Hadera Paper Ltd
Form 20-F
June 16, 2010
As filed with the Securities and Exchange Commission on June 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

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

OR

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

For the fiscal year ended on December 31, 2009

OR

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

For the transition period from ____________ to

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

Commission File Number 1-04212

HADERA PAPER LTD.

(Exact name of registrant as specified in its charter)

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

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

Lea Katz. Adv., Corporate Secretary, Tel: 972-4-6349408, Fax: 972-4-6339740. Industrial Zone, Hadera, Israel.
(Name, Telephone, E-Mail and/or Facsimile and Address of Company Contact Person)

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

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

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

None

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

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 5,060,872 Ordinary Shares, NIS 0.01 par value per share, as of December 31, 2009.

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

o Yes þ No

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

o Yes þ No

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

Yes þ No o

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

Yes o No o

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

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

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

U.S. GAAP o

International Financing Reporting Standards as issued by the International Accounting Standards Board þ

Other o

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

Item 17 o Item 18 o

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

o Yes þ No

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CERTAIN DEFINED TERMS

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

FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated financial data of the Company and its subsidiaries are derived from our 2009 consolidated financial statements and are set forth below in table format. Our 2009 consolidated financial statements and notes contained elsewhere in this Annual Report were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Prior to 2008, our financial statements were prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP").

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

The selected financial data for the years ended December 31, 2009, 2008, and 2007, which are presented in Table I below are derived from our consolidated financial statements prepared in accordance with IFRS and do not include consolidated financial data in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). The selected financial data for the years ended December 31, 2006, and 2005, which are presented in Table II below, are derived from our selected financial statements prepared in accordance with Israeli GAAP. The selected financial data for the years ended December 31, 2006, and 2005, which are presented in Table III below, are derived from our selected financial statements prepared in accordance with U.S. GAAP.

TABLE I Selected Financial Data in accordance with IFRS

	Year Ended December 31,		
	2009	2008	2007
	(In thousands of NIS, except per share amounts)		
Income Statement Data:			
Sales	891,995	673,484	583,650
Income from ordinary operations	15,587	35,351	71,109
Share in profits of associated companies, net	87,359	51,315	856
Net income	91,748	67,960	31,535
Selected Balance Sheet Data:			
Total assets	2,316,325	2,044,094	1,319,915
Fixed assets	1,126,360	767,542	405,231
Long-term debt	697,617	676,034	186,261
Shareholders' equity	858,429	757,629	669,971

Per Share Data:			
Shares outstanding at end of year	5,060,788	5,060,774	4,132,728
Amount in NIS	50,608	50,608	41,327
Net income per NIS 1 par value:			
Primary attributed to company shareholders	18.03	13.77	7.63
Fully diluted attributed to company shareholders	18.03	13.77	7.62

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TABLE II Selected Financial Data in accordance with Israeli GAAP

Income Statement Data:	Year Ended December 31, 2006	2005
	(In thousands of NIS, except per share amounts)	
Sales	530,109	482,461
Income from ordinary operations	50,501	43,338
Share in profits (losses) of associated companies, net	**(26,202)	16,414
Net income	[1] 13,330	[1] 45,715
Selected Balance Sheet Data:		
Total assets	1,173,287	1,155,758
Fixed assets	400,823	379,934
Long-term debt	256,290	260,581
Shareholders' equity	430,842	523,384
Per Share Data:		
Shares outstanding at end of year	4,032,723	4,002,205
Amount in NIS	40,327	40,022
Net income per NIS 1 par value:		
Primary attributed to company shareholders	3.31	11.43
Fully diluted attributed to company shareholders	3.28	11.35
Dividend declared per share	[2] 24.85	*[2] 24.99

* Consists of two dividends that were declared in 2005 (see footnote 2 below).

** Amount does not include the cumulative effect of a change in the accounting policy of an associated company (NIS 461 thousand).

1 The net income includes losses in the year 2005, in the sum of NIS 10,000 thousand (representing other than temporary impairment of investment in associated companies). Net income in the year 2005 includes gains of NIS 14,440 thousand, originating from certain tax benefits.

2 Dividend for 2005 in the sum of NIS 12.50 per share ($2.71 per share) was declared in August 2005 and paid in September 2005. An additional dividend for 2005 in the sum of NIS 12.49 per share ($2.71 per share) was declared in December 2005 and paid in January 2006. A dividend for 2006 in the sum of NIS 24.85 per share ($ 5.64 per share) was declared in June 2006 and paid in July 2006.

TABLE III Selected Financial Data in accordance with U,S GAAP

	Year ended December 31 2006	2005
	(In thousands of re-measured NIS, except per share amounts)	
Sales	530,109	482,461
Income from ordinary operations	76,917	63,258
Share in profits (losses) of associated companies, net	(19,686)	8,193
Net income	123,909	141,861
Total assets	1,123,964	1,097,543
Fixed assets	362,539	340,914
Long-term debt	257,075	260,581
Shareholders' equity	374,768	461,406
Per Share Data:		
Shares outstanding at end of year	4,032,723	4,002,205
Share outstanding to compute:		
Basic net income per share	4,025,181	3,999,910
Diluted net income per share	4,055,628	4,051,610
Amount in NIS	40,327	40,022
Net income per share (re-measured NIS)		
Basic	5.94	10.47
Diluted	5.89	10.33
Dividend declared per share	224.85	**224.99

** Consists of two dividends that were declared in 2005 (see footnote 2 below).

1 The net income includes losses in the year 2005, in the sum of NIS 10,000 thousand (representing other than temporary impairment of investment in associated companies). Net income in the year 2005 includes gains of NIS 14,440 thousand, originating from certain tax benefits.

2 Dividend for 2005 in the sum of NIS 12.50 per share ($2.71 per share) was declared in August 2005 and paid in September 2005. An additional dividend for 2005 in the sum of NIS 12.49 per share ($2.71 per share) was declared in December 2005 and paid in January 2006. A dividend for 2006 in the sum of NIS 24.85 per share ($ 5.64 per share) was declared in June 2006 and paid in July 2006.

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Exchange Rates

The exchange rate between the NIS and U.S. dollar published by the Bank of Israel was NIS 3.819 to the dollar on June 15, 2010. The high and low exchange rates between the NIS and the U.S. dollar during the six months from December 2009 through May 2010, including the partial month of June 2010, as published by the Bank of Israel, were as follows:

Month	High	Low
	1 U.S. dollar =	1 U.S. dollar =
June 2010 (until June 15, 2010)	3.884 NIS	3.819 NIS
May 2010	3.870 NIS	3.730 NIS
April 2010	3.749 NIS	3.682 NIS
March 2010	3.787 NIS	3.713 NIS
February 2010	3.796 NIS	3.704 NIS
January 2010	3.765 NIS	3.667 NIS
December 2009	3.815 NIS	3.772 NIS

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

Period	Exchange Rate
January 1, 2010 – March 31, 2010	3.734 NIS/$1
January 1, 2009 – December 31, 2009	3.933 NIS/$1
January 1, 2008 – December 31, 2008	3.588 NIS/$1
January 1, 2007 – December 31, 2007	4.108 NIS/$1
January 1, 2006 – December 31, 2006	4.456 NIS/$1
January 1, 2005 – December 31, 2005	4.488 NIS/$1

B. Capitalization and Indebtedness

Not applicable.

C. Reason for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Macro-economic risk factors

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

An economic slowdown in Israel or globally and/or a deterioration of the political and security situation in Israel and outside Israel could have an adverse effect on the financial situation of the Company and the Group. In September 2008, a significant additional upheaval took place in global financial markets, with the collapse of several very large financial entities in the United States and several other countries. The escalation of said crisis adversely affected the global capital markets, created downturns and fierce fluctuations in stock exchanges both in Israel and worldwide and resulted in the worsening of the credit crunch that ensued the subprime mortgage crisis. Alongside said global financial crisis, several events occurred in the Israeli economy over the past several months, including significant fluctuations in the exchange rates of principal currencies vis-à-vis the NIS, as well as high inflation rates in the local economy.

The trend of economic recovery continued in 2010 in most financial and real markets. Nevertheless, the financial crisis and its implications continue to have an impact, primarily on the eurobloc, that is still characterized by economic instability. The indications of the crisis and its implications are causing significant fluctuations in financial markets, including the prices of securities, bonds and currency exchange rates, coupled with a continuing credit shortage among certain firms and certain countries, and to a great uncertainty in the economic activity.

As at the date of this Annual Report, it appears to be impossible to predict whether the economic implications of the said crisis have ended, despite the initial signs of recovery in the global and local economy.

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

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

We are exposed to exchange rate fluctuations.

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

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

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

Pursuant to the purchase of equipment to be used in the new machine for the manufacture of packaging paper also known as Machine 8, whose prices are denominated in euros, as of December 31, 2009, the Company has entered into force transactions on the euro in the aggregate amount of €11.5 million, to hedge against the cash flows in connection with the satisfaction of payments for the acquisition of the fixed assets acquired from the equipment vendors of Machine 8.

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

Future legal restriction may negatively affect the results of operations.

Our activities and the activities of our subsidiaries and associated companies are confined by legal constraints (such as government policy on various subjects, different requirements made by the authorities supervising environmental regulations and governmental decisions to raise minimum wages). These restrictions may affect our results of operations.

We are exposed to interest rate risks.

The Company is exposed to changes in interest rates, primarily in respect of bonds it has issued in aggregate the amount of NIS 565 million, as of December 31, 2009.

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

Since the Company has significant excess liabilities linked to the Israeli Consumer Price Index, or CPI, primarily in respect of bonds issued by the Company, in the aggregate amount of NIS 356million, a high inflation rate may cause significant financing expenses. The Company occasionally enters into hedging transactions to cover said exposure on account of the liabilities. The Company is examining the cost of hedging as opposed to the relevant exposure and is operating accordingly to hedge the risk.

