land in proximity to the gas production plant, regarding impairment. 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 decision of the committee to set the level of compensation at NIS 2,670 thousands. All of the parties to the lawsuit have appealed the decision of the committee. The appeals have been heard jointly, with the agreement of the parties, and were rejected by the court on December 10, 2010. The company has made the necessary provision according to its estimates in this respect, as stated in Note 14(j) to its financial statements dated December 31, 2010.

19.10. An agreement was approved by the Audit Committee on February 28, 2011 and by the board of directors on March 6, 2011, for the Company’s leasing roof area at the Company’s Hadera plant to Clal P.V. Projects Ltd. ("Clal PV"), a private company held and controlled indirectly by Clal Industries and Investments, in an overall area of up to 19,200 m2 (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 m2), for construction of installations for the production of electricity using photovoltaic technology and transfer of this electricity to the electricity grid during the lease period, under a production license to be granted to Clal PV. 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 (in light of its being a transaction that CII has a personal interest in) and other conditions. For additional details, refer to Section 12.8, above.

19.11. Initiative for collection of paper overseas: On March 6, 2011 the Company’s board of directors approved the establishment of a foreign company (hereinafter: "the 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 (hereinafter: "JV"). 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 JV’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 restrictions regarding the partners’ transfer of shares in the JV, to grant the foreign company the right to appoint 2/3 of the members of the board of directors and the JV’s CEO, to grant the Company the right to purchase up to 75% of the paper and cardboard waste collected by the JV at market prices, and to include certain non-competition clauses. The Company is acting towards this agreement, and there is no certainty that any part or all of the above regarding the probability of the JV and final agreements on understandings, will be realized.

20. Legal Proceedings

There are no material legal proceedings filed against the Company, and no material demands by any government authorities. With regard to legal proceedings described in the financial statements, see Note 14 to the Company's financial statements as of December 31, 2010 attached to this report.

Regarding a lawsuit against Gas Routes in relation to the agreement, see details in Section 19.9, above.

Regarding a class-action lawsuit filed against Hogla Kimberly and the taxation lawsuit in Turkey against KCTR, a subsidiary of Hogla Kimberly in Turkey, see Section 24.1.25, below.

21. Business Objectives and Strategy

21.1. Hadera Paper, together with its strategic partners in various fields (associated companies) aspires to continue to develop its business both in Israel and abroad, while being rigorous about its market leadership and innovation at the same time, and while constantly improving its products and customer service. This is in addition to expanding its output capacity, broadening its basket of products and its sectors of operation, while simultaneously continuing to improve efficiency in all production cost components.

21.2. Hadera Paper examines from time to time, subject to business opportunities and the company's decisions on this subject, the inclusion of strategic partners for its activities that are currently carried out by wholly-owned subsidiaries.

21.3. The company strives to manage the various units together with its strategic partners, in a manner that would best express the synergy of the acquisition, the operation and the other systems such as steam and energy.

21.4. In the manufacture of packaging paper, as a response to the competitive environment wherein the Company operates, a new packaging paper production system, known as "Machine 8", was constructed over the past several years and will allow the Company to meet the demand on the domestic market, at a more competitive cost to the Company and with higher paper quality compared to competing imports. The Company estimates that the new machine will ultimately have an output capacity of approximately 230,000 tons per annum. The running in process of the machine was successfully completed on May 31, 2010. The gradual improvement in the learning curve of the machine is continuing. The Company estimates that upon completion of the learning process of the new machine, that is expected to take place in 2011, 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. It should be noted that Machine 1 is still operational and its output potential is equal to 50,000 tons per annum, as it is able to supply extraordinary demand if necessary and/or to produce niche products with high added value. The operation of Machine 8 requires doubling, over the coming years, of collection volume of paper waste to serve as raw material for packaging paper production. Amnir is working to increase the volume of waste collection, inter alia, by intensifying collection activity from existing customers and the development of new collection sources, adaptation of its organizational structure, examining the possibility of importing waste from overseas, relocation to the new logistics center and inventory accumulation. The company is also examining the establishment of additional collection systems overseas. For additional details regarding the expected developments in the manufacture of packaging paper, see Section 8.25, above. For additional details regarding the Logistic Center, see section 12.3, below.

21.5. On March 1, 2011 the Formalization of Treatment of Packaging Law 5771 – 2011 will enter into effect (hereinafter: "the Packaging Law), 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 Company cannot at this point assess the impact of the law on its activities, and this depends, among other things, on arrangements to be set by power of the law regarding separation at source, and in the matter of collection and removal of waste, and on the method by which the recognized body established by power of the law operates. The company is preparing to examine the various collection possibilities. For details regarding the Packaging Law, see section 8.23.2, above.

21.6. The company also continues its efforts to promote the processes of innovation in the group's companies by developing new products and through competitive differentiation. In 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 development process is gradual and is currently in advanced stages and is intended to significantly expand the volume of the potential market for packaging paper. The gradual launch of products that started in 2009. For additional details, refer to Section 8.11, above.

21.7. Moreover, upon the operation of the new manufacturing system, the significant expansion in the output capacity of recycled packaging paper will allow for the expansion of the sector's operations both in Israel and overseas. Together with the process of developing pulp-replacement packaging paper products on the basis of 100% recycled fibers, as mentioned above, this will enable the sector to expand the sale of such products, as a substitute for pulp-based packaging paper in international markets. The new products create an improved profit potential and have started to be sold at a significant price supplement per ton of exported paper, as compared with the selling prices of basic paper types. The Company worked in 2009 and 2010 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. Pursuant to the operation of Machine 8, this activity is expected to bring about a gradual increase in exports by the Company, alongside the diversification of the Company's product portfolio and markets within the sector of operations.

Information concerning the increase in output capacity, growth in the quantity of waste collection, increased profit potential, new developments of the company and the continuing development of export markets by the company all constitute forward-looking information as defined in the Securities Act and merely consists of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. The aforementioned Company forecasts and estimates may not materialize, in whole or in part, or may differ from current forecasts and estimates, due to multiple factors, including business opportunities available to the Company, changes in demand in markets in which the Company operates, global supply and cost of paper products, technical malfunctions, factors related to the completion of development and/or the materialization of any of the risk factors set forth in sections 8.26 and 23, below.

21.8. As of the report date, the Company is reviewing and promoting the installation of a power plant intended to provide steam and electricity for the production system in Hadera, and to sell surplus electricity to the Israel Electric Company (IEC) and/or to private customers, at a scope of up to 230 MW. The power plant, should it be installed, is planned to operate on land acquired for this project adjacent to the Company facility in Hadera, and is to be operated by natural gas. The decision regarding the approval of the power station project is being delayed, inter alia, as a result of the need to await a more stable business environment in terms of the possible gas sources, in order to complete the engagement for the purchase of the natural gas that is required. Consequently, a company named Combined Energy was established in 2010, to conduct negotiations with potential gas suppliers, as detailed in section 19.8 above, and also to conduct negotiations with future potential clients.

The above information regarding construction of the power plant constitutes forward-looking information as defined in the Securities Act, based on company estimates as of the report date. This estimate may not materialize, in whole or in part, or may materialize differently due to, inter alia, changes to the Company's work plan, obtaining regulatory approvals, market conditions, economic feasibility review, dependence on external factors or any of the risk factors set forth in sections 8.26 and 23, below.

21.9. In the area of office equipment, the Company's goals are to continue the reinforcement of Graffiti's position as a leading company in the direct supply of office equipment to institutions and businesses in Israel ("B2B"), while focusing on expanding the range of products offered to existing clients, expanding operations vis-à-vis potential clients for the purchase of a wider product range and expanding the use of the e-commerce site. The Company is studying the expansion of this sector of operations through acquisitions or ventures with small suppliers of office supplies, as well as through the creation of strategic collaborations. The company also intends to exploit the advantages of the new logistics center, upon the completion of the relocation, in order to expand and develop the Graffiti operations.

Information regarding the establishment and strengthening of the Graffiti position in the sector, the expansion of the sector, the creation of strategic collaborations and the exploitation of the logistics center for the expansion and development of the Graffiti operations all constitute forward-looking information as defined in the Securities Act and merely consists of forecasts and estimates by the Company which are not certain to materialize and are based on information available to the Company as of the report date. The aforementioned Company forecasts and estimates may not materialize, in whole or in part, or may differ from current forecasts and estimates, due to multiple factors, including business opportunities available to the Company, changes in demand in markets in which the Company operates, global supply and cost of paper products and/or materialization of any of the risk factors set forth in sections 9.17 and 23, below.

21.10. The company continues the implementation of cross-organizational plans: As part of the talent management program, emphasis was placed in 2010 on the mapping and professional diagnosis of the corporate top talent reserve and the creation of a development program that is in line with the challenges of the group.

21.11. In addition, the Company has adopted a plan for the implementation of work processes for the sales and marketing networks, targeted on institutional markets, for the intensification of the companies' added value in client perception and the improvement loyalty premium and price on the basis of differentiation of products and service. The Company also continues to implement the center lining program for improving the efficiency of manufacturing lines and operational performance.

21.12. In the course of the year, the Company decided upon the creation of a supply chain mechanism that will result in savings and efficiency in purchasing, logistics, international shipments and planning, while maximizing the synergy between the group companies in these areas. As part of this activity, several distribution centers are being relocated to the new and advanced logistics center in Modi'in.

21.13. At the same time, the company has been conducting marketing activity according to the B2B client orientation, aimed at creating a business client focus based on the understanding of the clients' needs, their value to the company and their prioritization, to create an advantage and differentiation in company solutions, which would enhance loyalty and improve premiums relative to competitors. This would also include marketing communication operations opposite the target audiences in order to strengthen and position the company brand.

21.14. The Company has also been implementing a pro-active approach with respect to safety and management culture, under which employees should identify risks and take action to prevent them, in order to minimize safety events, increase the information on risks and expand the cooperation between managers and staff on the subject of safety. Moreover, in order to increase awareness toward safety, any safety event is analyzed at a monthly level at all group companies, under the leadership of the group CEO, to serve as a discussion tool for drawing conclusions and initiating preventive measures.

These measures, along with focusing on efficiency cost-cutting measures, are intended to compensate for the escalating competition in the anticipated erosion of selling prices in the currently challenging business environment, while bringing about improved profitability.

Said information regarding the improved profitability, improved efficiency and the strengthening and positioning of the brand, is considered forward looking information as defined in the Securities Law, and constitutes forecasts and assessments on the part of the company, the realization of which is not certain and based on information existing in the company as of the date of the report. These forecasts and estimates by the Company may not materialize, in whole or in part, or may materialize in a manner significantly different than that expected. The major factors that could impact this are business opportunities the company may have, dependence on external factors, changes in demand and supply, developments and changes in regulation and/or realization of any of the risk factors outlined in sections 9.17, 8.26 and 23, below.

21.15. Moreover, as stated in Section 17 above, the Company is working to encourage a reduction in the wastewater being transferred to the Hadera Stream from the company site and to transfer part of that runoff for reuse at the site, while developing new technologies for softening and desalinating wastewater. In 2010, the company managed to salvage approximately half a million cubic meters of softened waste water at its plants, instead of using freshwater, representing approximately 25% of total waste water. In addition to increasing the salvage of softened wastewater, the company is working to promote the water desalination project and is continuing with the desalination pilot project. The completion of the project would allow to reclaim approximately 2,000,000 m^3 of water, representing approximately 70% of the total consumption of water on the site, while significantly reducing the allocation of water to the plant.

Said information regarding the processes for reducing wastewater, promotion of the desalination project and the repercussions of its completion, including the reduction of water allocation, as mentioned above, are all considered forward looking information as defined in the Securities Law, and constitutes forecasts and assessments on the part of the company, the realization of which is not certain and based on information existing in the company as of the date of the report. These forecasts and estimates by the Company may not materialize, in whole or in part, or may materialize in a manner significantly different than that expected. The major factors that could impact this are dependence on external factors, changes in demand and supply, developments and changes in regulation and/or realization of any of the risk factors outlined in sections 9.17, 8.26 and 23, below.

Explanation of Responses:

21.16. Regarding the strategic Investment in Turkey, see Section 24.1.26.1, below.

21.17. The company's strategic goals as laid out above are based on the company's objectives and ambitions as of the reporting date and could change in accordance with the relevant decisions made by the company.

22. Anticipated Development over the Next Year

As of the report date, the Company is reviewing and promoting installation of a power plant which would provide steam and electricity to the Hadera production plant, and would sell surplus electricity to IEC and/or to private customers - for further details see section 21.8 above.

For details regarding the transition to the new Logistics Center, C. Section 12.3, above.

For details regarding Machine 8, see Section 8.4, above.

The company's assessments regarding the power plant project constitute forward-looking information, as defined by the Securities Law, based on information held by the Company as at the date of the report. These estimations may not materialize, in whole or in part, or even materialize in a manner essentially different than expected. Major factors which may impact this include changes to market supply and demand, changes to company plans, obtaining regulatory authorization and/or materialization of any of the risk factors set forth in sections 8.26, 9.17 and 23, below.

