Hadera Paper Ltd
Form 6-K
March 08, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the Month of March 2011

HADERA PAPER LTD.
(Translation of Registrant's Name into English)

P.O. Box 142, Hadera, Israel
(Address of Principal Corporate Offices)

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

x Form 20-F   oForm 40-F

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

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

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

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

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

o Yes   x No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's press release dated March 7, 2011 with respect to the Registrant's results of operations for the year ended December 31, 2010.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant's Management Discussion with respect to the Registrant's results of operations for the year ended December 31, 2010.

Attached hereto as Exhibit 3 and incorporated herein by reference is the Registrant's periodical report for the year ended December 31, 2010.

Attached hereto as Exhibit 4 and incorporated herein by reference are the Registrant's consolidated financial statements for the year ended December 31, 2010.

Attached hereto as Exhibit 5 and incorporated herein by reference are the consolidated financial statements of Hadera Paper- Printing and Writing Paper Ltd. and subsidiaries with respect to the year ended December 31, 2010.

Attached hereto as Exhibit 6 and incorporated herein by reference are the consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the year ended December 31, 2010.

SIGNATURE

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

HADERA PAPER LTD.
(Registrant)

By: /s/ Yael Nevo
Name: Yael Nevo
Title: Corporate Secretary

Dated: March 8, 2011

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated March 7, 2011.
2.	Registrant's management discussion.
3.	Registrant's periodical report.
4.	Registrant's consolidated financial statements.
5.	Consolidated financial statements of Hadera Paper- Printing and Writing Paper Ltd. and subsidiaries.
6.	Consolidated financial statements of Hogla- Kimberly Ltd. and subsidiaries.

Exhibit 1

NEWS
For Release: IMMEDIATE

Hadera Paper Ltd.
Reports Financial Results for Fiscal Year Ended December 31, 2010

Hadera, Israel, March 7, 2011 - Hadera Paper Ltd. (AMEX:AIP) (the “Company”) today reported financial results for the year ended December 31, 2010 ("the Reported Period") and for the fourth quarter of the year ("Fourth Quarter"). The Company, its subsidiaries and associated companies – are referred to hereinafter as the "Group".

The Consolidated Data set forth below excludes the results of operation of the associated companies: Hadera Paper-Printing and Writing Paper Ltd. ("Hadera Paper Printing") and Hogla-Kimberly Ltd. ("H-K").

It should be noted, that following an acquisition transaction, as at December 31, 2010, the Company holds approximately 75% of the shares of Hadera Paper Printing that was consolidated within the financial statements of the Company.

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

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

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

The operating profit in the Fourth Quarter of the year amounted to NIS 28.6 million in relation to operating profit of NIS 0.4 million in the corresponding quarter last year and as compared with operating profit of NIS 20.2 million in the third quarter of the year. The increase in operating profit this quarter is primarily attributed to the sharp rise in gross profit of paper and recycling sector, as a result of the increase in sales and the manufacturing efficiency of the sector as a result of the operation of Machine 8.

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.

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.

The exchange rate of the NIS in relation to the dollar was revaluated during 2010 by approximately 6.0%, as compared with a revaluation of approximately 0.7% last year (the average exchange rate of the NIS vis-à-vis the dollar was revaluated in 2010 by a rate of approximately 5.1% in relation to last year). The changes in exchange rates, affected the results of the various sectors, although the Group's business portfolio, including the investee companies, is practically at equilibrium in terms of foreign currency and consequently, the exposure of the group to sharp fluctuations in currency exchange rates is low.

The inflation rate in 2010 amounted to 2.7%, as compared with an inflation rate of 3.9% in 2009.

In the global packaging paper market, the Company estimates that as a result of the continuing rise in global pulp prices during the Reported Period, the demand for recycled packaging paper has increased, as an alternative to virgin packaging paper. The trend of rising prices of recycled products in the global packaging paper market continued consistently throughout the Reported Period, at an average rate of approximately 28% (according to publications by PPI Germany), and grew more moderate only toward the end of 2010 until its stabilization.