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

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 aggregate amount of NIS 30 million, pursuant to previous transactions that were made in early 2009 and terminated at the end of 2009.

The Company regularly monitors quoted prices for covering its exposure and in the event that these will be reasonable, the Company will enter into the relevant hedging transactions.

The Company also benefits from natural hedging due to the current debt of an associated company that is linked to the CPI.

Risk factors relating to the Company

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

The increase in the activity of the paper machines, which are based on paper waste as a recycled fiber, required an increase of the paper collection volume to be used as raw material for production in the paper production sector, and location of more extensive collection sources. Consequently, upon the commencement of the operation of Machine 8, the Company required twice as much paper waste as it did beforehand. The absence of sufficient paper waste volume for production would impact the Company’s capacity to produce sufficient packaging paper.

The non-enforcement of the Collection and Evacuation of Waste for Recycling Act, 5753-1993 (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 Protection of Cleanliness Law, 5744-1984 (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.

As to the prices of raw materials, primarily paper, which is a material component in the production cost of cardboard, and inputs, such as energy, electricity, transportation and starch, rise, the profitability of the Company may be adversely affected.

There is an exposure in the associated companies resulting from fluctuation of prices of raw material and of the imported products, which arrive to Israel without tariffs or entrance barriers. Exceptional price increase of raw materials and imported products may have an adversary affect on these companies’ profitability.

We face significant competition in the markets we operate in.

The Company operates in the packaging paper, products and office supplies industries, both of which are highly competitive. In the packaging paper industry, the Company faces competition from imported paper. In the office equipment sector, the Company faces competition from many suppliers that operate in the Company’s markets. The Company also faces completion from paper waster collectors operating in Israel, of which, to the best of the Company’s knowledge, two collectors have a significant market share. The associated companies are also exposed to competition in all of their operations. This competition may adversely affect the future results.

For further information, see “Item 4.B – Business Overview – Competition”.

We face risks relating to account receivables.

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

Operations in Turkey may suffer as a result of the Turkish economy.

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

The demand for Mondi Hadera Paper Ltd.'s products and its expenses may suffer as a result of macro-economic and sector specific risk factors.

An economic slowdown in the global market or Israeli market, can potentially cause a decline in the demand for the type of products that Mondi Hadera Paper Ltd., or Mondi, produces or imports, while increasing the competition from imports, thereby causing a decline in Mondi sales and harming its profitability.

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

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

Mondi is dependent upon Omya Shefaya Ltd., the supplier of chemical agent named precipitated calcium carbonate PCC.

For additional information regarding Mondi, see "Item 4.B – Business Overview – Mondi Hadera Paper Ltd.".

We face risks associated with receiving credit from banks.

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

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

We face risks associated with environmental protection.

Requirements of the Ministry of Environmental Protection with regard to this sector and its facilities require the Company to allocate significant 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.

Risk related to our paper and recycling business

We are dependent on a single supplier of natural gas.

In our paper and recycling operations, we are dependent on our current supplier of natural gas Yam Tethys for the supply of natural gas to our facility in Hadera. If our agreement with Yam Tethys is terminated, we would be required to contract with natural gas suppliers such as East Mediterranean Gas (EMG) or to convert back to fuel oil, which, as of the date of this Annual Report, is significantly more expensive than natural gas.

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

In October 2007, we converted our energy-generation systems, currently based on heavy fuel oil, to natural gas. The termination of the agreement by the natural gas transporter with us for the transport of natural gas that we use at our facility in Hadera could have a material adverse effect on our operations.

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

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

We have been declared a monopoly under the Israeli Restrictive Trade Practices Law, 5748-1988, in the market for the manufacture and marketing of packaging paper. Under Israeli law, a monopoly is prohibited from taking certain actions, and the Commissioner of the Israeli Antitrust Authority has the right to intervene in matters that may adversely affect the public, including imposing business restrictions on a company declared a monopoly, including supervision of prices charged. The Israeli Antitrust Authority may further declare that we have abused our position in the market. Any such declaration in any suit in which it is claimed that we engage in anti-competitive conduct would serve as prima facie evidence that we are a monopoly or that we have engaged in anti-competitive behavior. Furthermore, we may be ordered to take or refrain from taking certain actions, such as setting maximum prices, in order to protect against unfair competition. Notwithstanding the aforementioned, the Israeli Antitrust Authority had not intervened and/or imposed any restrictions upon us with regards to our declaration as a monopoly. Restraints on our operations as a result of being considered a monopoly in Israel may negatively affect our financial results in the manufacture and marketing of packaging paper activity   The Company recently submitted a request to the Antitrust Authority to rescind its monopoly status in the sector of packaging paper in rolls and sheets, as mentioned above, since the Company believes it is not actually a monopoly in this sector.

The financial results of the Company's operating sector may be affected by centralization.

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

Unforeseen or recurring operational problems and maintenance outages at any of our paper and recycling facilities may cause significant lost production.

Our paper and recycling operations are concentrated in a small number of facilities in a limited number of locations. Our manufacturing process could be affected by operational problems that could impair our production capability. Each of our facilities contains complex and sophisticated machines that are used in our manufacturing process. Disruptions or shutdowns at any of our facilities could be caused by many factors, many of which are outside our control. If our facilities are shut down, they may experience prolonged startup periods, regardless of the reason for the shutdown. Any prolonged disruption in operations of any of our facilities could cause significant lost production, which would have a material adverse effect on our business, financial condition and operating results.

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

Certain aspects of our manufacturing operations are subject to a wide range of general and industry-specific environmental, and safety laws and regulations, which impose a substantial financial burden on our resources, such as stricter environmental protection regulations and government decisions concerning the raising of minimum wages. Furthermore, non-enforcement of regulation concerning waste collection, in accordance with the Cleanliness Law and the Recycling Act, may impact the Company's capacity to increase paper waste collection. Such financial expense is likely to increase as the public's environmental awareness increases and laws and regulations impose additional obligations on us.

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

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

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

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

We depend on a limited number of customers for finished goods in packaging paper in Israel. However, since we have the advantage of being a local producer in Israel, we may be able to limit the effects caused by a loss of a local customer.

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

Risk related to our office supplies business

We are dependent on continued success in securing large tenders.

The office supplies activity of the Company is conducted through securing large-scale tenders for defined and fixed periods of time. We cannot assure you that in the future we and/or our subsidiaries will continue to be successful at securing these tenders. If we and/or our subsidiaries are unsuccessful in continually securing certain large-scale tenders, this may negatively impact our sales volume which, in turn, may adversely affect our profitability in the office supplies sector of our business.

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

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

Risks relating to our location in Israel

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

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

§ any major hostilities involving Israel;

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

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

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

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

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

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

Risks relating to our ordinary shares

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

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

The Group has participated in several joint ventures as follows:

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

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

3. Effective January 1, 2000, the Company entered into a joint venture agreement (for the purpose of this paragraph, the "Agreement") with an Austrian company, Neusiedler AG, which later changed its name to Mondi Business Paper, or MBP, pursuant to which MBP acquired 50.1% of the Company's printing and writing paper operations which was separated from the Company upon the completion of this transaction and was sold to Neusiedler Hadera Paper, or NHP, a subsidiary that was established for this purpose, of which MBP acquired 50.1%. In 2004, NHP was renamed Mondi Business Hadera Paper Ltd., and was again renamed in February 2008 and is now called Mondi Hadera Paper Ltd. In accordance with the Agreement, MBP was granted the option, exercisable up to an unlimited time, by which MBP is allowed to sell its holdings in Mondi to the Company in consideration of a price

20% lower than Mondi's actual value. According to the Agreement, Mondi's value will be determined according to a valuation that will not be less than the minimal amount set forth in the Agreement. In oral understandings reached between senior officers of the Company and MBP in proximity to the entry into the Agreement, MBP agreed to exercise the option only in exceptional circumstances, such as those that may paralyze production in Israel for long periods of time. In view of the extended period which has elapsed since the date of such understandings and due to changes in the management of MBP, the Company has chosen to take a conservative approach, and, accordingly, to reflect the economic value of the option in the context of the transition to reporting according to international standards. See also Note 5(b)(3) of our consolidated financial statements contained elsewhere in this Annual Report.

4. Amnir Recycling Industries Ltd., or Amnir, a wholly owned subsidiary of the Company, which is engaged in the collection and recycling of paper and plastic waste and in the confidential data destruction business, acquired 20% of Cycle-Tec Recycling Technologies Ltd., or Cycle-Tec, in 1997 and an additional 10% in 1998. Cycle-Tec is a research and development company developing a process for manufacturing high-strength, low-cost composite materials based on recycled post-consumer plastic and paper treated with special chemical additives. As of May 31, 2010, Amnir owned 30.18% of Cycle-Tec.

5. In 1998, the Company transferred paper waste collection operations from Amnir to Amnir Industries and Environmental Services Ltd., or Amnir Environment, a wholly-owned subsidiary of Amnir. In July 1998, the Company signed an agreement with a strategic partner, Compagnie Generale d'Entreprises Automobiles, or CGEA, for the sale of 51% of the operations of Amnir Environment. The agreement did not apply to Amnir's operations in collecting and recycling paper and plastic. As of February 13, 2007, the Company is no longer a shareholder in Amnir Environment.