23. Risk Factors

23.1. General

The Company conducts periodical discussions regarding market risks and exposure to exchange rate and interest rate fluctuations, with the participation of the relevant factors, so as to reach decisions in this matter. The individual responsible for the implementation of market risk management policy at the Company is Shaul Glicksberg, the Group's VP of Finance and Business Development.

23.2. Macro-Economic Risk Factors

23.2.1. Macro-economic factors

23.2.1.1. Economic, political and social situation - The Group is dependent upon the economic situation in Israel and worldwide. The emergence from the global financial crisis in 2010 led to developments in global markets, and especially in the euro bloc and in the United States, that also include 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). In Israel, 2010 was a year of recovery from the global crisis, that 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, that may serve to erode the competitive abilities of the company against global competitors and against imports.

23.2.1.2. As at the date of the report, it is impossible to estimate whether the said crisis in the financial markets has indeed run its course, what are its direct and indirect economic implications globally and in Israel, and how long such implications will last, if at all.

23.2.1.3. An economic slowdown in Israel or globally, or a persistent recession 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 hurt sales, financial results and profitability.

23.2.2. Inflation

Since the Company has significant excess liabilities linked to the Consumer Price Index, primarily in respect of bonds issued by the Company, amounting to NIS 296 million in total, a high inflation rate may cause significant financing expenses. The Company occasionally enters into hedging transactions to cover the 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 consumer price index.

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 consumer price index.

23.2.3. Exposure 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 vis-à-vis the NIS may erode profit margins and cash flows.

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

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 liabilities over foreign-currency-denominated assets).

Pursuant to the purchase of equipment for Machine 8, whose prices are denominated in euro, true to December 31, 2010, the company has entered into forward transactions on the euro in the sum of €3.0 million, to hedge against the cash flows, regarding the completion of payments for the acquisition of the fixed assets acquired from the equipment vendors of Machine 8.

It should be noted that on the aggregate level that includes associated companies, the currency exposure is limited.

23.2.4. Interest Risks

The company is exposed to changes in interest rates, primarily in respect of bonds it has issued in the amount of NIS 658 million, as at December 31, 2010. For details see section 16, above.

23.3. Sector-Specific Risk Factors

For details regarding sector-specific risk factors, see Section 8.26, above for the packaging paper and recycling sector, Section 9.17 above, for the office supplies marketing sector, Section 10.23 above, for packaging products and cardboard and Section 11.26 above, for the fine paper sector.

23.4. Special Factors

23.4.1. Accounts Receivable Risks

Most of the sales of the Company and its associated companies are made to many customers in Israel, with some sales being made without full collateral. Exposure to accounts receivable risk is generally limited due to the relatively large number of customers. The company is regularly examine the quality of accounts receivable in order to determine the sum of provision that is required for doubtful debts, especially in view of the lessons of the global financial crisis. The company's 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.

23.4.2. Group of Borrowers

As the Company is part of the IDB Group, the group may be affected from the directives of proper banking management of the Supervisor on Bans which, inter alia, include restrictions on the amount of loans an Israeli bank may provide to a single borrower and to a group of borrowers. IDB Holdings and some of the companies in the IDB Group are considered as one group of borrowers. This may, under certain circumstances, affect the company's ability to borrow funds from an Israeli bank.

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As to the risk factors in each of the Company's sectors of operation, see section 23.3, above.

23.5.General factors

23.5.1. Geo-political developments in Egypt - Recent geo-political developments in Egypt and uncertainty with regards to stability of governments could negatively impact the Company's option of engaging under an agreement with gas provider EMG, one of the gas providers the Company has been negotiating with in connection with gas supply. As of the date of this report, the Company cannot assess the impact the situation in the region will have on the option of said engagement with EMG, or said impact on possible conditions of engagement with other gas suppliers.

23.6. The extent of impact of risk factors

Following below is a list of the risk factors and their influence upon the Company: For details regarding the company's assessment of the type and degree of influence of the sector-related risk factors, see Sections 8.26, 9.17, 10.23, 11.26 above and 23, below.

	Degree of Impact		
Risk Factors	Considerable Influence	Medium Influence	Small Influence
Macro-economic factors		-Economic, political and social situation -Exposure to Exchange Rate Fluctuations	-Interest Risks -Inflation
Special Factors		-Accounts Receivable Risks -Group of Borrowers	- Geopolitical developments in Egypt

24. Investments in Associated Companies

Following below is a description of the Company's principal associated company. The results of operation of this company are not consolidated in the Company's financial statements and are presented as part of "Investments in associated companies" in the company's financial statements.

24.1. Hogla-Kimberly Ltd.

Hogla-Kimberly is the leading company in the non-food disposable goods market in Israel. Hogla-Kimberly 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. Hogla-Kimberly also sells reels of tissue paper to manufacturers of household paper products. The operations of Hogla-Kimberly in Israel are also conducted through wholly-owned subsidiaries - Hogla-Kimberly Marketing Ltd. and Mollett Marketing Ltd.

Moreover, Hogla-Kimberly also operates in Turkey through a Turkish subsidiary - KIMBERLY-CLARK TUKETIM MALLARI SANAYI VE TICARET A.S., (hereinafter: "KCTR"), that was acquired by Hogla-Kimberly in 1999.

Following below is additional information regarding Hogla-Kimberly and its operations.

24.1.1. General

24.1.1.1. Hogla-Kimberly 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) (hereinafter: "Kimberly Clark" or "KC") acquired 49.9% of Hogla-Kimberly's issued share capital. On March 31, 2000, KC increased its holdings in Hogla-Kimberly to 50.1% of the latter's issued share capital. As a result, Hogla-Kimberly Ltd. is no longer consolidated within the Company's financial statements since the second quarter of 2000, and the Company's share of the Hogla-Kimberly results is included in the company's share in the earnings of associated companies. As at the date of the report, KC holds 50.1% of the issued share capital of Hogla-Kimberly, while the Company holds 49.9% of the issued share capital of Hogla-Kimberly.

24.1.1.2. In March 2009, Hogla-Kimberly issued the Company a preferred share, which entitles the Company to repay a capital note given to Hogla-Kimberly in the amount of NIS 33 million. Later on in March 2009, the capital note was repaid in full.

24.1.1.3. In June 1996, an agreement was signed between the company and Kimberly Clark, the shareholders of Hogla-Kimberly, that was revised in the year 2000 (hereinafter in this section: "The Agreement"), whose key points are as follows:

(a) Pursuant to the agreement, six directors serve at Hogla-Kimberly, of which three serve on behalf of the company and three on behalf of Kimberly Clark. The chairman of the board of directors is appointed by KC, while the deputy chairman is appointed by the Company. Resolutions of the board of directors of Hogla-Kimberly must be passed unanimously by the directors present, and the quorum required is at least two directors, one from each party.

(b) Pursuant to the agreement, the following resolutions will require a resolution on the part of the shareholders of Hogla-Kimberly: (1) Amendment of the articles of Hogla-Kimberly and an increase in the registered capital; (2) Selection of the auditing CPA that will be recommended by Kimberly Clark; (3) Liquidation or discontinuation of part of the operations of Hogla-Kimberly, acquisition of material new operations and a merger with a party that is not a related party;

(c) The agreement stipulates that resolutions passed by the General Meeting shall be carried unanimously.

(d) The CEO of Hogla-Kimberly is appointed by Kimberly Clark, from an agreed-upon short-list that was prepared by the Company and by Kimberly Clark. The CFO is appointed with the recommendation of Kimberly Clark, subject to the approval of the board of directors. Pursuant to the agreement, it was decided that in the event of disagreement between the company and Kimberly Clark in certain issues, such as: Appointment and termination of the CEO, appointment and termination of the CFO, CEO compensation, CFO compensation and operating budget - these issues shall be brought up, by request of the Company or of Kimberly-Clark, before the CEOs of both companies, and in case of disagreement between them, the issues will be submitted for recommendation by an arbitrator - which would be brought before the General Meeting and decided by an ordinary majority of the shareholders.

(e) Pursuant to the agreement, the company provides Hogla-Kimberly with various services such as maintenance services and infrastructure for the Hogla-Kimberly plant at the Hadera site and also leases it real-estate for its operations in Hadera and in Nahariya. The company also provides Hogla-Kimberly with various staff or headquarter services. Kimberly Clark provides Hogla-Kimberly - pursuant to the agreement - with information, technological assistance and the permission to use its international brands. The services provided by the shareholders to Hogla-Kimberly that are not covered by the license agreement as defined above, are provided in return for payment, based on market prices.

(f) Each party holds a right of first refusal in the event of the sale of shares by the other party. The agreement also grants the company an option, whereby in the event that KC wishes to sell its shares to a third party, the company will be able to buy back control (0.2% of the issued share capital of Hogla-Kimberly) in return for the sum it received in 2000 for the sale of control ($5 million).

(g) The shareholders agreed not to compete against each other (including their subsidiaries) in the area of operation of Hogla-Kimberly in Israel, in the Palestinian territories and in Gaza as detailed in the agreement, for as long as they hold the shares of Hogla-Kimberly and for a period of five years subsequent to the sale of their holdings in Hogla-Kimberly.

24.1.1.4. As part of an agreement signed between Hogla-Kimberly and Kimberly Clark in June 1996 (hereinafter in this section: "The license agreement"), Kimberly Clark grants Hogla-Kimberly a license to use certain trademarks and technical services associated with the manufacture of the products outlined in the license agreement. According to the license, Hogla-Kimberly 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 report date, the aforementioned agreement is effective through July 2011.

24.1.1.5. Hogla-Kimberly operations in the Turkish market:

(a) Hogla-Kimberly operates in the Turkish market through a wholly-owned subsidiary that was acquired in 1999, named KIMBERLY-CLARK TUKETIM MALLARI SANAYI VE TICARET A.S., (hereinafter: "KCTR"). The Turkish market, due to its size and relatively low penetration rates, was earmarked by Hogla-Kimberly as possessing potential for strategic growth.

(b) KCTR manufactures and sells products in the diaper and feminine hygiene sectors. For details regarding KCTR products, see Section 24.1.7.1, below.

(c) KCTR operates in the Turkish market through its premium products under the Kimberly Clark Worldwide brand, in a format similar to that used by Hogla-Kimberly in Israel. For this purpose, KCTR has over the past several years, established both 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.

(d) Hogla-Kimberly is exposed to various risks related to its operations in Turkey. Over the last few years there has been greater stability in the Turkish market and Hogla-Kimberly 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 return 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, that is only slightly affected by the overall level of economic activity.

(e) 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, KCTR managed to significantly increase its turnover (5.0% in 2010 in relation to 2009), while improving its gross margins.

24.1.2. Dividend Distribution

On February 26, 2009, the board of directors of Hogla-Kimberly approved the distribution of NIS 41.7 million ($10 million), as dividend to the shareholders. The dividend was distributed on July 1, 2009.

On February 26, 2009, the board of directors of Hogla-Kimberly approved the distribution of NIS 32.77 million to the preferred shareholders. The dividend was distributed on March 19, 2009.

On July 30, 2009, the board of directors of Hogla-Kimberly approved a distribution of NIS19 million to the shareholders. The dividend was distributed on October 01, 2009.

On October 22, 2009, the board of directors of Hogla-Kimberly approved a distribution of NIS 40 million as dividend to the shareholders. The dividend was distributed on January 20, 2010.

On February 18, 2010, the board of directors of Hogla-Kimberly approved a distribution of NIS 20 million as dividend to the shareholders. The dividend was distributed on May 12, 2010.

On April 22, 2010, the board of directors of Hogla-Kimberly approved a distribution of NIS 40 million as dividend to the shareholders. The dividend was distributed on July 15, 2010.

On July 27, 2010, the board of directors of Hogla-Kimberly approved a distribution of NIS 40 million as dividend to the shareholders. The distribution of NIS 35 million was performed on November 29, 2010, the distribution of the remaining NIS 5 million will be performed in the first quarter of 2011.

On January 23, 2010, the board of directors of Hogla-Kimberly approved the distribution of NIS 30 million, as dividend to the shareholders. 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.

Hogla-Kimberly possesses accrued earnings from several sources, including earnings originating from an "approved enterprise", that were exempt of corporate taxes at the date of their creation. In the event that dividend is distributed from the exempt revenues, Hogla-Kimberly shall be liable for the corporate taxes from which it was exempt.

As part of the Income Tax approval of the merger, for simplification of the holding structure at Hogla-Kimberly Group, at Shikma Ltd. (a subsidiary merged into Hogla-Kimberly in 2006) (hereinafter: "Shikma"), a sum of NIS 101 million was capitalized, originating from its equity earnings, resulting from income of an Approved Enterprise at Shikma. In the event that this sum is distributed as dividend at Hogla-Kimberly, it shall be liable for corporate taxes according to the Income Tax agreement.

24.1.2.1. Dividend at KCTR:

KCTR has not distributed any dividends since its establishment. As at December 31, 2010, KCTR possesses no distributable earnings.