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

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

Net financial expenses amounted to NIS 44.8 million in 2010, as compared with NIS 18.3 million in 2009. The growth in financial expenses originated primarily as a result of the growth in financial expenses on account of long-term liabilities, that increased by approximately NIS 30.6 million relation to last year, mostly due to the cost of financing Series 3 and 4, whose discounting of financing costs for Machine 8 ended at the end of May, coupled with the issuing of bond series 5 (new series) in May. Moreover, an increase was recorded in financial expenses as a result of long-term loans assumed by a subsidiary for financing an investment in a corrugator.

The Company’s share in the earnings of associated companies totaled NIS 81.1 million in 2010, as compared with NIS 87.4 million last year.

The following principal changes were recorded in the Company’s share in the earnings of associated companies, in relation to the corresponding period last year:

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

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

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

The Company also announced that the Board of Directors has approved the convening of an annual general shareholders meeting to discuss the financial reports and management discussion for 2010, and to approve, the election of directors (other than external directors), the nomination of the auditing CPA's for 2011 and the approval of a lease agreement between the Company and Clal PV Projects Ltd. (a private company held and indirectly controlled by Clal Industries and Investments Ltd., the Company's controlling shareholder) for the Company’s leasing roof area to Clal P.V. for construction of installations for the production of electricity using photovoltaic technology. At such time as the Company fixes the record date and meeting date for the shareholders meeting, it will distribute a proxy statement describing the proposals to be considered at the meeting.

This report contains various forward-looking statements based upon the Board of Directors' present expectations and estimates regarding the operations and plans 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 as well as certain other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation for publicly updating the said forward-looking statements, regardless of whether these updates originate from new information, future events or any other reason.

Hadera PAPER LTD.
SUMMARY OF RESULTS
(AUDITED)
except per share amounts
NIS IN THOUSANDS (1)

	2010	2009
Net sales	1,121,008	891,995
Net earnings attributed to the Company's shareholders	100,728	91,230
Basic net earnings per share attributed to the Company's shareholders	19.84	18.03
Fully diluted earnings per share attributed to the Company's shareholders	19.68	18.03

(1) The representative exchange rate at December 31, 2011 was NIS 3.549=$1.00.

Contact:
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Hadera Paper Ltd. Group
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Exhibit 2

-Translation from Hebrew-

March 6, 2011

MANAGEMENT DISCUSSION

The Board of Directors of Hadera Paper Ltd. ("The Company" or "Hadera Paper"", the Company, its consolidated subsidiaries and its associated companies – hereinafter: “The Group”)) is hereby honored to present the Management Discussion as at December 31, 2010, reviewing the principal changes in the operations of the company for the months January to December 2010 ("The Period of the Report" or "The Reported Period"). The report was formulated in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. The results of the company that are presented in the management discussion relate to the share of the shareholders of the company in the results, unless stated otherwise.

A. Description of the Corporation’s Business

1. Company Description

Hadera Paper Group deals in the manufacture and sale of packaging paper, corrugated board packaging, consumer product packaging and unique packaging for industry, recycling of paper and plastic waste, manufacture and marketing of fine paper and in the marketing of office supplies – through subsidiaries. The Company also holds associated companies that deal in the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products.

The company’s securities are traded on the Tel Aviv Stock Exchange and on the New York Stock Exchange (NYSE).

2. General

Principal Current Operations

1. Business Environment

The economic recovery in most world financial and real markets continued during 2010, especially in awakening markets, including 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.