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

7. In March 2000, the Company and CGEA entered into an agreement with Tamam Integrated Recycling Industries Ltd., or TMM, and its controlling shareholders. Through a jointly held company called Barthelemi Holdings Ltd., or Barthelemi, the Company and CGEA acquired from TMM's controlling shareholders 62.5% of the outstanding share capital of TMM, an Israeli company in the solid waste management field. Simultaneously, 100% of Amnir Environment's outstanding share capital was transferred to TMM in consideration of the allocation of 35.3% of the outstanding share capital of TMM to the shareholders of Amnir Environment. Following the transaction, the Company and CGEA jointly owned 75.74% of the outstanding share capital of TMM. On January 4, 2007, an agreement was signed between the Company and CGEA, according to which the Company sold to CGEA its holdings in Barthelemi and the remainder of its holdings in TMM. The $27 million transaction was completed on February 13, 2007. Pursuant to the consummation of the transaction, the Company is no longer a shareholder in TMM.

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

The current Group structure is as follows:

28.92%
Hogla-
Kimberly
Ltd.(4)
Hadera Paper
Industries
Ltd.
Carmel
Container
Systems
Ltd. (5)
Amnir
Recycling
Industries
Ltd.
Frenkel
CD Ltd.
Attar Marketing
Office Supplies
Ltd.
49.9%
49.9%
89.3%
100%
Hadera Paper Ltd. (1) (2)
100%
Mondi
Hadera
Paper
Ltd.(3)
100%
28.92%
Kimberly -Clark Tuketim
Mallari Sanayi Ve
Ticaret A.S. (Turley)
100%
Cycle-
Tec Ltd.
30.18%
Hadera Paper
Development and
Infrastructure Ltd.
100%
Tri-Wall
Containers
(Israel) Ltd.
100%

100%

Other important events in the development of the Company include:

During 2008, the Company completed the execution of the key agreements for the purchase of major equipment required for a new production system for packaging paper produced from paper and board waste. The new production system at the Company's Hadera site, which will have an output capacity of approximately 230 thousand tons per annum, will cost an estimated NIS 690 million (approximately $186 million). The principal equipment for the production system was acquired from leading companies in the world in the field of the manufacture and sale of paper machines, with the central equipment purchased from the Italian company Voith, while additional complementary items were ordered from Finnish company METSO and Italian company SEEI. For further information, see "Item 10.C - Material Contracts".

In November 2007, the Company allotted, via a private placement, 1,012,585 ordinary shares which on the allocation date comprised approximately 20% of the Company's outstanding share capital for a total consideration of NIS 213 million (approximately $57.6 million). Approximately 60% of these shares (607,551 shares) were allotted to shareholders in the Company, Clal Industries Ltd. and Discount Investments Corporation Ltd. (for the purpose of this paragraph, the "Special Offerees"), in accordance with their pro-rata holdings in the Company, and the remaining 40% of these shares (405,034 shares) were offered by way of a tender to institutional and/or private investors (whose number did not exceed 35) (for the purpose of this paragraph, the "Ordinary Offerees"). The share price for Ordinary Offerees, determined by auction, was NIS 210 per share (approximately $56.7). Accordingly, the price per share for Special Offerees, when considering the number of shares offered to Special Offerees, was set at NIS 211.05 (approximately $57.0), or auction share price plus an additional 0.5%.). The consideration received from the allotment of these shares was used for the partial financing of the acquisition of Machine 8. For further information regarding Machine 8, see "Item 4.D Property, Plants and Equipment".

On December 23, 2007, the Company entered into a market-making agreement with Prisma Capital Markets Ltd., or Prisma, for the market-making of the Company's shares traded on TASE, at a scope and under terms and conditions set forth in the agreement and subject to the stock exchange regulations and guidelines, in return for a monthly payment whose amount is immaterial for the Company. The agreement was signed for a two-year term, and each party may terminate the agreement after its first anniversary. On December 31, 2008, the Company announced that due to discontinuation of the market-making activities by Prisma, the latter's activities have ceased as of January 21, 2009, and the agreement is therefore terminated.

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1 In February 2007, the Company sold its holding in TMM Integrated Recycling Industries Ltd. (43% of TMM's issued share capital) and no longer owns shares of TMM.

2 In addition, the Company has the following holdings in inactive companies: Integrated Energy Ltd.; Hadera Paper - Development and Infrastructure Ltd.; AIPM Marketing (1992) Ltd.; Yavnir Trading Company Ltd.; Nir Oz Investment Company Ltd.; and Dafnir Packaging Systems Ltd

3 Mondi has four wholly-owned subsidiaries: Mondi Hadera Paper Marketing Ltd., Grafinir Paper Marketing Ltd., Yavnir (1999) Ltd., and Mitrani Paper Marketing 2000 (1998) Ltd.

4 In addition to KCTR, H-K has two other wholly-owned subsidiaries: Hogla Kimberly Marketing Ltd. and Mollett Marketing Ltd.

5 Carmel has a wholly-owned subsidiary named Tri-Wall Containers (Israel) Ltd.

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

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

Pursuant to the Shelf Prospectus, on July 16, 2008, the Company completed the offering of two bond series (Series 3 and 4) at an aggregate amount of approximately NIS 308,060 thousand (approximately $93,500 thousand) . The Company has allotted NIS 187,500 thousand par value in bonds Series 3, for total consideration of NIS 187,500 thousand (approximately $ 50,676 thousand), bearing interest at 4.65% and repayable in equal annual installments on July 10 of each year between 2009 and 2018. In addition, the Company has allotted NIS 120,560 thousand par value in NIS-denominated bonds Series 4, for total consideration of NIS 120,560 thousand (approximately $32,584 thousand), bearing interest at 7.45%. These are repayable in equal annual installments on July 10 of each year between 2010 and 2015. Net of issuing expenses, the Company received net proceeds at an aggregate amount of NIS 306,609 thousand (approximately $82,867 thousand).

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

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

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

On May 23, 2010, the Company completed a further offering pursuant to the Shelf Prospectus, raising a gross total of NIS 181,519 thousand (approximately $ 47,500 thousand), in exchange for the allocation of NIS 181,519 thousand par value of bonds (Series 5), bearing interest at 5.85%. On May 10, 2010, the Company announced that Maalot (Israeli Securities Rating Company Ltd., an affiliate of Standard and Poor's) decided to rate Series 5 Debentures as (ilA+)/Negative.

On November 11, 2009, Mr. Avi Brener informed the Company of his intention to retire his position. Mr. Brener served as CEO of the Company until December 31, 2009, and his employment with the Company terminated on January 31, 2010.

As of January 1, 2010, Mr. Ofer Bloch serves as the Company's Chief Executive Officer.

Capital Expenditures and Divestitures

2009

The Company's investments in fixed assets totaled approximately NIS 438.2 million (approximately $111.4 million) in 2009. These investments included:

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

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

- Investments in the aggregate of approximately NIS 101.0 million (approximately $25.6 million) in buildings, equipment, transportation and information technology.

2008

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

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

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

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

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

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

2007

The Company's investments in fixed assets totaled approximately NIS 76.5 million (approximately $19.9 million) in 2007. These investments included:

- Investments of approximately NIS 1.8 million (approximately $0.5 million) in environmental expenditures.

- An investment of approximately NIS 12.5 million (approximately $3.3 million) in a conversion to a gas system.

- Investments of approximately NIS 19.4 million (approximately $5.0 million) in conversion and improvement of steam tanks.

- Investments of approximately NIS 2.8 million (approximately $0.7 million) in real estate in Naharia as a reserve for the Company's future development.

- Investments of approximately NIS 5.6 million (approximately $1.4 million) in Machine 8.

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Investments in the aggregate of approximately NIS 34.4 million (approximately $8.9 million) in buildings, equipment, transportation and information technology.

B. Business Overview

The Group's Operations and Principal Activities

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

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

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

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

§ ISO 9001/2000 – quality management;

§ ISO 14001 – environmental regulations; and

§ Israeli Standard 18001 - safety

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

1. The Paper and Recycling Sector

General

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

Based on internal Company estimates, consumption of packaging paper in Israel averaged approximately one million tons in recent years. The volume of paper recycling in 2009 amounted to 300,000 tons (excluding corrugator waste amounting to 50,000 tons). This constitutes an increase from the annual Israeli average of the last several years which amounted to 255,000 tons. The paper recycling rate, out of total paper consumption in Israel, was approximately 30% in 2009. Accordingly, there is an apparent potential for growth in the volume of paper production in Israel as an alternative to paper importing, as well as potential for continued growth in paper recycling due to the low recycling rate in Israel, in relation to existing rates in Europe.

In February 1989, the Company was declared a monopoly in the manufacture and marketing of papers in rolls and sheets by the Israel Antitrust Authority. In July 1998 this declaration was partially rescinded with regard to fine paper in rolls and sheets. The declaration has not been rescinded for packaging paper in rolls and sheets. The Company recently 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 to the Company's estimation, it is not actually of monopoly in this area.

Raw Material

Since the supply of raw materials is vital for production continuity, Amnir's operations in collecting waste constitute a crucial step in the packaging paper production process. Amnir's operations primarily include paper and board collection, information security (shredding services at customer premises or at Amnir premises), plastic recycling and production of paper products, that is not material for the sector. Amnir collects paper waste from various sources around Israel and processes, sorts and compresses paper waste at its plants in Hadera and Bnei Brak, at a rate of approximately 240,000 tons of paper waste annually (wood-free paper, wood-based paper and board).In 2009, approximately 66% of the paper waste handled by Amnir was used for in-house production of packaging paper by Hadera Paper Industries Ltd. and 34% of the said quantity is sold as raw material to producers of tissue paper to H-K, Shaniv, Panda Paper Mills (1997) Ltd. and White Paper Jerusalem (2000) Ltd. In addition to paper waste collection, Amnir also purchases paper waste from various collectors as needed.