24.1.3. The general environment and the effect of external factors on Hogla-Kimberly's activity

By the very nature of most of the Hogla-Kimberly products being basic consumer goods, the demand for its products in recent years has remained relatively stable. The factors that can potentially affect the Hogla-Kimberly results in the future include: (1) Escalating competition on the part of local manufacturers and from imports, either through price competition or through the marketing of improved products; (2) Strengthening retail chains and constant pressure on their part to erode margins and expand private labels; (3) Rising prices of raw materials and finished goods purchased by Hogla-Kimberly, on account of rising global input prices; (4) Macro-economic factors that affect the market characteristics wherein Hogla-Kimberly operates, such as lower demand for consumer goods as a result of a global or domestic economic slowdown; (5) The strength of the Hogla-Kimberly brands in relation to competing brands, including adverse events related to the brands or the reputation of Hogla-Kimberly, whose occurrence may harm consumer demand.

The above information with regard to factors that may potentially impact the results of Hogla-Kimberly in the future, constitutes forward-looking information as defined in the Securities Act, and merely consists of forecasts and estimates by Hogla-Kimberly which are not certain to materialize and are based on information available at the company and at Hogla-Kimberly as of the report date. These estimates may not materialize - in whole or in part - or may materialize in a different manner than anticipated, inter alia on account of factors that lie outside the control of the company or of Hogla Kimberly, such as changes in market conditions, entry of competitors, technological developments, changes in the anticipated costs as well as changes and developments in regulation in the sectors of operation and/or the realization of any of the risk factors outlined in sections 24.1.28 below and 23, above.

24.1.4. Structure of the Hogla Kimberly Sector

The Hogla-Kimberly sector belongs to the non-food disposable consumer goods market in Israel and 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 the company through the associated company Hogla Kimberly. Hogla Kimberly and its competitors in the sector market the product 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 there also exist imported products. Due to entrance barriers into the sector, as detailed below, the structure of competition in the area is relatively stable.

In the course of 2010, Hogla-Kimberly managed to successfully strengthen its leading brands through enhanced marketing efforts. Moreover, in 2010, through focused sales efforts, Hogla-Kimberly managed to increase its quantitative sales. The quantitative growth in sales was assisted by the inclusion of Hogla-Kimberly'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, Hogla-Kimberly managed to lower the cost of manufactured products, by changing certain product specifications and by improving the output of some of its manufacturing plants, as well as by conducting an organizational change to streamline its 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.

24.1.5. Critical success factors in the Hogla Kimberly sector of operations and changes therein

Several critical success factors may be indicated for Company operations in the Hogla Kimberly sector, which impact its operations:

24.1.5.1. Investment in necessary production equipment - Machines used in paper production are very costly, in terms of both acquisition and maintenance cost. Consequently, financing capabilities and the ability to raise funds, constitute an advantage in the sector of operations.

24.1.5.2. Local producer - In this operating sector, a local producer enjoys an advantage over imports, as the former is able to provide solutions that cater to the local consumer, ensure a constant supply of the product, at a relatively short lead time and as required by customers, thereby saving them the need to maintain large inventories.

24.1.5.3. Product quality and leading brands - The high quality of products and leading brands is a critical success factor in the sector.

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24.1.6. Principal Entry Barriers

There are several barriers to entry of any company into the sector:

24.1.6.1. Initial capital - The sector industry is, by nature, capital intensive with heavy investment required in infrastructure and equipment, investment in distribution infrastructure and investments in technological improvements, entry into this operating sector requires a significant initial capital. Moreover, even after conducting the initial investments for establishing the necessary infrastructure for entering the sector, this area of operations is characterized by significant investments in ongoing equipment maintenance.

24.1.6.2. Building a brand - A penetration of this sector would require an extended period of time, due to the importance of reputation and leading brands in the sector.

24.1.6.3. Technological know-how and development capabilities - Since the sector is characterized by advanced technology, an entry into the sector would require technological know-how, development capabilities and frequent investments and technological improvements.

24.1.7. Products and Services

Hogla-Kimberly 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. Hogla-Kimberly also sells reels of tissue paper to manufacturers of household paper products.

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

The product whose revenues (in Israel and in Turkey) exceed 10% of the total accumulated revenues of Hadera paper in 2010, also including a relative proportion of the revenues of Hogla Kimberly (according to the Company holdings in Hogla Kimberly) (hereinafter: "Aggregate Hadera Paper Revenues") is disposable diapers. Hogla-Kimberly's consolidated revenues (Israel and Turkey) from disposable diapers in 2010 and 2009, amounted to NIS 904.8 million and NIS 946.2 million, respectively, which accounted for 53% and 55% of Hogla-Kimberly's total consolidated revenues.

Hogla-Kimberly upgrades its products from time to time, in order to preserve innovation and leadership.

24.1.7.1. KCTR Products and Services:

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 - by its very nature - massive investments in advertising, sales promotion and additional expenses associated with penetrating into the large retail marketing chains and expanding shelf space. In 2009, KCTR continued in the process of developing products and launched new product lines under the brands Huggies and Kotex. KCTR also launched a profitable new category - Dry Nites - that contributed to both revenues and gross profit. 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.

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24.1.8. Distribution of product and service revenues at the Hogla Kimberly sector of operations

The revenues of Hogla Kimberly from the sale of disposable diapers (in Israel and in Turkey) totaled NIS 904.8 million in 2010, NIS 946.2 million in 2009 and NIS 842.1 million in 2008. The said revenues in 2010 represented 24.4% of the total aggregate revenues of Hadera Paper in 2010, that also include the revenues of Hogla Kimberly . It should be noted that the Hogla Kimberly revenues from the sale of toilet paper represent less than 10% of the total aggregate revenues of Hadera paper.

For further financial information concerning Hogla-Kimberly, see its financial statements as at December 31, 2010, attached to this report.

24.1.9. Customers

Hogla-Kimberly's client market is usually stable. Hogla-Kimberly operates nationwide and its products are marketed and distributed extensively to clients throughout the country.

In the years 2008-2010, Hogla-Kimberly sales to the food retail chains grew somewhat, 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 (merger of small competitors). In 2010, approximately 19.5% of Hogla-Kimberly 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 Hogla-Kimberly’s customers. Total sales to major retail chain Supersol, a company controlled by a controlling shareholder, in 2010 and 2009, amounted to NIS 224.5 million and NIS 242.2 million, respectively, which accounted for 13.2% and 14.0% of Hogla-Kimberly's revenues. Hogla-Kimberly has no agreement with Supersol and the engagement with Supersol is made from time to time in the normal course of Hogla-Kimberly's business, according to an agreement regarding the commercial terms between the parties and at market terms.

The sales of Hogla Kimberly to the three largest retail marketing chains in Israel represent approximately 31% of consolidated sales. The discontinuation of sales to each of the three chains could hurt the sales of Hogla-Kimberly in the short term, but given the customers' loyalty to the strong brands, no long-term negative impact is expected, and therefore Hogla-Kimberly is not dependent upon any of these chains.

Hogla-Kimberly is not dependent upon any single client.

Hogla-Kimberly is active in the Israeli retail market for consumer goods.

24.1.9.1. KCTR customers:

KTCR 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 (for additional details, see Section 24.1.10, below).

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.

24.1.10. Marketing and Distribution

Hogla-Kimberly, through its employees, operates a sales and distribution system based on the operation of distribution warehouses, merchandise distribution trucks and a wide array of sales personnel. Hogla-Kimberly has two distribution sites, in Zrifin and in Haifa. For sales to the institutional market, extensive use is made of a separate Hogla-Kimberly 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.

Hogla-Kimberly is not dependent upon any single wholesaler.

As Hogla-Kimberly'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 type of customers, a constant supply to customers is required.

24.1.10.1. KCTR's marketing and distribution:

A strategic cooperation agreement was signed on March 1, 2007, between KCTR and Unilever in Turkey. Pursuant to this agreement, Unilever will conduct the sales, distribution and collection on behalf of KCTR in the entire Turkish market, except for international supermarket chains that operate in Turkey (opposite which KCTR operates directly), in return for marketing and distribution commission that is paid by KCTR. KCTR is operating according to the agreement, which is currently being extended until 2012, and in accordance with the commercial terms that are determined annually.

Although KCTR is dependent upon Unilever as a distribution factor to the private market and in the event that the agreement is terminated, the company would expect to see certain short-term damage to its operations in Turkey. However, KCTR estimates that the cancellation of the agreement in order to significantly and adversely affect KCTR in the long-term, or causes significant additional costs as a result of the need for replacement. Consequently, the company believes that KCTR is not dependent upon Unilever.

24.1.11. Order Backlog

Hogla Kimberly has no backlog. The orders are made with short lead times and on the basis of customer forecasts.

24.1.12. Competition

Hogla-Kimberly operates in a very competitive environment with regard to the products manufactured on the local market as well as against imported products. It should be noted that over the last several years there has been an escalation of private labels, marketed by retail marketing chains.

Nevertheless, the operations of Hogla-Kimberly in the manufacture of paper products and diapers is characterized by few competitors, especially in view of the elevated entrance barriers that exist therein. These entrance barriers 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.

Over the past several years, a trend has been evident whereby competition is escalating in the sector of operations of Hogla Kimberly, primarily in the paper sector, due to the operations of the competitors in increasing the market share of private labels at the retail marketing chains.

Hogla Kimberly faces competition against international brands as part of the overall global strategy of Kimberly-Clark when dealing with such competitors. The company adopts a similar strategy when dealing with local competition, i.e. by maintaining innovation, developing know-how and preserving leadership.

The fierce competition that exists between clients (primarily retail marketing chains), that is accompanied by price wars, also reflects on Hogla-Kimberly as a supplier of such products and the pressure that is being brought to bear on the company to lower prices.

In the sector of feminine hygiene products and disposable diapers, Hogla-Kimberly's main competitor is Procter and Gamble (P&G). (hereinafter: "P&G"). In the sector of household paper products, Hogla-Kimberly's main competitors include Sano - Bruno's Plants Ltd. (hereinafter: "Sano"), Shaniv Paper Industries Ltd. (hereinafter: "Shaniv") and Kalir Chemicals - Production and Marketing Ltd. (hereinafter: "Kalir") and the private label brands of the marketing chains. It should be noted that as part of the competition in the household paper products market to the Ultra-Orthodox sector, one of the company'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 sector of paper products to the institutional market, Hogla-Kimberly's main competitors include Kalir and Sano. In the home cleaning aids sector 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 following are Hogla-Kimberly's market share numbers by value in 2010, in the specific segments wherein Hogla Kimberly operates (data are an annual average): In disposable baby diapers - 73%, in toilet paper - 66%, in wet wipes - 69%, in disposable kitchen paper towels - 53% and feminine hygiene products - 26%.

24.1.12.1. Competition at KCTR:

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 report date, 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), enjoys a 40% market share, while an additional company (Hayat Kimya A.Ş) commands a 21% market share.

KCTR estimates that in the feminine hygiene market, as at the date of the statements, the KCTR market share in Turkey is equal to 10%.

24.1.13. Seasonality

Hogla-Kimberly products are generally sold on a regular scale all year round, while during the Jewish holiday season (Rosh Hashanah, Passover), there is a marginal increase in the scope of sales beyond the ordinary monthly average.

24.1.14. Manufacturing Capacity, Fixed Assets, Real Estate and Facilities

The production of household (tissue) paper and diapers is made by Hogla-Kimberly in three production sites:

(a) Manufacture of household (tissue) paper - Hogla-Kimberly has two plants for the production of household paper (tissue), in Hadera and in Nahariya, with a total output capacity of 58 thousand tons per annum, operating at full capacity, as well as two paper product rolling systems with a capacity of 44 thousand tons per year. Hogla-Kimberly regularly invests in expanding the output capacity for the purpose of supplying the demand for the said products.

(b) Diaper manufacturing - Hogla-Kimberly has a diaper manufacturing plant in Afula, with an output capacity of 500 million infant diapers per annum, plus 42 million adult incontinence diapers per annum - that also operates at full capacity. Hogla Kimberly regularly invests in upgrading the diaper production lines, and continues to improve its products as much as possible, according to customers tastes and preferences. In case of production failure, the company acts according to the return and replacement policy, as detailed in section 24.1.20.5 below.

24.1.14.2. Manufacturing Capacity, Fixed Assets, Real Estate and Facilities of KCTR:

KCTR possesses an advanced manufacturing plant in Turkey that produces most of its products. The manufacturing site is located in Istanbul, on a plot of land of 13,000 m², owned by KCTR. The KCTR manufacturing facility possesses an output capacity of 1,200 million baby diapers per annum and operates at full capacity. In total, the production site in Turkey consists of six lines for the manufacture of diapers.

An investment of approximately $7.7 million was approved in 2010 for the addition of a feminine hygiene production machines, that is scheduled to begin operations in the third quarter of 2011. With the addition of this line, the production site in Turkey will have six lines for the manufacture of diapers and one line for the manufacture of feminine hygiene products.

24.1.15. Fixed assets, real estate and facilities

24.1.15.1. The real estate of the paper production site in Hadera are leased to Hogla-Kimberly by the Company, pursuant to a contract in effect until July 2011, which is extended from time to time with the consent of both parties.