In Israel, 2010 was a year of recovery from the global crisis. Starting in the second half of 2009, a gradual recovery was noted in GDP. This trend continued in 2010 as well, as 4.5% growth was recorded,1 as compared with 0.8% growth in 2009. Exports of goods and services grew by 12.6%2 in 2010, as compared with a decrease of 12.5% in 2009. In parallel to the recovery in exports in 2010, local demand bounced back, the industry's sales in the local market grew at a cumulative rate of approximately 5% from the last quarter of 2009 until the second quarter of 2010. In 2010, a rise in private consumption per capita was noted, of some 2.9%3. 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.

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

The continued trend of geopolitical instability in the Middle East could, under certain scenarios, negatively impact the status of the Israeli market and also on 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.

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

1 Growth data from the Central Bureau of Statistics, December 29, 2010, "Preliminary Assessments for National Accounts for 2010".
2 The data regarding the export of goods and services originating from Central Bureau of Statistics publication, December 29, 2010, "Preliminary Assessments for National Accounts for 2010".
3 Data regarding consumption per capita from the Central Bureau of Statistics, December 29, 2010, "Preliminary Assessments for National Accounts for 2010".

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

The above information regarding the impact of Israel having joined the OECD and pertaining to future trends in the paper market and input prices 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 business opportunities the company may have, dependence on external factors and changes in regulation, changes in global raw material prices and changes in the supply and demand of global paper products as well as changes in the geopolitical situation in the Middle East.

2.Impact of the Business Environment on Company Operations

General

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

Sector Operations

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

Paper waste, which constitutes the main raw material for the manufacture of packaging paper is collected by Amnir from various sources throughout Israel. On January 19, 2001, the Formalization of Treatment of Packaging Law – 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 will enter into effect on March 1, 2011, and certain provisions regarding the start of collection by the recognized body will enter into effect on July 1, 2011. In light of the provisions of the Packaging Law, an adjustment will be required in the set-up of the Company's collection of paper. However, the Company cannot at this stage estimate the impact the law will have on operations, and this is dependent, inter alia, on regulations that will be enacted by power of the law in the matter of separation at source, removal and collection of waste, and on the method of operation to be used by the recognized body to be established by power of the law. The company is examining its preparations in anticipation of the potential setup of collection. For additional details regarding the packaging law, seen a detailed explanation in the periodical report in Section 24.1.24.5.

The impact of the packaging law on the company 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 arrangements that will be determined by virtue of the law, changes in global raw material prices and changes in the supply and demand of global paper products.

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

On December 31, 2010, the company acquired from a subsidiary of Mondi Business Paper Group, 25.1% of the issued and outstanding share capital of Hadera Paper Printing, (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. As to the accounting implications, see Note 17 to the Company's financial statements dated December 31, 2010, attached to this report.

On October 4, 2010, the Company completed a full tender offer for the acquisition of all of the holdings of the public in Carmel, at a price of $22.5 per share in cash, at a total consideration of approximately $4.4 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.

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

Raw Materials

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

Impact of Developments in Financial Markets

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.

All of the above, in relation to trends in the global market, in the paper market, in selling prices and in the prices of inputs and their impact on the company, the influence of the completion of the running-in period of the new manufacturing array - all constitute 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 the crisis in global credit and banking markets, changes in global raw material prices and changes in the supply and demand of global paper products.

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

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

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

The inflation rate in 2010 amounted to 2.7%, as compared with an inflation rate of 3.9% in 2009. As regards hedging transactions conducted by the company in 2010 on account of its index-linked liabilities, see Section E2, below.

B. Explanation of the Results of Operation

1. Analysis of Operations and Profitability

Commencing January 1, 2009, the company applies International Financial Reporting Standard (IFRS) No. 8, “Operating Segments”, and has accordingly recognized the packaging products and board segment, which includes the operations of Carmel Container Systems and Frenkel C.D., as a separate segment. The associated companies Hogla Kimberly and Hadera Paper - Printing and Writing Paper Ltd. ("Hadera Paper Printing") - formerly Mondi Hadera Paper (a consolidated company as of December 31, 2010) were also recognized as independent segments (for further details, see Note 21 to the financial statements dated December 31, 2010). Please note that the following analysis of financial results relates to the companies that are consolidated in the results of Hadera Paper and is affected by the adoption of the Standard mentioned above.

a. Sales

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

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

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

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

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

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

b. Cost of Sales

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

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

The higher gross profit in relation to last year originated primarily as a result of a quantitative growth in sales in light of the initial recognition of revenues from the sales of Machine 8 in June, coupled with the expansion of operations at the entire range of companies as a result of the market recovery, as stated above. The growth in gross profit is also attributed to the lower prices of some of the raw materials, see Section A2, above.