The relative absence of supporting enforcement of Israel's Recycling Act, which mandates waste recycling, detracts from the Company's ability to expand waste collection. On January 16, 2007, however, the ninth amendment to the Clean Environment Act – 2007, was enacted, imposing a landfill levy on waste. Pursuant to the provisions of this act, a landfill charge will be levied against waste, at the rate of NIS 10 per ton in 2007, rising up to NIS 50 per ton from 2011 and thereafter. The remains of waste sorting (that is, waste that was sorted at a transfer station for treatment and sorting of waste for recycling) will be charged a reduced land filling levy of NIS 0.80 per ton in 2007, rising gradually to NIS 4 per ton from 2011 and thereafter. The Company estimates that the enforcement of the said landfill levy may cause various entities to prefer transferring their waste for recycling over land filling, in order to avoid the said land filling levy. This may result in the growth of the volume of waste collected for recycling, thereby lowering the collection costs.

Amnir is working to increase the volume of waste collection in anticipation of the ongoing operation of Machine 8 by intensifying collection activity from existing customers and the development of new collection sources, adaptation of its organizational structure, construction of an alternative site for Amnir's Bnei Brak facility and inventory accumulation. Machine 8 will require twice the volume of paper waste collection to serve as raw material in the production of packaging paper over the coming years.

The paper production process requires involves considerable amounts of energy. As part of the process of the Company's transition to the use of natural gas instead of fuel oil, the Company entered into an agreement with Yam Tethys Sea Group. The natural gas will be supplied by the Yam Tethys partnership through mid-2011. For further information, see "Item 10.C - Material Contracts".

Customers

The Company is dependent on five material long-standing customers who produce corrugated board and cardboard packaging (corrugators), including Carmel. Due to the industry structure (one local producer and a limited number of customers) there is a dependency on each of the aforementioned customers, and termination of the contract with any one of them may have a material adverse effect on the Company results. The Group successfully maintains contracts with the customers over years by ensuring current delivery and service with a short lead time, which allows it to enjoy the benefit of a local supplier. In the years 2008-2009, a decrease was recorded in sales to local customers on account of imports at dumping prices as well as of the global economic crisis and of the increase of the Company's export operations and the establishment of markets overseas, at the expense of the local market, as part of preparations for an increase in exports following the operation of Machine 8.

In addition, Hadera Paper Industry Ltd. exports packaging paper to various customers overseas (mostly in Turkey, Greece and Egypt). In 2009, 2008, and 2007, revenues from packaging paper sales to overseas customers amounted to NIS 57 million (approximately $15 million), NIS 50 million (approximately $14 million) and NIS 47 million (approximately $12 million), respectively, accounting for 6%, 7% and 8% of total sales in these respective years.

With the operation of Machine 8 and due to the increased production quantities, the Company intends to increase its export sales and, commencing in 2009, started to develop its export markets primarily to Turkey, Greece, Egypt, Italy, Spain, Portugal and additional Western European nations.

Marketing and Distribution

Marketing and distribution in the local market are conducted directly by Company employees vis-à-vis the customers. Marketing and distribution to export markets are conducted through local agents or through international marketing and sales companies that purchase the paper from the Company and sell it to their own customers overseas. Despite the fact that in certain regions to which the merchandise is exported there exists a single agent for the region, the Company estimates that in the event that such an agent were to discontinue its operations vis-à-vis the Company, the impact to the Company would be purely temporary.

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

Competition

As mentioned above, the Company is the sole producer in Israel of packaging paper, hence the competition in the packaging paper business is against imports, made directly by customers without any barriers. Imports into Israel include all paper types produced in Israel at different paper qualities, depending on the supplier's production machinery. To the best of the Company's knowledge, its major competitors in Israel are the following foreign vendors: Varel – Germany, Mondi Switchi - Poland, Hamburger – Austria, SCA – Italy, and Modern Carton - Turkey.

The two major competitors in paper waste collection, which operate throughout Israel, are KMM Recycling Plants Ltd. and Tal-El Collection and Recycling Ltd. In addition, there are many competitors with small market share who mainly operate in a limited geographical area.

On January 15, 2009, the Company announced that as producer of packaging paper, it had filed a complaint with the Supervisor of Anti-dumping Charges and Homogenization Charges at the Ministry of Industry, Trade and Employment (the "Supervisor") concerning import in dumping prices of packaging paper from several European countries to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. The Company noted that in recent years it has faced importing of packaging paper at very low prices, suspected of being dumping prices, and after collecting the required information and identification of the sources of dumping, the Company filed the aforementioned complaint. On September 1, 2009, the Company reported that the Supervisor announced that importing at dumping prices of recycled brown paper products was allegedly taking place, while causing damage to the local production sector. The Supervisor therefore decided to impose a temporary levy, for a period of six months, at a level equal to €52-€67 per ton on the import of recycled brown paper products from manufacturers in the European Union. On December 3, 2009, the Company announced that in a hearing held in court regarding the petitions of five importers/producers that were appealing the decision of the Supervisor, it was agreed between the parties that the decision of the Supervisor would remain in place for the four months following December 3, 2009, while the guarantees that were deposited by the petitioners in October and November would be returned to them. This decision received of the validity of a court ruling. The said temporary guarantee was valid until March 31, 2010. On January 21, 2010, the Supervisor informed the Dumping Committee of his recommendation to impose a dumping levy of €31-€44 per ton, on most different producers from the European Union. The Supervisor's recommendation regarding dumping is subject to the approval of the Dumping Committee and the signature of the Minister of Employment Commerce and Industry and the Minister of Finance. There is no certainty regarding the approval of the recommendation of the Supervisor and the Company cannot estimate at this stage the influence of the acceptance of the complaints on its results. Based on its internal estimates, the Company estimates that its market share as of 2009, in the sales of packaging paper used as raw material for the corrugating industry in Israel, is equal to approximately 28%.

Changes to Volume of Operations and Profitability

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

New Products

Over the course of the last year, the sector has started to quickly develop paper types, based on 100% recycled fibers, whose high quality will render it possible to replace packaging paper based on pulp, in the corrugated board industry in Israel and overseas. The technological and operational development process is currently in advanced stages and is meant to increase the volume of the potential market for recycled packaging paper. The development of new paper types is based on the characterization of fibers, developing and implementing new chemical additives and using these advanced manufacturing technologies, both in the existing production lines and in the new production line, to render it possible to gradually launch new products during 2010. According to the plan, the cost of the new paper types will be competitive as compared with the cost of pulp-based paper and will allow for a gradual improvement in the profitability of the sector. According to laboratory tests, the indications from the development process in the production lines and initial markets tests, it appears that the probability for success in this area is relatively high.

Moreover, the significant increase in the output capacity of recycled packaging paper, upon the operation of the new manufacturing system, will allow for an expansion of the operations both in Israel and overseas. The process of developing pulp-replacement packaging paper products on the basis of 100% recycled fibers, as mentioned above, will enable the division to expand the sale of such products for the first time, as a substitute for pulp-based packaging paper in international markets. The new products create an improved profit potential and are planned to be sold at a significant price supplement per ton of exported paper, as compared with the selling prices of basic paper types. In 2009, the Company worked to develop export markets that would absorb surplus manufacturing that cannot be absorbed by the local market and has started marketing to several agents dealing in various types of packaging paper, in Europe and elsewhere. With the operation of Machine 8, this activity is expected to bring about the anticipated gradual growth in export sales, while diversifying the product and market portfolio of the sector.

Seasonality

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

2. Office Supplies Marketing Sector

General

The office supplies marketing sector focuses on the marketing of office supplies, disposable paper products, office technology, office furnishings, complimentary equipment (dry food, cleaning products), art products and more. The office supplies marketing sector is conducted through Graffiti and Attar. The office supplies marketing Israel is relatively stable, yet is affected by the prices of paper, plastic and steel, as well as levels of economic activity in the economy, which have an impact on this market by way of changing the consumption patterns during a recession. Most of the products marketed in Israel in the sector are imported products that include pens and stationery, office supplies, shredders, binding machines, disposable paper products etc., in addition to products acquired from local manufacturers and suppliers, such as office furniture, printers, fax machines, computers and peripherals, cameras, food products, toiletries etc. The rate of technological development of Israel's business sector leads to increasing demand for technology-based products marketed by Graffiti, including office automation, printers, hardware, software and consumables such as toners, inkjet cartridges, etc. The critical success factors in this area of activity are a high level of service supported by complex logistics and reduction of costs by improving purchasing sources and a transition to purchasing from the Far East.

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

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

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

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

Customers

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

During 2009, 2008, and 2007, approximately 32%, 25% and 21% 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.

Marketing and Distribution

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

In 2009, Graffiti launched sales campaigns that included publication of advertisements in daily newspapers. This campaign also continued in 2010.

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

Marketing activities are performed through Attar.

Competition

There are three dominant players in the sector of office supplies by direct supply to institutions and businesses: Graffiti, Office Depot (Israel) Ltd. and Kravitz (1974) Ltd., who mainly dominate market share of customers with agreements by tenders and strategic customers (such as banks and local authorities). In addition to these players, there are also a large number of competitors in the business customer market holding small market sectors, mainly active in smaller geographic areas.

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

Graffiti cannot estimate its share of the market, as Graffiti markets a very large variety of products in the area of office supplies, with the aim of providing comprehensive solutions for supply of the various products in the office supplies sector. It is consequently difficult to define the size of the relevant market, and Graffiti's share therein. For the purpose of approval by the Supervisor of the Israeli Antitrust Authority of the acquisition of Yavne Pitango operations as set forth above, Graffiti's market share was estimated at 10%.