24.1.15.2. The real estate of the Hogla-Kimberly paper manufacturing site at Nahariya is leased to Hogla-Kimberly by the company, through 2016. The lease agreement includes two extension options for a total of nine additional years.

24.1.15.3. The real estate of the Hogla-Kimberly diaper plant in Afula is under lease from Israel land Administration (ILA) by Hogla-Kimberly until 2023.

24.1.15.4. Hogla-Kimberly Distribution Sites at Zrifin and Haifa: Hogla-Kimberly's distribution center and office space in Zrifin are leased through 2022. The Haifa distribution site is under lease until 2014. The leasing contracts of these sites allow Hogla-Kimberly to shorten the leasing period at various points.

24.1.15.5. Moreover, Hogla Kimberly rents a warehouse in Hadera, under lease until 2022.

24.1.16. Research and development

Hogla-Kimberly (Israel and Turkey) does not invest in research and development.

Hogla-Kimberly relies on the Kimberly Clark development centers and enjoys participation in the outcome of the R&D efforts, marketing and sales know-how and new products, through collaboration agreements and the license agreement with Kimberly Clark, as detailed in Section 24.1.1, above. Hogla-Kimberly itself makes adjustments to adapt the products to the Israeli market, for meeting Israeli standards and other adaptations to the local manufacturing environment.

24.1.17. Intangible Assets

Hogla Kimberly possesses registered trademarks that serve it and its operations and crucial to its activity as they are leading brands in the market. These trademarks are extended according to law from time to time. Among these: Titulim, Lily, Molett, Shmurat Teva, Nikol, Shikma and others. Hogla-Kimberly also has rights to use Kimberly Clark Worldwide’s brand-name products in the local market and in Turkey, including: HUGGIES®, KLEENEX®, KOTEX®, DEPEND® and others. In consideration of the right to use the said products and for the transfer of know-how, Hogla-Kimberly pays royalties to Kimberly Clark, amounting to a low, single-digit rate.

24.1.18. Human Resources

Hogla-Kimberly’s primary and most important resource is its human capital. The development of human capital is a top priority for Hogla-Kimberly, and it invests in training and seminars for its employees, including designated training for specific positions. An internal reorganization process took place in 2010, in order to streamline the work methods opposite consumers and customers and to lend support to the company's long-term strategy.

Hogla-Kimberly also places an emphasis on the matter of safety at work in general, and of the employees in particular, by implementation of a proactive safety policy (for prevention of the causes of accidents by investigating cases of near-accidents, in order to prevent the accidents themselves from happening, to the extent possible).

As at the date of the report, Hogla-Kimberly numbers a total of 1,111 employees in Israel.

The employees are employed under two types of agreements as follows:

As at the date of the report, 542 employees are employed under a collective labor agreement, while 569 employees are employed under a personal employment contract.

Those employed under the collective agreement gain the status of permanent (tenured) employees at the end of a trial period ranging between 24 and 36 months.

Senior executives of Hogla-Kimberly, including the CEO and the CEO of the Turkish company, were granted options and/or restricted shares, pursuant to the senior employee compensation plan of Kimberly Clark. During the first quarter of 2008, approval was given for granting stock options exercisable into Hadera Paper ordinary shares, to a number of Hogla-Kimberly senior executives under Hadera Paper's senior employee compensation program. For details see Section 13.4.5, above.

The accounting expenditure that was recorded in the years 2010 and 2009 on account of the granting of employee options is immaterial to Hogla Kimberly.

24.1.18.1. KCTR Human Resources:

The development of human capital is a top priority for The Company, and it invests in training and seminars for its employees, including designated training for specific positions.

As at December 31, 2010, KCTR numbers 370 employees in Turkey, most of which work at the production site under a collective labor agreement.

For details regarding Kimberly-Clark management remuneration program, see Section 24.1.18, above.

24.1.19. Raw Materials and Suppliers

Hogla-Kimberly's main raw materials are:

24.1.19.1. For the tissue paper industry – Clean pulp and/or recycled fibers. The pulp is imported from overseas, from four principal suppliers: Fibria Trading international KFT, Ekman & COAB, Heinzel Pulpsales GMBH, and Sodra Cell (UK) Ltd. The purchase of pulp from Fibria is made under a framework agreement that this supplier possesses with Kimberly Clark, while the purchase of pulp from the other suppliers is made on the basis of an independent agreement between Hogla-Kimberly and the supplier, where in all of the said agreements, orders are made according to demand, at prices agreed upon between the parties. Regarding recycled fibers, the principal supplier is Amnir, a subsidiary of Hadera paper, along with imports from various suppliers that are irregular.

24.1.19.2. The diaper industry - Pulp for the diaper industry is imported from two suppliers overseas: WEYERHAEUSER NR COMPANY and DOMTAR Paper company LLC. Super Absorbent Polymer (SAP) is purchased from several international suppliers, chief among which is Toyota Tsusho Corporation, by way of framework agreements of Kimberly-Clark. In all of the said agreements, orders are made according to demand, at prices agreed-upon between the parties.

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

Hogla-Kimberly has no dependence on any suppliers since with regard to the main raw materials there are alternative sources, with inconsequential added cost.

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

24.1.19.3. Finished Goods Alongside the independent manufacturing of products, Hogla-Kimberly also purchases finished products for marketing and distribution under its various brands. As at the date of the report, the proportion of Hogla-Kimberly 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, Hogla-Kimberly 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.

24.1.19.4. Raw material and suppliers of KCTR:

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.

There also exists no dependence upon any suppliers.

KCTR possesses exposure associated with the volatility of the exchange rates of the euro and the US dollar vis-à-vis the Turkish lira, through the purchase of raw materials and the import of products.

In 2010, KCTR purchased absorbent material for diapers from Sandia - Sakai (Toyota) 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, in conjunction with global framework agreements with Kimberly-Clark, amounted to $19.5 million, or 14% of total purchasing from suppliers in the same year. There are alternative suppliers in the market, and KCTR is not dependent on this supplier.

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24.1.20. Working Capital

24.1.20.1. Accounts receivable (customers)

Hogla-Kimberly sells its products under acceptable credit terms. In the consumer market, credit of 64 days is usually granted. In the institutional market, credit of 90 days is usually granted.

Customer credit is granted after examining the credit history of the client, the collateral and the business information that exists at Hogla-Kimberly regarding the client. If necessary, private customers are required to provide personal guarantees and/or bank guarantees to secure their debt - all or in part - according to an assessment of the credit risk. Starting in November 2007, Hogla-Kimberly joined a credit insurance facility which covers several of its major customers, with maximum compensation covered by the policy being $10 million, as at the date of this report.

24.1.20.2. Suppliers

Hogla-Kimberly makes purchases from most of its suppliers under open credit conditions. As of December 31, 2010, average days payable outstanding was 123 days.

24.1.20.3. Below are data regarding average credit duration and amounts for suppliers and customers (Israel and Turkey) for the years 2010 and 2009:

	Average 2010		Average 2009	
	Average volume of credit in NIS millions	Average credit days	Average volume of credit in NIS millions	Average credit days
Accounts receivable - trade	307	65	307	64
Accounts Payable (Suppliers)	333	103	293	91

24.1.20.4. Inventories

Hogla-Kimberly maintains an inventory of raw materials, goods in process (paper rolls before processing into a final product), finished goods inventories and spare parts inventories. There exists a well-defined inventory policy for each category, revolving around four weeks. The inventory setting policy takes into consideration the product's supply time, shipment time, possible problems in imports and ports, risk level of product shortages and the various demand levels.

Hogla-Kimberly maintains average inventories of 71.6 days in 2010. The Hogla-Kimberly inventories are mostly stored at the Hogla-Kimberly warehouses, plants and distribution centers and partially in leased external warehouses.

The percentage of Primary Working Capital, i.e.: (account receivables, inventories and supplier credit), as a percentage of sales, was equal to an average of 9% in 2010.

24.1.20.5. Return and Replacement Policy - The products in the sector are sold as the final sales to company customers and are returned on the basis of a defective product or in case of mismatch. When a customer complains of a faulty or mismatching product, the complaint is reviewed and if correct, the goods are returned and the customer is credited. The volume of returns is insignificant in relation to the total volume of operations of Hogla Kimberly.

24.1.20.6. Product warranty - Hogla Kimberly offers a warranty for the products it markets and sells, under a manufacturers warranty (to the extent applicable) of the same product and is subject to the provisions of the Liability for Defective Products Law. For more details regarding the Liability for Defective Products Law, see section 24.1.24.2, below.

24.1.21. Financing

Most of the Hogla-Kimberly operations are financed through the available cash flows. From time to time, Hogla-Kimberly makes use of on-call bank credit. As of December 31, 2010, the average interest on long-term loans was 3.5%, while the effective interest rate was slightly higher than the average interest rate.

In early January 2008, Hogla-Kimberly reached an agreement with one of the banks for the receipt of loans totaling NIS 100 million, for four years, at an interest rate linked to the prime rate on the NIS. For the purpose of securing this loan, Hogla-Kimberly undertook to meet the following financial covenants:

(a) Its shareholders' equity shall not fall below NIS 250 million or 25% of the consolidated balance sheet total.

(b) The shareholders, Kimberly Clark and/or Hadera Paper, shall not together hold less than 51% of the issued share capital of Hogla-Kimberly and any means of control therein.

Hogla-Kimberly committed to other banks with which it does business to comply with the aforementioned financial covenants.

Hogla Kimberly is in compliance with the financial covenants.

True to the date of publication of the report, the outstanding balance of the loan was NIS 33.7 million.

24.1.21.2. KCTR Financing:

The Turkish operations require an injection of cash from time to time, from internal Hogla Kimberly resources as well as from external resources, in order to make investments in fixed assets and finance working capital. Since the end of 2009 true to the date of publication of the support, the operations in Turkey have been financed with no need for injections of equity from the shareholders.

24.1.22. Taxation

For details see Note 22 to the financial statements of Hogla as at December 31, 2010, attached to this report.

For details regarding the tax investigation in Turkey, see Note 14 to the financial statements of Hogla as at December 31, 2010, attached to this report.

24.1.23. Environmental Protection

The Hogla-Kimberly operations are subject to various directives concerning the environment. Hogla-Kimberly is implementing strict mechanisms and a high-technology quality control system in order to preserve the environment.

24.1.23.1. For environmental considerations at the Hogla-Kimberly manufacturing site in Hadera, see Section 17, above.

24.1.23.2. The environmental issues pertaining to Hogla Kimberly at the Nahariya and Afula manufacturing sites will be detailed below:

24.1.23.3. Environmental Risks and Management thereof -

(a) The environmental risks which are likely to have substantial impact on the company are: At the Hogla-Kimberly manufacturing site in Nahariya, a partial purification process takes place of the water that serve for the paper manufacturing process, with the remaining purification taking place at the regional sewage treatment plant, in line with an agreement approved by the environmental protection authorities.

24.1.23.4. Substantial Ramifications of the Law on the Corporation

The provisions of law in effect on the date of this report having substantial ramifications on the Company, including on its capital investments, profits and competitive status:

(a) The Company’s business license for operations in Nahariya is conditional upon terms prescribed by the Ministry for the Protection of the Environment, designed to protect the environment and prevent nuisances. These conditions are customary for plants of this type. The business license does not require renewal from one period to another.

(b) Hogla-Kimberly stores hazardous materials under the conditions of the poison permit granted by the Ministry for the Protection of the Environment. The poison permit is granted under conditions dealing mainly in the manner of storage and use of these materials for the prevention of any incidents. The conditions in the poison permit are customary for plants of this type. The Company's poison permit is renewed every three years.

24.1.23.5. The Corporation's Policy on Management of Environmental Risks, Manner of Exercise and Manner of Supervision

On the matter of this operational sector's policies of managing environmental risks, see section 17 above.

24.1.23.6. In Turkey, Hogla Kimberly acts through its subsidiary company KCTR under Kimberly Clark Worldwide's strict environmental protection standards.

24.1.24. Restrictions and corporate control

The following is a brief summary of the principal legislation and standards that are relevant to the Hogla-Kimberly operations:

24.1.24.1. Antitrust - In 2006, Hogla Kimberly joined the agreed-upon order between the antitrust authority and the food suppliers, that regulates, among other things, various aspects of the commercial agreements between dominant suppliers and the marketing chains, including prohibitions and restrictions on practices limiting the number of suppliers, their identity, quantity of products, types and location, involvement in management of the category, allotment of shelf space at a rate exceeding half the total shelf space, steward arrangements, exclusivity in campaigns and the granting of benefits relying on achievement of sales goals. Hogla-Kimberly estimates that the implementation of the order will not materially impact its business.

Hogla-Kimberly has adopted an internal enforcement plan in terms of anti-trust. In line with the enforcement plan, current and initiated inspections are conducted of the engagements of the company and its operations and a consistent mechanism is in place to provide preliminary and ongoing training to the relevant employees. Hogla-Kimberly believes that the implementation of the enforcement plan will serve to increase awareness among employees and managers to the issue of anti-trust legislation, while lowering the probability of breaching the law unknowingly and reducing the damage that may be incurred despite the implementation of the enforcement plan.