Labor Wages

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

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

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

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

c. Selling, General and Administrative and other Expenses

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

The selling, general and administrative expenses (including wages) and other expenses amounted to NIS 114.3 million in 2010 or 10. 2% of sales – as compared with NIS 110.7 million, 12.4% of sales, last year. Net of non-recurring revenues during the reported period, as a result of the sale of assets in the amount of approximately NIS 18.5 million, a refund from Hadadit fund for employers, valuation of an investment in an investee company and a non-recurring labor expenditure, as mentioned above, the selling, general and administrative expenses amounted to NIS 147.1 million, or approximately 13.1% of sales, as compared with last year, when the selling, general and administrative and other expenses, net of non-recurring revenues as a result of the distribution of a unilateral dividend on account of a preferred share that was allocated by a consolidated subsidiary in the amount of NIS 16.4 million, amounted to NIS 127.1 million, or approximately 14.2% of sales.

d. Operating Profit

The operating profit totaled NIS 61.3 million in 2010, 5.5% of sales, as compared with NIS 15.6 million, 1.7% of sales, last year. The increase in operating profit in 2010 as compared with the corresponding year, is primarily attributed to the increase in gross profit as a result of the increase in sales, as mentioned above. In 2010 and in 2009 the operating profit included non-recurring revenues, as mentioned in Section 1.3, above.

The operating profit of the paper and recycling sector amounted to NIS 50.1 million in 2010, as compared with an operating loss of NIS 2.8 million last year, that included non-recurring profits, as mentioned above. It should be noted that the expenses allocated in 2010 to the packaging sector included non-recurring labor expenses of NIS 5.0 million, as detailed in Section 1.2, above.

The operating profit of the packaging products and board segment amounted to NIS 7.1 million in 2010, as compared with an operating profit of NIS 14.7 million last year. The decrease in operating profit in this sector is primarily attributed to the rise in raw material prices and the increase in other manufacturing expenses, as compared with last year.
The operating profit of the office supplies sector amounted to NIS 5.1 million in 2010, as compared with NIS 4.0 million last year.

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

e. Financial Expenses

Net financial expenses amounted to NIS 44.8 million in 2010, as compared with NIS 18.3 million in 2009.

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

f. Taxes on Income

Tax revenues of NIS 3.0 million were recorded in 2010, as compared with tax revenues totaling NIS 7.1 million in 2009. The decrease in tax revenues this year, originating from a loss for tax purposes in the current operations, by comparison with the tax revenues last year, is primarily attributed to non-recurring tax revenues in the amount of NIS 8.6 million that were included in 2009, as a result of the decrease in the tax rate over the next several years.

g. Company's Share in Earnings of Associated Companies

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

The company's share in the earnings of associated companies totaled NIS 81.1 million in 2010, as compared with NIS 87.4 million last year.

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

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

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

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

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.

- 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.

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.

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.

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:

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value as at Dec-31-09	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			Profit (loss) from changes	
	Rise in € 10%	Rise in € 5%	Fair value as at Dec-31-09	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)

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)

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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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

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.

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).

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.

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.

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.

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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:

			Year ended December 31, 2010						
		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
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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	NIS '000	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, 2008						
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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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.

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.

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.

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.

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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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.

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.

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.

Risk Factors	Degree of Impact 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.

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.

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.

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.

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.

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.

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

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