In January 2010, Graffiti received notice from the Ministry of Employment, Commerce and Industry regarding the launching of an investigation following the complaint filed by DC Paper and Plastic Industries Ltd., to the Supervisor of Anti-Dumping Charges at the Ministry of Employment Commerce and Industry, regarding the import of paper cups from China to Israel at dumping prices, allegedly conducted by Graffiti and others. At the preliminary stage of the investigation, it is impossible to assess its results, nor whether a dumping heavy will be imposed and at what rate. Graffiti estimates that if a dumping levy is imposed at the requested rate, the impact on the company will be marginal.

Seasonality

Graffiti's sales during the second half of the calendar year are usually higher than the first half of that same year, in light of the start of the school year and the realization of annual purchase budgets for institutions and businesses. In the second half of 2009, Graffiti's sales were 18% higher than in the first half of the year; sales in the second half of 2008 were 15% higher than in the first half of 2008; and sales in the second half of 2007 were 10% higher than in the first half of that same year.

3. Packaging and Cardboard Products Sector

General

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

The cardboard packaging production and sales operations are carried out through Carmel and Frenkel CD. Carmel is engaged in the design, manufacture and marketing of cardboard packaging products. Carmel also possesses unique capabilities in the area of digital printing. Tri-Wall Containers (Israel) Ltd., a wholly-owned subsidiary of Carmel, that was acquired in 1988 from Koor Foods Ltd., is engaged in the design, manufacture and marketing of special triple-wall corrugated shipping containers (manufactured by Carmel), with the combination of additional materials, which are designed for the packaging and transportation of products primarily to the high-tech market, bulk shipments, etc. In addition, Tri-Wall manufactures wooden shipping pallets for the local market and for export. Frenkel CD is one of the leading companies in the design, manufacture and marketing of packages for consumer goods and engages in shelf packaging made of compressed cardboard. Frenkel CD offers its numerous customers from industry, agriculture, food and beverage industries, cosmetics, pharmaceuticals and high-technology industries, unique packaging solutions that are tailored to their needs.

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

The Company estimates, the total market for packaging products and cardboard in Israel, that grew by 3% in 2007, decreased by 3% in 2008 as a result of the cold spell in agriculture at the beginning of that year, coupled with a deep recession that originated as a result of the global financial crisis, that began in the second half of 2008 and remained at its low levels in 2009 as a result of the deep recession due to the global financial crisis.

In the course of 2009, the Tri-Wall operations in packaging manufactured for the high-tech industry, suffered as a result of the sharp drop in the high-tech sector due to global economic crisis. This decrease did not have a material impact on the overall sector of operations.

Raw Materials

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

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

Products

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

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

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

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

2. Cardboard shelf packaging - Frenkel CD designs, produces and markets shelf packaging and display stands. The raw materials used for the Frenkel CD products primarily include duplex cardboard and some corrugated board. Duplex cardboard is mostly imported directly from Europe and the U.S. and is purchased in part from local agents (indirect imports). Corrugated board supply from Carmel accounts for approximately 20% of Frenkel CD's raw materials.

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

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

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

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

Customers

Carmel

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

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

Carmel has one material customer, the revenues from which amounted to Carmel in 2009, 2008, and 2007 to NIS 55.5 million (approximately $14.1 million), NIS 54.0 million (approximately $15.0 million) and NIS 63.4 million (approximately $15.6 million), respectively, which accounted for 14.4%, 12.9% and 13.4%, respectively, of its total revenues. Carmel is not dependent on any single customer.

As of December 31, 2009, Carmel had 350 active customers. As of December 31, 2009, 2008, and 2007, Carmel's 20 largest customers accounted for 55%, 56% and 60% of Carmel's total revenues over the same period, respectively.

Frenkel CD

Most of the sales of Frenkel CD are made to the domestic market, while 5% are directed toward direct exports (some of local customers channel the packaging that is purchased toward indirect exports).

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

Marketing and Distribution

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

Shipping to customers is made mostly via external shipping companies.

Competition

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

The cardboard packaging market in Israel is dominated by four principal companies: Carmel, Cargal Ltd., YMA 1990 Packaging Product Manufacturing (a partnership between Kibbutz En HaMifratz and Kibbutz Ge'aton) and Best Cardboard Ltd. According to Carmel estimates, total sales for Carmel in 2009, 2008, and 2007 amounted to 27%, 25% and 28% of the total market, respectively. In addition, there are 30 cardboard packaging manufacturers with small market shares, which perform only the processing activity, but not the manufacturing of corrugated cardboard. These manufacturers produce small series of packaging with less advanced machinery compared to that used by Carmel. Carmel estimates that as of December 31 of 2009, 2008, and 2007, the total annual volume of the corrugated board industry amounted to 300 thousand tons, 305 thousand tons and 324 thousand tons, respectively, and the estimated sales in 2009, 2008, and 2007 amounted to NIS 1,200 million (approximately $305 million), NIS 1,350 million (approximately $376 million) and NIS 1,450 million (approximately $353 million).

Seasonality

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

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

General

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

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

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

As part of the agreement, Kimberly-Clark grants H-K a license to use certain trademarks and technical services associated with the manufacture of the certain products. According to the license, H-K will assume responsibility for product liability and shall indemnify Kimberly-Clark for any breach and/or negligence associated with the manufacture of such products. As of the date of this Annual Report, the aforementioned agreement is effective through July 2010.

Raw Materials

The raw materials required for the tissue paper industry are clean pulp and/or recycled fibers. Pulp is imported from overseas, from four main suppliers: Aracruz Trading International, International Forest Products Corp., or International Forest, Ekman Recycling and Garden Fibers Inc. The purchase of pulp from Aracruz is made under a framework agreement that these suppliers possess with Kimberly-Clark, while the purchase of pulp from the other suppliers is made on the basis of an independent agreement between H-K and the supplier. While Amnir is the principal supplier for recycled fibers, H-K also makes use of complementing imports from other various suppliers.

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

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

H-K has no dependency on any single supplier.

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

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

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

An extraordinary increase in the prices of raw materials and imported finished products may impair profitability.

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

Products and Services

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

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

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

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

Customers

H-K's client base is usually stable. H-K operates nationwide and its products are marketed and distributed extensively to clients throughout the country. In the years 2007-2009, H-K sales to the food retail chains grew to a certain extent, at the expense of sales to private and small stores. In the institutional market, serving businesses such as institutions, hospitals, offices, hotels and the like, there has been a trend of consolidation over the past several years. In 2009, approximately 19% of H-K sales were made to the institutional market, while 81% of its sales were to the consumer market (including retail chains).

All the retail marketing chains and pharmacy chains number among H-K's customers. Total sales to major retail chain Supersol, a company controlled by a controlling shareholder of the Company, in 2009, 2008, and 2007, amounted to NIS 242.2 million (approximately $61.67 million), NIS 212.2 million (approximately $59.14 million) and NIS 211.9 million (approximately $51.58 million), respectively, which accounted for 14.0%, 13.2% and 15.4% of H-K's revenues. H-K has no agreement with Supersol and the engagement with Supersol is made from time to time in the normal course of H-K's business, according to an agreement regarding the commercial terms between the parties and at market terms. Total sales to the second largest retail chain in 2009, 2008, and 2007 amounted to NIS 163.5 million (approximately $41.63 million), NIS 169.4 million (approximately $47.22 million) and NIS 162.8 million (approximately $39.63 million), respectively, which accounted for 9.5%, 10.5% and 11.8%, respectively, of H-K revenues. The sales of H-K to the three largest retail marketing chains in Israel represent approximately 32% of consolidated sales. The discontinuation of sales to each of the three chains could adversely affect the sales of H-K in the short term, but given the customers' loyalty to the strong brands, no long-term negative impact is expected, and H-K is not dependent upon any of these chains. H-K is not dependent upon any single customer. At the beginning of 2005, the Anti-Trust Commissioner published his position in the matter of arrangements between dominant suppliers and the retail marketing chains. The Commissioner's position also referred to arrangements between suppliers and retail marketing chains, including, among other things, practices with regard to competing suppliers, the purchase of display areas, category management, stewarding, shelf space, bonuses and benefits and exclusive campaigns. Hogla-Kimberly notified the Anti-Trust Commissioner joined the agreed order in November 2006

Marketing and Distribution

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

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

The fixed assets of H-K consist primarily of machinery and equipment, consisting primarily of five production lines for the manufacture of diapers at the company site in Afula, two paper manufacturing machines and five lines for the production of paper products at the Hadera site and one paper manufacturing machine and five lines for the manufacture of paper products at Nahariya. The fixed assets of H-K also include 92 distribution and transportation trucks (including trucks under operating lease).

Competition

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

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

Changes to Volume of Operations and Profitability

In the course of 2009, H-K managed to successfully strengthen its leading brands through enhanced marketing efforts. Moreover, in 2009, through focused sales efforts, H-K managed to increase its quantitative sales. The quantitative growth in sales was assisted by the inclusion of H-K's leading products as "loss leaders" (a leading product sold by the retail chain at an unprofitable price in order to attract customers) at the retail marketing chains. On the expense side, H-K managed to significantly lower the cost of manufactured products, by changing certain product specifications and by significantly improving the output of some of its manufacturing plants. Moreover, H-K enjoyed the global trend of decreasing input prices, primarily pulp fibers. The devaluation of the NIS exchange rate in relation to the dollar, however, served to offset part of the positive trends due to the fact that H-K is an importer of inputs and finished products. All of these actions served to improve the gross profit and operating profit in 2009, as compared with 2008.

Seasonality

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

Operation in Turkey – KCTR

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

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

KCTR is continuing to implement a multi-annual program for expanding its operations in Turkey and reinforcing the position of the Huggies and Kotex brands in this market. Pursuant to this activity and pursuant to the distribution agreement that KCTR signed with Unilever PLC (Unilever Sanayi ve Ticaret Turk Anonim Sirketi), or Unilever, KCTR managed to significantly increase its turnover (19.6% in 2009 in relation to 2008, 51.1% in 2008 in relation to 2007 and 30.8% in 2007 in relation to 2006), while improving its gross margins.