24.1.24.2. Consumer regulations – Hogla-Kimberly is subject to various consumer regulations, including those of the Consumer Protection Law -1981 (hereinafter: "Consumer Protection Law"). The Consumer Protection Law and regulations enacted there under apply to all sales or service transactions provided by businesses to private consumers. The law deals in private transactions only, and encompasses all sectors of the market (save the banking and insurance sectors, which are subject to specific regulation). In protecting the consumer, the law prescribes a number of provisions applicable to dealers (property vendors or services providers, including manufacturers) regarding the proscription of misleading consumers in material issues of a transaction, the duty of disclosure of issues named in the law, disclosure of the policy for return of goods, prohibition of misleading packaging, the duty of marking goods and their packaging and the duty of providing post-sales services. Breach of the provisions of the law will result in penal sanctions of imprisonment and/or fines (depending on the severity and duration of the act), and constitutes a civil wrong under the Torts Ordinance [New Version]. Apart from the criminal provisions applicable to dealers who breach of the provisions of the Consumer Protection Law, the law provides criminal sanctions for employers and officers in a corporation which does not prevent the breach of provisions of the law. The Consumer Protection Authority, headed by the Supervisor of Consumer Protection (hereinafter in this section: "the "Supervisor"), is responsible for implementation of the provision of the law and application of the principle of fair trade. In order to allow performance of the provisions of the law, the Supervisor was granted a large numbers of powers, including the power to deal with consumer complaints, powers of search and investigation and the power to make certain dealers are aware of their duty to cease actions that are contrary to the provisions of the law.

In addition, Hogla-Kimberly is subject to the provisions of the Liability for Defective Products Law, -1980 (hereinafter: "the "Liability for Defective Products Law"). The Liability for Defective Products Law prescribed a mechanism for monetary compensation for injury a consumer has suffered from a defective product. The law prescribes cognitive provisions regarding manufacturer's liability for compensating anyone who sustained personal injury from a defect in any product manufactured by such. Together with consumer's rights, the law also provides defenses the manufacturer or importer may raise in order to defend themselves against such claims under to lawful causes (the consumer's willful exposure to risks, defect created after having left the consumer's control, defective product left consumer's control against their will, and the like).

24.1.24.3. Licensing of products and standards – Some of Hogla-Kimberly's products require licensing under Ministry of Health regulation. To the best of the company's knowledge, Hogla-Kimberly has licenses from the Ministry of Health for all relevant products as required by law, as well as the Standards Institute's standard stamp for its products. The cosmetics industry also has a licensing duty under the Order for Control of Goods and Services (Cosmetics),– 1973, which it renews from time to time. Hogla-Kimberly also has a valid business license.

24.1.24.4. Marking of goods – Hogla-Kimberly received a permit to mark some of its products with a standard stamp of the Israel Standards Institute under the Standards Law, -1953, and the regulations enacted there under. Hogla-Kimberly is also subject to the regulations of marking of goods included in its sector of operations, including with regard to attaching instructions for use to its cleaning and household products (under the Consumer Protection Order (Marking of Goods),– 1983), and additional instructions under the Hazardous Materials Law,– 1993 – and the regulations enacted there under.

24.1.24.5. Packaging Law - The Packaging Law was passed by the Israeli Knesset on January 19, 2011. Among other things, it is based on the principle of manufacturer responsibility, under which the manufacturer or importer is responsible for recycling the packaging for products manufactured or imported by it for sale in Israel, and to bear the cost involved in the collection and recycling of packaging waste. In order to perform said manufacturers' and importers' duties, manufacturers and importers must engage under contracts with a recognized body, which is a company whose sole objective is the performance of the duties of the manufacturers and importers it engages with, a body which has been recognized under the Packaging Law. Hogla Kimberly, as a manufacturing and marketing company, will be required - like other manufacturing firms - to prepare itself for complying with the law. For additional details regarding the Packaging Law, see section 8.23.1.1 8.23.2, above.

24.1.24.6. Quality Control- In its manufacturing sites, Hogla Kimberly operates in accordance with the following standards: ISO 9901/2000 – Quality Management; ISO 14001 – Environmental Protection and Israeli Standard 18001 - Safety.

24.1.24.7. SOX - By virtue of being a subsidiary of Kimberly Clark, a company whose shares are publicly traded in the United States, Hogla-Kimberly is subject to "Sarbanes Oxley" (SOX) in its entirety, including Section 302 (proper disclosure and evaluation of controls in the organization), Section 404 (Management Assessment of Internal Controls) and Section 906 (Criminal responsibility for breach of this section). The main points of the law have to do with increasing reporting and disclosure, the authorities and duties of the Audit Committee, manager responsibilities, enforcement, sanctions and penalties and increasing the independence from external accountants. The controls instigated by Hogla-Kimberly for the implementation of the law are regularly inspected by the Kimberly Clark auditing team and by the external accountant. Since 2004, with the introduction of the directives of the said law in the United States, Hogla is meeting the demands of the law.

24.1.25. Legal Proceedings

For a description of material legal proceedings, including demands of the authorities against Hogla Kimberly, and regarding the filing of a class action lawsuit against Hogla Kimberly and against an additional competing company, that is estimated by the plaintiff, if accepted as a class action lawsuit, at approximately NIS 111 million, as well as a description of the demands on the part of the Turkish tax authorities against KCTR, see Note 14 to the financial statements of Hogla-Kimberly as at December 31, 2010, attached to this report.

24.1.26. Business Objectives and Strategy

Hogla-Kimberly's business and marketing strategy in the local market is to develop and expand consumption in the relevant categories wherein Hogla-Kimberly is active, while at the same time, to increase the market share of Hogla-Kimberly by strengthening and promoting its leading brands, through advertising activity, marketing promotion, product improvement, as well as the constant examination of penetration into new categories.

In addition, as part of the Hogla-Kimberly strategy as part of its objectives for the Turkish market, Hogla Kimberly has formulated a strategic plan in 2006 in respect of KCTR (Global Business Plan) for the coming decade (until 2015), that is meant to expand the operations of KCTR and to improve its profitability by building it to be a significant player in the Turkish market. The transition to profitability, that was planned to take place in 2010, has been postponed as a result of market competition. For further details see section 24.1.26.1, below.

In parallel, as part of its objectives, Hogla-Kimberly is acting to reduce the manufacturing and operating costs, by capitalizing on its market advantage as the leading producer, through the strategic relations with the Kimberly Clark development departments, exploiting the diverse know-how that resides with Kimberly Clark and that is at its disposal, exploiting the large sales network that is available to it and through intelligent purchasing that is well integrated into Kimberly Clark's global purchasing network.

Moreover, as part of its objectives, Hogla Kimberly has launched a social responsibility project, whose implementation has started.

The strategic goals of Hogla-Kimberly, as described above, are based on the objectives and aspirations of Hogla-Kimberly, as at the date of the report and may change according to the relevant decisions being made by Hogla-Kimberly.

The above information with regard to the objectives and business strategy of Hogla Kimberly, lowering of manufacturing and operational costs, and the expansion of market share, constitute forward-looking information as defined in the Securities Act, and merely consists of forecasts and estimates by Hogla-Kimberly which are not certain to materialize and are based on information available at the company and at Hogla-Kimberly as of the report date. These estimates may not materialize - in whole or in part - or may materialize in a different manner than anticipated, inter alia on account of factors that lie outside the control of the company or of Hogla Kimberly, such as changes in market conditions, entry of competitors, technological developments, changes in the anticipated costs as well as changes and developments in regulation in the sectors of operation and/or the realization of any of the risk factors outlined in sections 24.1.28 below and 23, above.

24.1.26.1. Business objectives and strategy of KCTR:

In the course of 2006, Hogla-Kimberly formulated a strategic plan pertaining to KCTR (Global Business Plan) - until 2015 - intended to expand the KCTR operations and improve its profitability, by building it to be a significant player in the Turkish market for disposable diapers and feminine hygiene products, on the basis of the international brands of Kimberly Clark, based on local manufacture. The plan allows for gradual implementation according to actual results of operation, over several years and in various areas. The plan was approved by both Kimberly Clark and the Company. In 2010, KCTR continued to implement the strategic plan. In the event that the plan is fully implemented and successful, KCTR is expected - by 2015 - to become a dominant and profitable company, with annual sales of approximately $230 million. The KCTR turnover amounted to $134 million in 2010.

As part of the said strategic plan, additional investments in fixed assets for the production facility in Turkey are being considered from time to time.

The objectives of KCTR consists of increasing sales to the local market, by strengthening and promoting its brand, through advertising and sales promotion, as well as through product improvement.

The above information with regard to the results of implementation of the strategic plan of KCTR, expansion of sales to the local market, strengthening and promoting the brands, constitute forward looking information as defined in the Securities Law, and constitutes forecasts and assessments on the part of the Company, the realization of which is not certain and based on information existing in the company as of the date of the report. These estimates and forecasts of the company may not materialize - in whole or in part - or may materialize in a different manner than anticipated, inter alia on account of factors that lie outside the control of the company or of KCTR, such as changes in market conditions, entry of competitors, changes in the anticipated costs, technological changes as well as changes and developments in regulation in the sectors of operation and/or the realization of any of the risk factors outlined in sections 24.1.28 below and 23, above.

24.1.27. Anticipated development over the next year

Anticipated development over the next year:

24.1.27.1. The operating losses of KCTR over the past several years, in view of the implementation of the strategic program, which derive inter alia, from launch expenses, elevated sales promotion and advertising costs in relation to the volume of sales, along with low gross margins due to the fierce competition in the Turkish market, have been reduced, and the operating loss in 2010 decreased as a result of the improvement in the gross profit, cost-cutting and increased sales. KCTR is working to arrive at operational equilibrium in 2012, a date that has been postponed in light of market developments.

24.1.27.2. The above information with regard to the results of implementation of the strategic plan of KCTR, and the arrival at operational equilibrium constitute forward looking information as defined in the Securities Law, and constitutes forecasts and assessments on the part of the Company, the realization of which is not certain and based on information existing in the company as of the date of the report. These estimates and forecasts of the company may not materialize - in whole or in part - or may materialize in a different manner than anticipated, inter alia on account of factors that lie outside the control of the company or of KCTR, such as changes in market conditions, entry of competitors, changes in the anticipated costs, technological changes as well as changes and developments in regulation in the sectors of operation and/or the realization of any of the risk factors outlined in sections 24.1.28 below and 23, above.

24.1.28. Risk Factors

24.1.28.1. Macro-economic factors

(a) Economic Slowdown in the Israeli Economy - Since most of the Hogla-Kimberly products 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 Hogla-Kimberly.

(b) Inflation - Hogla-Kimberly is exposed to a certain degree to risk of changes in the Consumer Price Index, primarily due to input prices. A high inflation rate may also impact payroll expenses, which over time are adjusted for changes in the CPI.

(c) Exposure to Exchange Rate Fluctuations - Hogla-Kimberly 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.

Hogla-Kimberly 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, until the maximum level of protection approved by the board of directors, which is 80% of the anticipated monthly exposure.

24.1.28.2. Sector-related factors

(a) Competition- Intensification of competition, unexpected entry of new competitors, the strengthening and expansion of private label, could cause harm to Hogla-Kimberly's market share in its areas of operation and real erosion in the sale prices of its products, resulting in damage to Hogla-Kimberly's financial results and business operations.

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

(c) Centralization of Hogla-Kimberly operations - Hogla-Kimberly's production operations are centralized at three sites (Hadera, Nahariya and Afula), and its distribution operations are at two additional sites (Zrifin and Haifa). Lengthy damages to one or more of the production and/or distribution sites could substantially impact Hogla-Kimberly's financial results.

(d) Environmental Protection - The requirements of the Ministry for Protection of the Environment with regard to the sector and its installations require that Hogla-Kimberly budget financial resources for this issue. These demands could expand and increase because of the growing awareness of protection of the environment, which could force Hogla-Kimberly to budget additional resources.

(e)Prices of raw materials – a substantial rise in the price of Hogla-Kimberly's raw materials could damage its operations and profits. Hogla-Kimberly'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 for the imported products. Unusual rises in the cost of raw materials and imported finished products could impair profitability.

(f) Dependence on energy prices – Hogla-Kimberly's operations are dependent on energy consumption. A rise in energy prices or substantial delays in supply could damage Hogla-Kimberly's operations and profits. Hogla-Kimberly 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.

(g) Regulation - Hogla-Kimberly is subject to legal restrictions in its commercial operations, which could impact the outcome of its operations, such as – government policies on various issues and various government resolutions, such as a rise in the minimum wage. Such changes in regulations could impact Hogla-Kimberly's activities in its sector of operations.

(h) Customers - There are three large retail marketing chains in Israel. Hogla-Kimberly's sales to the three retail chains represent 40% of total sales. The discontinuation of sales to each of the three chain could hurt the sales of Hogla-Kimberly in the short term, but given the customers' loyalty to the strong brands, no long-term negative impact is expected, and therefore Hogla-Kimberly is not dependent on these chains.