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

The main KCTR raw material is pulp that is imported from several overseas suppliers, chief among which is Kimberly-Clark. KCTR has no special engagement or long term contracts with any of its raw material suppliers, but operates under on-call orders at market prices. The transfer prices vis-à-vis Kimberly-Clark are determined in line with the transfer price policy of Kimberly Clark. In 2009, KCTR purchased absorbent material for diapers from Sandia - Sakai in conjunction with global framework agreements with Kimberly-Clark, for a total of $19.5 million, or 14% of total purchasing from suppliers in 2009. The total purchasing of absorbent material for diapers from Sandia - Sakai in 2008 and 2007, in conjunction with global framework agreements with Kimberly-Clark, amounted to $19 million and $9.1 million, respectively, or 15% and 11% of total purchasing from suppliers in the same period. KCTR is not dependent upon any single supplier.

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

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

In March 2007, KCTR signed an agreement in principle with Unilever, according to which Unilever shall distribute and sell KCTR's products in Turkey, excluding distribution and sales to international food chains, which is done directly by KCTR. The agreement was signed to help KCTR increase its market penetration and volume of sales following the approval of a strategic plan by KCTR to expand its activities in Turkey in the coming decade. The complete strategic plan is designed to expand the activities of KCTR from the current yearly sales volume of $126 million to a volume of $300 million in the year 2015.

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

The Turkish market is characterized by fierce competition against local brands and primarily against Procter & Gamble (P&G), both in diapers and in feminine hygiene products. In 2009, the competition in the Turkish diaper market wherein KCTR operates, actually escalated, as the selling prices of the leading competitors continued to erode, coupled with the penetration efforts of additional competitors into the market.

KCTR estimates that as of the date of this Annual Report, in the diaper market, KCTR's market share in Turkey is 12%, while to the best of KCTR's knowledge, the main competitor, Procter and Gamble (P&G), holds a 31% market share, while an additional company (Hayat Kimya A.Ş) holds a 19% market share. In 2008 and 2007, KCTR's market share in Turkey was 10% and 7%, respectively. KCTR estimates that in the feminine hygiene market, the KCTR market share in Turkey is equal to 10%.

5. Fine Paper Sector (the Mondi Hadera Paper Sector)

General

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

Raw Materials

For its operations, Mondi requires the raw materials listed below:

1. Pulp - The principal raw material used in the production of paper is pulp. Engagement for purchase of pulp is performed in a centralized manner for Mondi and for MBP (the parent company) and for other plants in Europe, allowing for a constant supply of pulp as well as economies of scale. Under the annual negotiations that are conducted between MBP (in coordination and in cooperation with the responsible officer at Mondi) 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 Mondi 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. Mondi pays the pulp price directly to the supplier and pays a commission to MBP exclusively in order to cover its costs. Mondi purchases 109,000 tons of pulp per year, of three principal types, at a financial value of $54 million per year. 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 Mondi use, Mondi 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. Following the trend of rising pulp prices in the second half of 2009 and as a result of effects of the global crisis, pulp prices rose sharply during the first quarter of the year 2010 as compared with the corresponding quarter last year. This rise originated from damage caused by the earthquake in Chile to three plants of large pulp producers, that have led to delays in the provision of pulp to the global market. Throughout the global temporary reduction of pulp production, there has been no disruption to Mondi's paper production capacities. Mondi's main pulp suppliers and the proportion of pulp purchases are: (i) International Forest (a supplier based in the U.S., purchasing from whom in 2009, 2008, and 2007 amounted to 39%, 34% and 30%, respectively, of total pulp purchasing); (ii) Central National Gottesman (a supplier based in the U.S., purchasing from whom in 2009, 2008, and 2007 amounted to 13%, 18% and 10%, respectively, of total pulp purchasing); (iii) Heinzel Zellstof Poels AG (a supplier based in Austria, purchasing from whom in 2009, 2008, and 2007 amounted to 10%, 13% and 10%, respectively, of total pulp purchasing). (iv) Soedra Cell International AB (a supplier based in Spain, purchasing from whom in 2009, 2008, and 2007 amounted to 15%, 10% and 16%, respectively, of total pulp purchasing). (v) Grupo Empresarial Ence S.A. (a supplier based in Sweden, purchasing from whom in 2009, 2008, and 2007 amounted to 8%, 7% and 15%, respectively, of total pulp purchasing). (vi) Portucel – Empresa Produtora de Pasta e Papel S.A. (a supplier based in Portugal, purchasing from whom in 2009, 2008, and 2007 amounted to 6%, 13% and 16%, respectively, of total pulp purchasing).

In the years 2009, 2008, and 2007, Mondi purchased pulp from International Forest, from whom the purchases amounted to over 10% of total purchases, amounting to NIS 68,465 thousand (approximately $17.4 million), NIS 98,000 thousand (approximately $27.3 million) and NIS 86,310 thousand (approximately $21 million), respectively, or 14%, 16% and 13%, respectively, of total purchasing from suppliers in said years. Mondi is not dependent on any particular pulp supplier, not even on MBP, which centrally executes pulp purchases for its subsidiaries. Mondi 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 adversely affect profits, unless Mondi can realize such rises in the sale price of its products. In 2006 there was a sharp rise in the price of pulp, and a rise in sale prices only partially reflected this rise in the price of pulp. However, during the years 2007-2008, in parallel with the continuing trend of rising pulp prices, Mondi succeeded in raising its sales prices. It should be noted that in the fourth quarter of 2008, the trend reversed itself and pulp prices began to drop sharply, following the lengthy rise in prices as mentioned above. In 2009, global pulp prices fell sharply, while toward the end of 2009, the pulp prices began to rise sharply. This price trend continued into the first half of 2010.

2. Coated paper - Mondi imports coated paper mainly from APP Group and from Stora Enso. Mondi has no dependency on either APP or Stora Enso as paper suppliers.

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

4. Starch – Mondi purchases starch from Galam Ltd., or Galam, used by Mondi in paper production. Until 2009, Mondi was dependent on Galam as a single producer of starch in Israel, however, following the entry into Israel of competing imports of starch, at prices competitive to those of Galam, this dependence has now decreased significantly. The engagement with Galam is for a period of 11 years, terminating in 2011. Should Mondi's contract with Galam be terminated and not be renewed, Mondi would be required to import starch, which, in the past, would have increased its expenses for purchasing starch from alternative sources, such as Mondi's overseas suppliers, however, as mentioned above, due to competing imports, it appears that the expense for acquiring starch will not rise significantly.

Toward the end of 2009, starch prices (derived from corn prices) fell sharply by 23%. In late 2008, the price of starch started trending downwards, and the first order for 2009 was at prices reflecting a 30% decrease over prices in 2008.

Mondi has additional exposure to chemical inputs, in accordance with changes in global market prices.

Mondi imports pulp and supplementary papers in foreign currency and may be subject risk arising from fluctuations in the exchange rate. In 2008 Mondi began making transactions to hedge against exposure to negative cash flows in U.S. dollars, but during 2009, in accordance with the MBP Group's policy, it discontinued performing hedge transactions.

The paper mills, by nature, are also heavy energy consumers, and a global rise in the price of energy had a negative effect on Mondi profits.

Products

Manufacture of Fine Paper

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

The scope of Mondi's annual production of fine paper totaled about 139 thousand tons in 2009 versus about 144 thousand tons in 2008 and about 142 thousand tons in 2007. The rise in manufacturing productivity in the years 2007-2008, originates from the realization of production objectives defined in Mondi's construction project for its paper machine as carried out during 2005, whose aim was to improve paper quality and increase the manufacturing capacity to at least 137 thousand tons. The efficiency of the machine took a turn for the worse in 2009, as a result of mechanical failures during the year. Efficient operation of the machine along with increasing its operating speed contributed to the rise in Mondi's production volume. Increasing production volume was another significant factor in Mondi's return to profitability in 2007-2008.

During 2009, approximately 106 thousand tons of paper produced by Mondi was marketed in the local market. The remainder, consisting of some 38 thousand tons, was designated for direct export to the United States, Italy, Egypt, Jordan and Turkey. In 2009, Mondi expanded its direct exports to additional countries such as the United States and Italy that are characterized by profit margins that are higher than those in Middle Eastern countries. In parallel to the rising direct exports to Middle Eastern markets in the years 2008 and 2009, Mondi led to the cancellation of exports through MBP to Australia and the Far East. Mondi estimates this trend will continue in the coming years and the scope of Mondi's exports to United States markets may increase.

In 2009, there was a quantitative increase in sales to the domestic market of 4,000 tons (approximately 3.9%), while in 2008 Mondi recorded a quantitative decrease in sales to the local market of 500 tons compared to 2007 (approximately 0.5%). Despite the quantitative increase, Mondi recorded a decline in the sales turnover to the domestic market in 2009 of NIS 29 million as compared with 2008, primarily as a result of the erosion of selling prices. In 2008 there was a decline in Mondi's sales turnover to the domestic market of NIS 14 million, as compared with 2007. The sales turnover in 2007 rose by NIS 58 million in relation to 2006.

In 2009, Mondi's sales to direct exports increased by NIS 9 million, as compared with 2008, while in 2008 sales increased by NIS 3 million as compared with 2007. In 2007, sales to direct exports fell by NIS 16 million as compared with 2006.

In direct export markets, an increase of 400 tons (approximately 1%) was recorded in 2009, as compared with 2008, while in 2008 there was an increase of 3,000 tons (approximately 8%) as compared with 2007.

Sales of imported paper

Mondi compliments its basket of products by the importing of paper, such as coated and special papers that it does not manufacture from Europe and the Far East. In 2009, the annual scope of Mondi's imports stood at about 37 thousand tons of paper, which are marketed only in the local market, compared with 39 thousand tons in 2008 and approximately 42 thousand tons in 2007.

Amongst Mondi's suppliers of paper are Stora Enso and the APP Group, who are its main suppliers of different types of coated papers. The contract with Stora Enso is based on commercial agreements determined as needed, according to the level of demand for such products. The association with the APP Group dates back to July 2006 through a number of suppliers from China belonging to the APP Group (one of the largest groups in the global sector of coated papers). The agreements with the APP Group are valid for a period of two years, until June 2008, with an automatic extension for an additional year, except in the event that any party to the agreement notifies in advance that it does not wish to continue the association. Under the agreements, Mondi is obligated to purchase from suppliers in the APP Group in an amount of no less than some 15 thousand tons per year.

In 2009, Mondi began working with an additional supplier, Moorim Group, which is also one of the largest global producers of coated paper.

Customers

Mondi markets its products to a wide range of customers in Israel and overseas. Mondi has about 700 customers in Israel, where the main ones include printers (18%), paper wholesalers (17%), office supplies wholesalers (24%), paper products manufacturers (22%) and end-users. Mondi markets abroad to big wholesalers in the paper sphere as well as to big printers and manufacturers in Jordan.

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

Marketing and Distribution

Mondi possesses a local distribution system that provides it with the ability to market its products to a variety of its customers operating within the Israeli market. During the years 2006-2009, Mondi worked to expand its distribution network, and even secured institutional tenders, including the provision of distribution services to customers down to the end-user level.

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

Mondi distributes its products from three logistic sites throughout Israel.

The largest and main one is the Company's site in Hadera, next to Mondi's production and finishing installations. Most of the imported paper is also received at this site, and paper designated for exports is sent from there, by transfer to containers sent off to the ports by truck. As of the date of this Annual Report, approximately 142,000 tons are distributed annually (some of the imported paper is sent directly from the port to the customer). This site serves Mondi largest customers throughout Israel.

The second largest site is located in Holon, and products are distributed from this site to Mondi customers in the greater Tel Aviv area (Dan region) and Jerusalem, to those who do not have the capacity to take in large quantities of paper, or customers demanding an immediate level of service. Distribution is performed from this site via trucks owned by Mondi, as well as via trucks belonging to Mondi customers.

Mondi's distribution site in Holon is scheduled to relocate to a new logistic center in Modiin by the end of 2010. For details regarding the logistics center, see 10C below and Note 13e of our consolidated financial statements contained elsewhere in this Annual Report.

The third site is located in Nesher, next to Haifa, and serves customers in the North. This site operates in a manner identical to the Holon one, but on a smaller scale.

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

Competition

Mondi’s main competitors are the following paper importers: Niris Ltd., Ronaimer Ltd., Allenper Trade Ltd., Mei Hanahal Ltd. and BOR Ahvat Havered Ltd. Mondi estimates its market share in the local market to be approximately 50%.

Due to the global crisis, the competition between the paper importers increased, resulting in surplus supply of writing and printing papers in dumping prices. On February 26, 2009, Mondi had filed a complaint with the Supervisor concerning import and dumping of fine paper from several European countries to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. On May 2010, the Supervisor announced his decision to terminate an investigation, due to the recent developments in the paper market and certain information provided to him. Albeit the damages caused to Mondi due to the import in dumping prices, Mondi does not object the Supervisor’s decision, due to the recent market developments.

Changes to Volume of Operations and Profitability

Due to the global economic crisis of 2009, a deterioration was recorded in the ratio between the demand and supply for the paper products sold by Mondi. This deterioration led to an erosion of the Mondi selling prices. The cost of pulp, however, the principal raw material in the manufacture of paper, fell sharply in relation to the prices in 2008 (by a rate of approximately 33% in relation to the prices in 2008 in dollar terms), following a climb in prices in 2008 (by a proportion of approximately 12%, in relation to 2007 in dollar terms). Due to this decrease in the cost of pulp, together with the drop in energy prices (and its impact on electricity prices and input prices) and chemicals, Mondi managed to improve its profit margins in relation to the profitability in the years 2007-2008.

Seasonality

There are no material seasonal effects on Mondi's operations.

The following data presents the distribution of revenues from products and services in 2009, 2008 and 2007 (in NIS thousands):

	Paper and recycling	Marketing of office supplies	Packaging and carton products	Hogla Kimberly	Mondi Hadera Paper	Adjustments to consolidation	Total
	NIS in thousands						
2009							
Sales	219,866	149,107	468,339	1,722,613	645,972	(2,368,582)	837,315
Sales between Segments	119,433	1,904	15,965	4,014	23,250	(109,886)	54,680
Sales – net	339,299	151,011	484,304	1,726,627	669,222	(2,478,468)	891,995
2008							
Sales	273,436	129,068	500,069	1,605,376	717,424	(2,660,433)	564,940
Sales between Segments	133,331	2,046	12,508	3,200	14,923	(57,464)	108,544
Sales – net	406,767	131,114	512,577	1,608,576	732,347	(2,717,897)	673,484
2007							
Sales	326,636	117,795	561,759	1,373,528	746,031	(2,681,318)	444,431
Sales between Segments	138,143	1,901	14,824	2,146	24,001	(41,796)	139,219
Sales – net	464,779	119,696	576,583	1,375,674	770,032	(2,723,114)	583,650

C. Organizational Structure

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

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

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Significant subsidiaries and associated companies

The following table lists our subsidiaries and associated companies as of June 1, 2010:]

Name of the Company	Ownership and Voting		Country of Incorporation
Subsidiaries			
Amnir Recycling Industries Ltd.	100.00	%	Israel
Graffiti Office Supplies & Paper Marketing Ltd.	100.00	%	Israel
Attar Marketing Office Supplies Ltd.	100.00	%	Israel
Hadera Paper Industry Ltd.	100.00	%	Israel
Carmel Containers Systems Ltd.	89.30	%	Israel
Frenkel CD Ltd. (directly and indirectly through Carmel)	54.74	%*	Israel
Associated Companies			
Hogla-Kimberly Ltd.	49.90	%	Israel
Kimberly –Clark Tuketim Mallari Sanayi Ve Ticaret A.S. (held through Hogla-Kimberly Ltd.)	49.90	%	Turkey
Mondi Paper Hadera Ltd.	49.90	%	Israel
Cycle-Tec Recycling Technology Ltd.	30.18	%	Israel

D. Property, Plants and Equipment

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

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

The Company leases from the Tel Aviv Municipality, until 2059, a real estate lease, of approximately 7,600 square meters for a plant in Tel Aviv that has been shut down as of the end of 2002. The Company is investigating several options for using the land. According to the lease agreement, the Company was obliged to utilize its building permits until September 2009. On June 1, 2010, The Company entered into an agreement for the sale of its rights in the above land, in return for some of NIS 64 million, plus VAT. The transaction is subject to a precondition and two nullifying conditions.

The Group also owns a parcel of land in the industrial zone of Bnei Brak of 9,000 square meters, which is near Tel-Aviv and used for waste paper collection, however, the Amnir plant at Bnei Brak is scheduled to relocate to the new logistics center in Modiin at the end of 2010.

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

Subsidiaries and associated companies rent plants and office facilities in Caesarea and additional warehouses and waste paper collection sites throughout Israel.

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* The holding in voting shares is 54.69%

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

The Group owns two paper machines that are used in the manufacture of various grades of paper and board. The paper production facilities of the Company and its subsidiaries are located in Hadera, where the Company operates machines with a combined production capacity of over 160,000 tons per year.

In November 2006 and October 2007, the Company's board of directors approved an investment of approximately $690 million towards the construction of a new packaging paper machine in Hadera for the manufacture of packaging paper from cardboard and paper waste, also known as Machine 8. The machine has an output capacity of 230,000 tons per annum. Subsequent to the construction of the new machine and along with the parallel decommissioning of one of two packaging paper machines, the Company's annual production capacity for packaging paper increased from 160,000 tons in 2009, to approximately 320,000 tons in 2010The new packing paper machine is intended to address growing demand in the local market for packaging paper at prices and of a quality that are competitive with prices and quality of imported packaging paper. . The major part of the machine installation process was completed on January 15, 2010 and the running-in process has begun. The running-in process is progressing as planned, while technical problems are being handled on an ongoing manner vis-à-vis the suppliers

As part of construction of the new machine, the Company is investing in the reorganization of the principal site in Hadera, including an expansion of the energy system and the adaptation of the traffic routes and upgrading of environmental systems, as required.

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

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

At the end of 2008, the Company signed an agreement for leasing of a logistics center in Modi'in with an area of 74,500 square meters, as well as buildings with a total constructed area of 21,300 square meters, for the Company's subsidiaries and associated companies, which would, in part, replace existing lease agreements. The leasing period shall be 15 years. For further information, see "Item 10.C – Material Contracts".

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

During October 2007, the Company converted its energy-generation system that had been using heavy fuel oil to natural gas, and completed the transition of the energy system at its Hadera facility from fuel oil to natural gas. The use of natural gas significantly lowered the cost of energy to the Company, while concurrently significantly reduced the amount of emissions released into the atmosphere. The Company has invested a total of NIS 30 million in infrastructure installation and conversion of existing equipment for the use of natural gas instead of fuel oil.

Pursuant to the Company's agreement with Yam Tethys Sea Group, as described in "Item 10.C - Material Contracts", natural gas will be supplied by the Yam Tethys partnership through mid-2011. As part of the process of the Company's transition to the use of natural gas instead of fuel oil, the Company has had to adapt its work environment accordingly, including by implementing changes according to its hazardous materials permit as well as its policies regarding work procedures.