24.1.28.3. Special Factors

Factors related to Hogla-Kimberly's operations in Turkey - Hogla-Kimberly is exposed to risk factors associated with its operations in Turkey, including economic instability and high inflation rates which have been typical of Turkey's economy in the past - for further details see section 24.1.1.5, above. KCTR is also exposed to relevant risk factors in the Turkish market, in terms of exposure to changes in exchange rates, see Section 24.1.28.1(c) above, as well as the sector-specific risks in Turkey related to competition, damage to reputation and raw material prices, as stated in sections 24.1.28.2 (a)(b), respectively, above.

24.1.28.4. The extent of impact of risk factors

The following are the Hogla-Kimberly estimates regarding the types and impacts of said risk factors on Hogla-Kimberly:

Risk Factors	Degree of Impact Considerable Influence	Medium Influence	Small Influence
Macro-economic factors	-Economic slowdown	-Exchange Rates	-Inflation
Sector-related factors	-Damage to reputation	-Competition -Raw material prices -Customers	-Energy prices -Regulation
Special Factors		-Centralized operations -Environmental Protection -Operations in Turkey	

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Part B

MANAGEMENT DISCUSSION

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Financial Statements

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Part D

Additional Details Regarding the Corporation

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Table of Contents

Explanation of Responses:

Company Name:	Hadera Paper Ltd.
Company No. with Registrar:	Private company 52-0018383-3
Company number on stock exchange (issuer number):	632
The Company's address:	POB 142, Hadera 38101
Tel:	04-6349405
Telefax:	04-6339740
Date of balance sheet:	December 31, 2010
Date of Report:	March 7, 2011
Reported Period:	January 1, 2010 - December 31, 2010
E-mail:	Yaeln@hadera-paper.co.il

Regulation 8 B - valuation

A very significant economic for Hadera Paper is added to the financial statements as at December 31, 2010. For details see Note 4(c)4 to the consolidated financial statements of the Company as at December 31, 2010.

In addition, an economic work dealing with purchase price allocation (P.P.A) of Hadera Paper Printing and Writing (formerly Mondi Hadera Paper), in order tp check and asses Hadera Paper Printing and Writing tangible and intangible asets and commitments and updating valuation and Put option which is held by Mondi Group.

Regulation 10 A – Summary of Quarterly Income Statements
Summary of quarterly of income statements is attached hereto as Appendix A of this report.

Regulation 10 C – Utilize of proceeds from securities, with regards to objectives of proceeds according to prospectus
Recycling of existing debt and current investments.

Regulation 11 - List of Company Investments in Subsidiaries and Related Companies, directly and indirectly, as at December 31, 2010
List of investments attached hereto as Appendix B-1 of this report.

Regulation 12 - Changes in company Investments in Subsidiaries and Related Companies, directly and indirectly, during the reported period
List of changes in investments attached hereto as Appendix C of this report.

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Regulation 13 - Revenues of Subsidiaries and Related Companies and the Company's Income Therefrom as at the reporting date
List of revenues attached hereto as Appendix C1 of this report.

Regulation 14 – List of groups of loan balances given as of the date of the balance sheet, if granting of loans was one of the corporation's main dealings
None. The granting of loans was not one of the Corporation's main the things during the reported period and until the date of the report.

Regulation 20 - Stock exchange trading - securities registered for trade/ suspended

1. Securities issued by the company and registered for trade on the stock exchange during the reported period:

During the reported period, 24,009 shares were registered for trade following the exercise of 103,462 options, as part of the employee stock option plan. For details regarding the stock option plan, see Section 13.4.5 to the Periodical Report, dated December 31, 2010.

2. Securities of the company whose trading was interrupted during the reported period

During the reported period, trading in the securities of the company was interrupted on the following dates:

March 8, 2010 - publication of annual financial statements.

Regulation 21 - Compensation for Interested Parties and Senior Officers
Details attached hereto in Appendix D.

Regulation 22 - Transactions with a Controlling Shareholder
Details attached hereto in Appendix E.

Regulation 24 - Convertible shares and securities held by interested parties and by senior officers in the corporation, in subsidiaries or in related companies as at February 14, 2011
Details attached hereto in Appendix E.

Regulation 24A – Registered share capital, issued capital and convertible securities as at February 14, 2011
The number of ordinary shares included in the registered capital of the company: 20 million ordinary shares, each of NIS 0.01 par value.

The number of ordinary shares included in the issued capital of the company: 5,089,811 ordinary shares, each of NIS 0.01 par value.

Number of ordinary shares included in the issued capital of the company, net of dormant shares: 5,089,811

Number of dormant shares of the company: 0

Number of options of the company: 158,038 options, exercisable into up to 158,038 ordinary shares of the company.

On January 14, 2008, the Board of Directors of the Company, following the approval of the Company's Audit Committee, approved a compensation program for senior employees and officers of the Group, pursuant to which up to 285,750 stock options will be allocated each exercisable into an ordinary share of NIS 0.01 par value of the Company, which, as of the date of approval of the allocation, represented 5.65% of the issued share capital of the Company. 250,500 stock options were granted during the first quarter of 2008. On January 8, 2009, a total of 34,000 stock options were granted out of 35,250 that were allocated to the Trustee, as a reserve for future grants. On August 9, 2009, the remaining options held by the Trustee, totaling 1,250 options, were cancelled. In the course of 2010, a total of 103,462 option warrants were exercised into 24,009 shares. During 2009, a total of 1,064 stock options were exercised into 98 shares, while 17,686 stock options expired. 4,250 stock options expired in 2008. As of December 31, 2010, a total of 158,038 stock options have not yet been exercised.

Regulation 25A – Residence and Address

The corporation's registered address:	POB 142; Hadera Industrial Zone, 38101.
E-mail address:	YAELN@HADERA-PAPER.CO.IL
Telephone No.:	04-6349349 or 04-6349405
Fax. no.:	04-6339740

Regulation 26 – Corporation's board of directors
List of directors and their particulars attached hereto as Appendix F.

Regulation 26A – Senior Officers in the Corporation
List of senior officers and their particulars attached hereto as Appendix G.

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Regulation 26B - Approved Signatories of the Corporation
There are no independent signatories at the company.

Regulation 27 – Corporation's Accountant
Name of the Corporation accountant during the reported period: Brightman Almagor & Co.

Address: 5 Ma'ale Shachrur, Haifa.

To the best of the company's knowledge, the accountant or his partner are not an interested party or related to an interested party or senior officers at the company.

Regulation 28 – Changes in the memorandum or articles of association during the reported year
None.

Regulation 29 – Directors' recommendations and resolutions

A. Recommendations of the Board of Directors to the general meeting

(1) Payment of dividend or allocation or allotment of preferred shares - None.

(2) Change in the registered capital or issued capital of Corporation - None.

(3) Change in the memorandum or articles of association of the company - None.

(4) Repayment of securities - None.

(5) Early repayment of debentures - None.

(6) Transaction not according to market conditions, between the company and an interested party therein - None.

B. Director decisions regarding issues outlined in the regulation that do not require approval of the general meeting

(1) Payment of dividend or allocation - as defined in the companies law, by other method or allotment of preferred shares - None.

(2) Change in the registered capital or issued capital of Corporation - None.

(3) Change in the memorandum or articles of association of the company - None.

(4) Repayment of shares - none.

(5) Early repayment of debentures - None.

(6) Transaction not according to market conditions, between the company and an interested party therein - None.

C. Decisions of the general meeting made without the recommendations of directors -

None.

D. Decisions of special general meeting

- On July 27, 2010, the General Meeting of Company shareholders approved, subsequent to approval by the Company's Audit Committee and Board of Directors, purchase of officer liability insurance amounting to $6 million.

- On July 27, 2010, the general meeting of the Company, after receiving the approval of the Audit Committee and Board of Directors of the company, approved the engagement of the company in an agreement dated June 1, 2010, for the sale of its rights in a property covering 7,600 square meters in Tel Aviv (hereinafter: "The Plot"), that 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 overall sum of NIS 64 million, (hereinafter: "The Sale Agreement"). The purchasing parties are 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 shares of 71% and 29%, respectively. For additional details, see Section 12.4 to the periodical report of the company, attached to this report.

- On February 8, 2011, the company announced the convening of the special general meeting of the company on March 21, 2011, for the purpose of ratifying the appointment of Ms. Aliza Rotbard as an external director of the company.

- The board of directors approved, on March 6, 2011, (subsequent to the approval of the Audit Committee), the company entering into an agreement for leasing roof top areas on the Company's Hadera plant to Clal P.V. Projects Ltd. (hereinafter: "Clal PV"), a private company held and controlled indirectly by CII, at an overall area of up to 19,200 m2 (out of which the company was granted an option not to lease a portion of this area, in the scope of up to 14,300 m2), for construction of installations for the production of electricity using photovoltaic technology and transfer of this electricity to the electricity grid during the lease period, under a production license to be granted to Clal PV. The company will convene a general meeting to approve the said transaction, as required by law. For additional details, see Section 12.8 to the periodical report of the company, attached to this report.

Regulation 29 A - Company resolutions regarding topics outlined in the regulation

1. Extraordinary transactions requiring special approval according to Section 270(1) of the companies law- None.

2. Indemnification of officers- On May 10, 2004, the company's board of directors resolved, regarding indemnification of each of the company's senior officers, for any liability or expense as set out below, imposed on such following an action taken (including actions before the date of the letter of indemnification) and/or any action to be taken in future by virtue of office in the company, directly or indirectly related to events set out in the schedule to the letter of indemnification, to any part of such or related to such, directly or indirectly, provided the sum of remuneration, under all writs of remuneration granted in this matter to such company officer, according to the resolution of the board of directors, does not exceed a cumulative sum equivalent to 25% of the company's shareholders' equity according to its last financial statements (consolidated), published before de facto awarding of the letter of indemnification. On June 21, 2006, the general meeting approved the amendment to section 1.1 of the letter of indemnification, in accordance with amendment No. 3 of the Companies Law and in accordance with the amendment to the company articles.

3. Senior Officers' liability insurance- On July 27, 2010, the General Meeting of Company shareholders approved, subsequent to approval by the Company's Audit Committee and Board of Directors, purchase of officer liability insurance amounting to $6 million.

Hadera Paper Ltd.
Date of Signature: March 6, 2011
Names of signing parties:
Ofer Bloch, Company CEO.
Shaul Glicksberg - VP Finance and Business Development.

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Appendix A

Regulation 10 A – Summary of Consolidated Quarterly Statements of Income (In NIS thousands)

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Annual
Sales, net	239,985	249,206	295,435	336,382	1,121,008
Cost of Sales	196,625	209,723	254,697	281,777	945,422
Gross Profit	43,360	39,483	40,738	54,605	175,586
Selling, Marketing, General and Administrative and Other Expenses:					
Selling and Marketing	20,719	19,935	22,878	23,669	87,201
General and Administrative	17,432	11,543	14,922	15,706	59,603
Others	(2,214)	2,856	(17,226)	(15,929)	(32,513)
Total Expenses	35,937	34,334	20,574	23,446	114,291
Profit (loss) from ordinary operations	7,423	5,149	20,164	28,559	61,295
Financial revenues	2,041	579	2,611	4,083	9,314
Financial Expenses	2,967	10,432	20,263	20,417	54,079
Financial expenses, net	926	9,853	17,652	16,334	44,765
Profit (loss) after financing	6,497	(4,704)	2,512	12,225	16,530
Share in earnings (losses) of associated companies, net of taxes	19,461	20,595	18,490	22,586	81,132
Profit before taxes on income	25,958	15,891	21,002	34,811	97,662
Taxes on income expenses (revenues)	1,231	(1,607)	(2,085)	(489)	(2,950)
Net income for the period	24,727	17,498	23,087	35,300	100,612
Net profit attributed to:					
Company Shareholders	24,290	18,038	23,026	35,374	100,728
Minority Interest	437	(540)	61	(74)	(116)
	24,727	17,498	23,087	35,300	100,612
Basic net earnings (loss) per share (in NIS)	4.80	3.55	4.53	6.96	19.84
Diluted net earnings (loss) per share (in NIS)	4.75	3.52	4.50	6.90	19.68
No. of shares that served for calculating basic earnings per share	5,060,872	5,082,028	5,082,028	5,084,785	5,078,156
No. of shares that served for calculating diluted earnings per share	5,116,494	5,117,276	5,114,456	5,123,338	5,118,416

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Appendix B-1

Regulation 11: List of Investments in subsidiaries and in related companies as at the balance sheet date

1) Companies held by the company

Company Name	No. of share On stock exchange	Type of Share and par value In NIS	No. shareholders*	Total Par Value NIS	Value in separate financial statements of the Corporation, according to Regulation 9C	Holding percentage (direct and indirect) In equity	In voting rights	In right to appoint Directors	Stock exchange price as at Balance Sheets In NIS per share	Notes
Amnir Recycling Industries Ltd.	-	Ord. 1	5,367,000	5,367,000	154,146	100	100	100	N.A.	-
Graffiti Office Supplies & Paper Marketing Ltd.	-	Ord. 1	1,000	1,000	(8,590)	100	100	100	N.A.	-
Carmel Container Systems Ltd.	-	Ord. 1	1,739,937	1,739,937	160,004	100.0	100.0	100.0	N.A.	-
Frenkel-CD Ltd.	-	Ord. A 1 Ord. B 1	6,076,000 1,090	6,076,000 1,090	11,007	57.84	57.82	57.82	N.A.	-
Hadera Paper Development and Infrastructures Ltd.	-	Ord. 1	100	100	145,970	100**	100**	100**	N.A.	-
Hadera Paper - Packaging Paper and Recycling Ltd. (formerly: "Hadera Paper Industries Ltd.")	-	Ord. 1	100	100	123,146	100**	100**	100**	N.A.	-
Hadera Paper - Printing and Writing Paper Ltd. (formerly: "Mondi Hadera Paper Ltd.")	-	Ord. 1	750	750	157,485	75.0	75.0	75.0	N.A.	-
	-	Ord. 1	100	100	(2,023)	100***	100***	100***	N.A.	

American Israeli Paper Mills Marketing (1992) Ltd.										Inactive company
Dafnir Packaging Systems Ltd.	-	Ord. 0.0001	1,250,000	125	(893)	100***	100***	100***	N.A.	Inactive company
Niroz Investment Company Ltd.	-	Ord. 0.0001	6	0.0006	88,219	100**	100**	100**	N.A.	Inactive company
1.Associated companies										
Hogla-Kimberly Ltd.	-	Ord. 1 Preferred 1	4,547,622 1	4,547,622 1	239,116	49.9	49.9	49.9	N.A.	-
2.Others										
Bondex Technologies Ltd.	-	Preferred 0.01	20,250	202.5	1,646	18.37	16.67	16.67	N.A.	-

* Number of shares held by the company.

** Including one share held by American Israeli Paper Mills Marketing (1992) Ltd. (inactive company).

*** Including one share held by Niroz Investment Company Ltd. (inactive company)

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Appendix B-2

Loans to subsidiaries and associated companies of the company as at December 31, 2010

Lending party	Borrowing party	Outstanding loans and capital notes, including accrued interest, in NIS thousands	Interest rate %	Linkage Type	Repayment years
Hadera Paper Ltd.	Hadera Paper - Printing and Writing Paper Ltd.	36,674	4%	CPI-Linked	Monthly repayment
Hadera Paper Ltd.	Amnir Recycling Industries Ltd.	22,794	6%	US$-linked	The repayment date has yet to be set
Hadera Paper Ltd.	Attar Marketing Office Supplies Ltd.	15,810	4%	CPI-Linked	Repayment date yet to be set
Nir Oz Investment Company Ltd.*	Hadera Paper Ltd.	(14,673)	0%	Unlinked	Repayment date yet to be set
Hadera Paper Ltd.	American Israeli Paper Mills Marketing (1992) Ltd.*	2,103	0%	Unlinked	Repayment date yet to be set
Hadera Paper Ltd.	Dafnir Packaging Systems Ltd.*	1,134	0%	Unlinked	Repayment date yet to be set
Hadera Paper Ltd.	Hadera Paper - Packaging Paper and Recycling	595,000	6.55%	Unlinked	Annual repayment

* Inactive company

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Appendix C
Regulation 12 – Changes in investments in subsidiary companies and in associated companies during the reported period

Changes in holdings during the reported period -

1. On October 4, 2010, the company completed the full tender offer regarding the acquisition of all of the public holdings in Carmel Container Systems Ltd. ("Carmel"), a subsidiary of the company, at a price of $22.5 per share in cash (subject to withholding tax according to law), in consideration of approximately $4.4 million, pursuant to the decision of the Board of Directors dated August 30, 2010, regarding the full tender offer, according to Section 336 of the Companies Law, 1999. The Carmel shares are not and were not registered for trading on an Israeli stock exchange, although they were previously registered for trade on the American Stock Exchange and were delisted at Carmel's initiative in 2005.

Pursuant to the Companies Law - 1999, the company automatically acquired all of the shares offered as part of the tender offer, including all of the shares held by shareholders that did not accept the tender offer.

The company completed the process of transferring the payment to shareholders whose shares were purchased without their participation and the completion of the technical process opposite the American stock exchange. Upon completion of the said technical process, the company holds 100% of the issued and outstanding share capital and voting rights of Carmel, starting with the last acceptance date of the tender offer, October 4, 2010.

2. On September 7, 2010, Hadera Paper signed an agreement with a subsidiary of Mondi Group (“Mondi Group”), that held - prior to the transaction - 50.1% of the issued and outstanding share capital of Hadera Paper - Printing and Writing Paper Ltd. (formerly Mondi Hadera Paper Ltd.) ("Hadera Paper Printing"), pursuant to which Mondi Group will sell to the Company 25.1% of the issued and outstanding share capital of Hadera Paper Printing ("The Acquisition Transaction").

Prior to the acquisition transaction, the company held 49.9% of the issued and outstanding share capital of Hadera Paper Printing, and holds, subsequent to the completion of the acquisition transaction, valid as at December 31, 2010, 75% of the issued and outstanding share capital of Hadera Paper Printing. Mondi Group holds the remaining 25%.

In consideration of the shares being sold, the Company paid Mondi Group, from its own resources, upon finalization of the Acquisition Transaction, a sum of 10.364 million euro, on January 5, 2011.

The Acquisition Transaction includes, inter alia, the amendment of the existing shareholder agreement between the parties, pertaining to their holdings in Hadera Paper Printing (that entered into force subject to the finalization of the Acquisition Transaction on December 31, 2010), 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 Hadera Paper Printing, a non-competition clause, dividend distribution policy and the like, subject to the provisions of the law.

Moreover, the Acquisition Transaction includes the amendment of the existing agreements between the shareholders and Hadera Paper Printing (that entered into force with the finalization of the Acquisition Transaction on 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 subject to the finalization of the Acquisition Transaction on 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, MBP was granted the option to sell its holdings in Mondi Hadera to the Company at a price 20% lower than its value (as defined in the agreement), or $20 million, less 20% - the higher of the two. The Acquisition Transaction, included an 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 Hadera Paper Printing for a period of three years subsequent to the date of finalization of the Acquisition Transaction (except for specific circumstances outlined in the agreement).

Following the finalization of the transaction as at December 31, 2010, the company is consolidating in its financial statements, as at December 31, 2010, the financial statements of Hadera Paper Printing.

In November 2010 the Company purchased some 18.37% of the shares of Bondex (16.48% fully diluted), in consideration of $450 thousand. Bondex deals in the commercialization and development of bonder, a biological material intended to provide packaging paper with improved characteristics such as strength and water resistance. The other shareholders of Bondex, as at December 31, 2010, 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%; and the startup nursery and other entities 47.39%. True to the date of approval of the financial statements, the company was diluted down to 16.33% (13.70% fully diluted) as a result of a foreign investor having acquired 11.11% of the shares of Bondex.

The cost of acquiring the shares of Carmel, Bondex and Hadera Paper Printing amounted to NIS 15,703 thousands, NIS 1,646 thousands and NIS 49,368 thousands, respectively, as detailed below:

	Primary Operations	Purchase Date	Percentage of ordinary shares purchased		Cost of acquisition NIS thousands
Bondex	Packaging paper R&D	10.11.2010	18.37	%	1,646
Carmel	Packaging and cardboard	4.10.2010	10.30	%	15,703
Hadera Paper - Printing	Fine Paper	31.12.2010	25.10	%	49,368
					66,717

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Appendix C 1

Regulation 13: Profit and loss of subsidiaries and associated companies and revenues therefrom for the year ended December 31, 2010 (NIS M)

			Revenues received				
	Profit (loss) before taxes and special items	Net Income (loss)	Dividend	Dividend Subsequent to Balance Sheet Date	Management fees	Management fees subsequent to balance sheet date	Interest (received by company or eligibility)
Subsidiaries							
Amnir Recycling Industries Ltd.	11,783	24,338	-	-	478	78	6,037
Graffiti Office Supplies & Paper Marketing Ltd.	2,476	1,858	-	-	500	83	1,052
Hadera Paper - Packaging Paper and Recycling Ltd.	(25,997)	(16,369)	-	-	717	117	8,420
Hadera Paper Development and Infrastructures Ltd.	4,402	3,961	-	-	821	68	4,817
Carmel Container Systems Ltd.	3,707	2,938	-	-	-	-	-
Frenkel-CD Ltd.	277	6	-	-	-	-	-
Hadera Paper - Printing and Writing Paper Ltd.	29,358	22,072	7,210	-	1,473	235	2,044
Associated companies							
Hogla-Kimberly Ltd.	190,597	144,693	49,900	14,970	1,296	221	-

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Appendix D
Regulation 21

Regulation 21(a) - Remuneration of Senior Officers

1. 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%	-	21,879	3750			2,629
Shaul Gliksberg4	VP Finance and Business Development	100%	0.11%	51,389	6350		738	1,777
Gideon Lieberman8	COO	100%	0.11%	91,134	10300		1138	1,472
Shimon Biton12	Combined Energy CEO	100%	0.05%	131,152	14200		1538	1,390
Gur Ben David16	General Manager, Packaging Paper & Recycling Division	100%	0.13%	171,032	18300		1938	1,370

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.

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) (hereinafter: "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 Gliksberg 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 Gliksberg in the March 2011 paycheck, on account of 2010. Shaul Gliksberg 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 Gliksberg to the results of operation of the company.

7. On March 10, 2008, Shaul Gliksberg 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.

On May 13, 2007, the Board of Directors of the Company approved the employment agreement of the company's CEO, Mr. Avi Brener, who retired as the company's CEO on December 31, 2009 and who ended his employment at the company on January 31, 2010. Regarding the terms of retirement of the CEO, according to his employment terms, in addition to the release of funds accumulated in a directors' insurance/provident fund etc., at the date of retirement, the CEO shall be paid a retirement bonus in the sum of his last monthly salary prior to the retirement multiplied by the number of years he worked at the group (as of August 1988). On March 23, 2010, the audit committee and the Board of Directors approved the payment of a special non-recurring bonus in the sum of NIS 5 million, to the retiring CEO. For additional details regarding the terms of retirement of the CEO and the special bonus, see the immediate reports published by the company on March 8, 2010 and on March 23, 2010.

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Director compensation

The total remuneration paid to the company directors and the accompanying expenditures, do not deviate from the norm and amounted - during the reported period - to NIS 1075.6 thousands (of which approximately NIS 215.8 thousand were paid to Clal Industries and Investments Ltd., controlling shareholder of the company, on account of the tenure of Messrs. Zvika Livnat, Avi Fischer and Dan Vardi as directors at the company.

Appendix E

Regulation 22 - Transactions with controlling shareholders parties

Negligible transactions

On March 8, 2009, the Board of Directors of the Company approved rules for the assessment of negligible transaction as the term is defined in the Securities Regulations (Preparation of Annual Financial Statements), 1993. The procedure was updated by the Board of Directors of the company on August 8, 2010.

In its normal course of business, the Group conducted transactions with controlling shareholders that are "negligible transactions" in accordance with the said tests appearing in Note 20 to the company's financial statements, dated December 31, 2010.

According to these tests, each transaction with aninteresed party will be considered to be a negligible transaction if it is not an extraordinary transaction and if the relevant parameter for the transaction (one or more) will be equal to less than 0.5%, while the volume of the transaction does not exceed NIS 8 million. In any interested party transaction classified as a negligible transaction, one or more of the criterions relevant to the specific transaction will be calculated based on the consolidated audited or reviewed financial statements of the Company: (a) The sales ratio – total sales in the interested party's transaction divided by total annual sales; (b) Sales cost ratio – the cost of the interested party's transaction divided by the total cost of annual sales; (c) Profit ratio – the actual or forecasted profit or loss attributed to the interested party's transaction divided by the average annual profit or loss in the last three years, based on the last 12 quarters for which reviewed or audited financial statements were published; (d) Assets ratio – the total volume of assets in the interested party's transaction divided by total assets; (e) Liabilities ratio – the liabilities in the interested party's transaction divided by total liabilities; (f) Operating costs ratio - the volume of the expenditure that is the subject of the interested party transaction divided by the total annual operating expenditures. For example, in an insurance transaction of several years, the annual paid insurance fees shall be considered as the volume of the transaction. In cases where, at the Company's discretion, all the aforementioned quantitative benchmarks are not applicable for evaluation of the negligibility of the transaction with an interested party, the transaction shall be deemed negligible, in accordance with another applicable benchmark to be determined by the Company, provided that the applicable benchmark calculated for said transaction is less than 0.5% and that the volume of the transaction shall not exceed NIS 8 million (with this sum being adjusted according to the rise, from time to time, of the consumer price index in relation to the Known Index since the beginning of 2010).

Unexceptional transactions with senior officers or controlling shareholders

The Articles of Association of the Company includes a provision under which, subject to the provisions of the Companies Law, a transaction of the Company with an officer or controlling shareholder of the Company or a transaction of the Company with another person in which the officeer or controlling shareholder of the Company has a personal interest, and which are not unexceptional transactions, shall be approved as follows:

a. An engagement as aforesaid, in an unexceptional transaction, shall be approved by the board of directors or by the audit committee or by another organ authorized thereto by the board of directors, whether by a specific decision or in accordance with the directives of the board of directors, whether by a general authorization, or by authorization for a certain type of transactions or by authorization for a particular transaction.

b. The approval of transaction that are unexceptional as stated in sub-section a. above, may be carried out by granting general approval to a certain type of transactions or by approving a particular transaction;

Subject to the provisions of the Companies Law, a general notice given to the board of directors by an officer or controlling shareholder in the company, concerning his personal interest in a particular entity, while specifying his personal interest, shall constitute disclosure by the officer or controlling shareholder, to the company, of said personal interest, for the purpose of any engagement with an entity as aforesaid, in an unexceptional transaction.

On March 7, 2006, the board of directors of the company approved that the company's management is the authorized entity to approve unexceptional transactions of the company with an officer or controlling shareholder or a transaction of the company with another person, in which the officer or controlling shareholder in the company has a personal interest, as stated in this section, above.

The company and/or its subsidiaries have several engagements with interested parties in the company and/or with companies in which the interested parties in the company are controlling shareholders therein, which are conducted in the course of ordinary business under such conditions and at such prices which are not different from those acceptable in the company with respect to its other clients and suppliers, such as the purchase and leasing of equipment, cellular communications and insurance, as detailed below.

Transactions not outlined in section 270[4] of the Companies Law and that are not negligible:

1. Directors' Liability Insurance: 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., a company owned by the controlling shareholder in the Company indirectly, for the acquisition of an officers' liability insurance policy for the period commencing June 1, 2010 until November 30, 2011. The volume of coverage of the policies $6 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 the policy's coverage is identical to the amount of coverage of previous policies for 2009 and 2008. The annual premium as part of the policy ($37,000) is lower than the premium paid in 2009 ($51,800) and is lower than the premium paid in 2008, that included an expansion of liability on account of a shelf prospectus. Starting in 2009, insurance coverage was expanded to also include position holders and directors of Carmel and its subsidiaries.

2. Insurance: For details regarding insurance policies purchased by the company for itself and for the subsidiaries, see Section 18, above, to the periodical report.

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- Letters of indemnification: Pursuant to the resolutions of the general meeting of the Company dated June 21, 2006 and July 14, 2004, the Company issues letters of indemnification to all the directors and officers of the company, including directors that are considered controlling shareholders in the company (Messrs. Zvika Livnat and Itzhak Manor), as they may be from time to time. Under the letters of indemnification, the company provides all the directors and officers therein, as they may be from time to time, indemnification in advance, in accordance with the company's Articles of Association and the provisions of the Companies Law in respect of any liability or expenses imposed on the officer in consequence of actions he has incurred and/or will incur by virtue of being an officer of the company, which are related directly or indirectly, to the type of events outlined in the letters of indemnification. 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. For additional details, see Section 19.1 to the periodical report of the company, attached to this report.

3. Product Sale - in the course of 2010, Hogla Kimberly Ltd., an associated company of the company's, in the normal course of its affairs, sold from time to time, toiletry, cleaning and paper products to Supersol Ltd., a company controlled by the company's controlling shareholder, for the purpose of sale in some stores and for its own use. On account of the said transactions, Hogla Kimberly Ltd. receive the overall sum of NIS 224.5 million in 2010. The format of the engagement with Supersol, is similar to Hogla engagements with retail marketing chains, as follows: The actual purchases are usually made in an ongoing manner by the various branches, as part of the normal course of affairs and from time to time, according to their needs. Additionally, the parties occasionally sign an agreement that determines different commercial terms that donot constitute an undertaking to either sell and or purchase any products.

4. Product sales: In the course of 2010, through a wholly owned subsidiary of the company in the packaging products and cardboard sector, the company recorded sales to Cargal Ltd., a company in which the Company's controlling shareholder is an interested party, in the overall sum of NIS 48.5 million. In accordance with the format of the engagement with Cargal, in a manner similar to the other company customers, a commercial agreement is signed with the customer once every quarter, which defines the commercial terms. The commercial agreement does not constitute an undertaking on the part of Cargal, for the purchase of packaging paper from the company, and the actual purchasing is made in an ongoing manner, in the normal course of affairs, from time to time, according to Cargal's needs.

5. Product sales: In the course of 2010, the company sold, through Carmel Container Systems Ltd., to Mehadrin Tnuport Exports Limited Partnership, an interested party in IDB Group, cardboard products in the total value of approximately NIS 7.6 million.

6. Rental of Buildings: In the course of 2010, Carmel Container Systems Ltd. paid to Gav Yam Property and Building Group Ltd, a public company controlled indirectly by the controlling shareholder, a sum of approximately NIS 11 million on account of the rental of buildings in Caesarea.

7. Cellular Services: In the course of 2010, the company paid, also through subsidiaries and associated companies, 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 of the agreement signed in 2009.

8. Fuel for automobiles: In the course of 2010, Carmel Container Systems Ltd. paid Delek - Israel Fuel Company Ltd., the sum of approximately NIS 3.8 million for automobile fuel.

9. Vehicle leasing: In the course of 2010, Carmel Container Systems Ltd. paid Prime Lease Vehicle Fleet Management Ltd., an interested party from IDB Group, the sum of NIS 1.1 million for automobile leasing services.

Transactions outlined in section 270[4] of the Companies Law:

a. Agreement for leasing of a Logistics Center: On September 18, 2008, a lease agreement was signed between the Company and Gav-Yam Property and Building Group Ltd ("the lessor"), a public company controlled by the Company's indirect controlling shareholders, whereby the Company leased a plot in Modi'in with an area of 74,500 square meters, as well as buildings constructed by the lessor for the Company, with a total constructed area of 21,300 square meters, to serve as a logistics center, industrial and office space ("Logistics Center") for the Company's subsidiaries, which would - in part - replace existing lease agreements. The Leasing Period is 15 years from the date of receiving possession of the Leased Property. The Company will also hold an option to extend the lease by an additional 9 years and 11 months. During the fourth quarter of 2010, the logistics center was populated by Amnir and by Hadera Paper Printing, while during the second half of 2011, Graffiti is also expected to relocate its distribution site to the logistics center. For additional details, see Section 12.6 to the periodical report of the company, attached to this report. A sum of approximately NIS 2 million was paid in 2010 on account of this agreement.

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b. Sale of an asset: On July 27, 2010, the general meeting of the Company, after receiving the approval of the Audit Committee and Board of Directors of the company, approved the engagement of the company dated June 1, 2010, for the sale of its rights in a property covering 7,600 square meters in Tel Aviv (hereinafter: "The Plot"), that 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 overall sum of NIS 64 million, (hereinafter: "The Sale Agreement"). The purchasing parties are 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 shares of 71% and 29%, respectively. For additional details, see Section 12.4 to the periodical report of the company, attached to this report.

c. Directors' Compensation: On March 7, 2010, the company announced a decision on the part of the audit committee and the Board of Directors of the company regarding the approval of 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 company regulations (directives regarding remuneration and expenses for external directors), 2000 (hereinafter: "remuneration directives"), subject upon meeting regulation 1a(2) to the company ordinance (relief in transactions with interested parties), 2000 (hereinafter: "relief directives") regarding directors who are not controlling shareholders or related thereto, and directive 1b(3) to the relief directives regarding directors who are not controlling shareholders or related thereto, as stated in the company announcement. On March 7, 2011, the company announced a decision on the part of the audit committee and the Board of Directors of the company regarding the approval of 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 company regulations (directives regarding remuneration and expenses for external directors), 2000 (hereinafter: "remuneration directives"), subject upon meeting regulation 1a(2) to the company ordinance (relief in transactions with interested parties), 2000 (hereinafter: "relief directives") regarding directors who are not controlling shareholders or related thereto, and directive 1b(3) to the relief directives regarding directors who are not controlling shareholders or related thereto, as stated in the company announcement.

Appendix F

Regulation 24

Name of Interested Party11	Company No. / ID No.	Name of Security	No. of Security on the Stock Exchange	No. of securities held as at Feb-14-2011	Holding Percentage		Holding Percentage - fully diluted	
					In equity	In voting and authority to appoint directors	In equity	In voting and authority to appoint directors
Clal Industries and Investments Ltd.	52-002187-4	Ordinary shares	632018	3,007,621	59.09 %	59.09 %	57.60 %	57.60 %
Clal Insurance Holdings Ltd.	52-003612-0	Ordinary shares	632018	224,736	4.42 %	4.42 %	4.30 %	4.30 %
Clal Finance Ltd.	51-138234-3	Ordinary shares	632018	35,759	0.70 %	0.70 %	0.68 %	0.68 %
Psagot Investment House Ltd.	51-376707-9	Ordinary shares	632018	276,361	5.43 %	5.43 %	5.29 %	5.29 %

11 Data regarding holders at the company shares are according to the best knowledge of the company.

Regulation 24 - Senior position holders

Name of senior position holder	ID No.	Name of Security	No. of Security on the Stock Exchange	Number of options held as at Feb-14-2011	Holding Percentage		Holding Percentage - fully diluted	
					In equity	In voting and authority to appoint directors	In equity	In voting and authority to appoint directors
Shaul Glicksberg	57082539	Employee options	6320063	5,500	0	0	0.11	0.11
Gideon Lieberman	54469192	Employee options	6320063	5,500	0	0	0.11	0.11
Gur Ben-David	50976281	Employee options	6320063	6,750	0	0	0.13	0.13
Michal Mendelson	55900641	Employee options	6320063	2,124	0	0	0.04	0.04
Simcha Kenigsbuch	55104913	Employee options	6320063	4,250	0	0	0.08	0.08
Noga Alon	58693789	Employee options	6320063	2,124	0	0	0.04	0.04
David Basson	55722755	Employee options	6320063	3,624	0	0	0.07	0.07
Shmuel Molad	25447905	Employee options	6320063	2,750	0	0	0.05	0.05
Avraham Tenenbaum	51325785	Employee options	6320063	2,124	0	0	0.04	0.04
Avner Solel	52224540	Employee options	6320063	2,750	0	0	0.05	0.05
Doron Kempler	50424142	Employee options	6320063	5,500	0	0	0.11	0.11

Appendix G

List of directors serving on the Board of Directors of the company as at December 31, 2010[12]:

(In alphabetical order)
Avital Shmuel
Arad Atalia
Vardi Dan
Livnat Zvi
Milo Roni
Manor Itzhak
Makov Amir[13]
Mar-Haim Amos
Rosenfeld Adi
Vardi Dan

B. Directors who ceased serving on the Board of Directors of the company during the reported period

Following below are details regarding directors who ceased serving on the Board of Directors of the company during the reported period:

Yehezkel Avi

Fisher Avi

12 On February 8, 2011, the company announced the convening of the special general meeting of the company on March 21, 2011, for the purpose of ratifying the appointment of Ms. Aliza Rotbard as an external director of the company.

13 On March 1, 2011, the company announced the termination of the service of Mr. Amir Makov as external director at the company.

Appendix H

Senior officers at the company 14 ,15
Ofer Bloch - Company CEO
Shaul Gliksberg - VP Finance and Business Development.
Gur Ben-David - CEO, Hadera Paper Packaging
Yael Nevo - Legal counsel and company secretary
Michal Mendelson - Group marketing manager
Simcha Kenigsbuch - IT Manager
Noga Alon - Group Organizational Development Manager
David Basson - VP, Supply Chain
Shmuel Molad – Controller
Avraham Tenenbaum - Manager of Development and Innovation
Avner Solel - CEO, Hadera Paper Printing
Doron Kempler - CEO, Carmel Container Systems

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14 On October 31, 2010, Adv. Lea Katz resigned from her position as legal counsel of the Corporation.

15On March 1, 2011, the company announced the appointment of Mr. Zvika Abramowitz as the company's VP of Human Resources.

Part E

Report Regarding Effectiveness of Internal Auditing Over Financial
Statementss and Disclosure

The company is exempt from submitting the report.

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Exhibit 4

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 17% of consolidated total assets as of December 31, 2010 and 2009, respectively, and total revenues constituting approximately 45%, 54% 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 which the 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 generally accepted auditing standards in Israel, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance 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) and in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

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

Israel
March 6, 2011

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HADERA PAPER LTD

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2 0 10	2 0 0 9
		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	O. Bloch	S. Gliksberg
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial and Business Development Officer

Approval date of the financial statements: March 6, 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.

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HADERA PAPER LTD

CONSOLIDATED INCOME STATEMENTS

	Note	2010	2009	2008
		Year ended December 31		
		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		
	2 0 1 0	2 0 0 9	2 0 0 8
	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

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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

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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.

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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

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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.

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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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Explanation of Responses:

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.

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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)