In addition, the Company is examining and promoting a project for establishing a combined cycle co-generation plant based on natural gas in Hadera. The new plant is expected to enable the Company to sell electricity to external users, including the Israel Electric Company, or IEC and/or private customers, at a scope of up to 230 megawatts, at the Company site in the Hadera Industrial Zone. As of the date of this Annual Report, the project is on hold, awaiting the business stabilization of potential gas sources in order to conclude the contract to acquire the required gas at a price range that would allow the Company to be competitive with expected IEC rates. Due to the pending finalization of the gas purchasing contract as set forth above, it is not possible to comply with the milestones set forth in the Company's contingent production license. The Company has elected not to apply for an extension of the license during this holding phase, and will act to renew the license as progress is made on completion of gas purchasing for the station.

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

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

In 2008, the Company launched the rapid development of paper types based on 100% recycled fibers, whose superior quality would allow to replace pulp-based packaging paper in the corrugated board industry in Israel and overseas. The technological and operational development process is currently in advanced stages and is meant to increase the volume of the potential market for packaging paper for the local corrugated board industry, from 160,000 tons per annum at the present time, to approximately 250,000 tons per annum in the coming years. In early 2009, the Company started marketing this products to both the domestic and export markets. The expansion of the sales volumes of these products is planned for 2010.

Environmental Regulation Matters

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

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

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

The Company discharges treated waste water, purified at the Company facility, into the Hadera stream. The Company operates according to directives obtained from the Government Water and Sewage Authority, or Water Authority (formerly, the Water Commission), during the course of discussions for obtaining the permit for the year 2010. The permit itself has yet to be received. This permit specifies, inter alia, conditions regarding quality of treated waste water discharged into the stream. The Company operates a sewage treatment facility covering some 21,000 square meters adjacent to its Hadera plant. In the course of 2009, the Company began conducting trials to reintroduce softened wastewater from the innovative softening facility that the Company established in 2008 at a cost of approximately NIS 5.0 million. In the course of the year, approximately 270,000 meters cubed of softened water were reintroduced, representing over 12% of the total wastewater discharged into the stream.

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

In the course of its operations, the Company uses hazardous materials, and therefore the Company has a Hazardous Materials Permit, or HazMat Permit, valid through July 2010, from the Supervisor of Hazardous Materials at the Ministry of Environmental Protection. The HazMat Permit determines the types of hazardous materials that the Company may use, the quantities of hazardous materials that are allowed to be used, storage conditions by type of hazardous material, including internal segregation of fluids and powders - all based on the risk level thereof. In 2007, in conjunction with the transition of the energy systems to using natural gas, the HazMat Permit also covers the use of natural gas, in accordance with all permits and approvals required in this regard by the Ministry of Environmental Protection.

To the best of the Company’s knowledge, the plant operates subject to the requirements of the authorities, and in cases of deviation the Company strives to correct them in line with action plans in coordination with the authorities.

In addition to the reduction of air-borne pollutants, as part of the Company’s awareness toward global warming and the importance of reducing green-house gas emissions into the air, the Company has also acted to reduce carbon emissions. The Company has promoted a process vis-à-vis the UN in conjunction with the Kyoto Treaty, whereby in countries which are signatories of said treaty, any company which has contributed to the reduction of green-house gas emissions while making a global contribution, may receive economic compensation for its efforts to prevent global warming, by using the green-house-gas reduction rights. These rights, when recognized by a UN-sanctioned mechanism, are negotiable on global markets between credited companies and other companies that need to show improvement due to exceeding the allowed volume of carbon emissions. Upon the transition to using natural gas, as set forth above, the Company has obtained confirmation by the UN of its rights due to reduction in carbon emissions resulting from said transition to natural gas. In this respect, the Company recorded revenues in the amount of NIS 1.5 million in 2009, on account of the sale of carbon emission rights for 2008, pursuant to an agreement signed by the Company in February 2009 with Trading Emissions PLC (TEP), an investment company registered in the UK, specializing in carbon emissions trading. The agreement enables TEP to trade in the Company’s rights in carbon emissions from 2008 through to 2012.

In November 2006, the Environmental Protection Ministry announced that, even though the Company plant at Hadera has made considerable investments in sewage treatment and environmental protection issues, an investigation may be launched against it to review deviations from certain emission standards. The Company expects that the investigation will not have a material impact on its operations.

At the H-K manufacturing site in Nahariya, a partial purification process takes place of the water that serve for the paper manufacturing process, with the remaining purification taking place at the regional sewage treatment plant, in line with an agreement approved by the environmental protection authorities.

During the years 2000-2009, the Company invested approximately $20.9 million in projects intended for compliance with environmental protection regulations, of which approximately $2.0 million in 2009, including an investment of approximately $0.4 million in the conversion of the energy system to burn natural gas instead of fuel oil, $1.5 million for noise reduction projects at the Hadera facility, as well as an investment of $0.2 million in the salvaging of treated waste water at the facility and increasing the reliability of the water and sewage treatment system.

Furthermore, over the past two years the Company has been implementing a gradual plan to further improve reduction of noise sources at the Company’s facility in Hadera. In 2009, the Company invested a total of NIS 1.5 million in implementation of this plan.

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

Moreover, as part of the upgrading of the Hadera Site in preparation for Machine 8, the Company implemented a multi-annual program this year for noise treatment, prepared in collaboration with the Hadera Municipal Council. The Company is working to accelerate investments and shorten timetables in relation to the original plan. The cost of the investment in this program in 2009 was approximately $6.0 million. The Company also examines the need for additional investments and improvements, if necessary.

The Company estimates that its total environmental expenses in 2010, arising in the normal course of business, will amount to NIS 5.0 million. According to Company estimates, these expenses are not expected to decline in coming years.

In 2009 all plants at the main Hadera site successfully passed various environmental inspections.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5 - OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Critical Accounting Policies and Estimates

The Company’s discussion and analysis of the financial condition and operations are based upon the Company’s consolidated financial statements, as of December 31, 2009, 2008, and 2007 and for the years then ended prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company’s previous financial statements were prepared in accordance with generally accepted accounting principles in Israel (“Israeli GAAP”) reconciled to generally accepted accounting principles in the U.S. (“US GAAP”). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

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

Deferred taxes

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

Length of fixed assets

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

Provisions for legal proceedings

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

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

Employee benefits

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

Fair value of an option to sell shares of an associated company

As stated in Note 2Q (2) of our consolidated financial statements contained elsewhere in this Annual Report, the Company has a liability that arises from an option to sell shares of an associated company, which is classified as a fair value liability through profit or loss. In establishing the fair value of the option, the Company bases its decision on the valuation of an independent external expert with the required expertise and experience. This valuation is carried out once a quarter.

The Company strives to establish a fair value that is as subjective as possible, but at the same time the process of establishing the fair value includes some subjective elements, since changes in the assumptions used in determining the fair value can have a material impact on the financial situation and operating results of the Company.

Purchase price allocation

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

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

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

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

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

Impairment of cash generating units

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

From the external assessment that was done on the discounting of cash flows using a discount rate of 10.0%, indicates that the expected utilization value of the packaging paper cash-generating unit is lower than its carrying value. The Company subsequently estimated the fair value of the fixed asset items that are included under the packaging paper sector, based on assessment reports. In this capacity, the Company found that the fair value of the fixed assets, net of the selling costs, is higher than the book value and in accordance with IAS-36, no recognition is necessary of a loss on account of the impairment of the fixed assets

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

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

Significant transactions and events.

1. Sale of shares

Pursuant to the valuation that was conducted for the purpose of determining the proceeds of the sale of 21% of the Company outstanding share capital by Discount Investments Ltd. to Clal Industries Ltd., it arises that the value of the Company as of June 30, 2009, is 47% higher than its shareholders' equity. However, it follows from this valuation that the economic value of the operations in the packaging paper sector is apparently lower than its book value by approximately NIS 423 million. In accordance with IAS-36, for the purpose of examining the need for a provision for impairment pertaining to the value of the packaging paper sector as a cash-generating unit, the Company examined the use value on the basis of discounted cash flows, using a discount rate of 10.0%. The Company subsequently estimated the fair value of the fixed asset items that are included under the packaging paper sector, based on assessment reports. In this capacity, the Company found that the fair value of the fixed assets, net of the selling costs, is higher than the book value and in accordance with IAS-36, no recognition is necessary of a loss on account of the impairment of the fixed assets.

2. Dividends from associated companies

On February 26, 2009, an associated company decided to allocate preferred shares to the Company, which will grant the Company the right to receive a special dividend in accordance with board of directors' resolutions of the associated company from time to time.

On March 19, 2009, a dividend in the amount of NIS 32.77 million was received from an associated company in respect of a preferred share that was allotted during the first quarter of 2009, which allows the Company to receive dividend in accordance with the resolution of the board of directors of the associated company. In addition, on March 19, 2009, a capital note in the amount of NIS 32.77 million was repaid by the Company for an associated company.

On July 1, 2009, a dividend in cash, in the amount of NIS 19.6 million, that was declared on February 26, 2009, was received from an associated company.

On October 1, 2009, a dividend in cash, in the amount of NIS 9.5 million, that was declared on July 30, 2009, was received from an associated company.

On October 22, 2009, an associated company declared the distribution of a dividend in the amount of approximately NIS 40 million. The Company's share in the dividend was received after the end of the reporting period.

A. Operating Results

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

Amount and Percentage Increase (Decrease)
in thousands of NIS

	Year ended December 31, 2009 compared to the year ended December 31, 2008	
	Changes NIS	Changes %
Net sales	218,511	32.4
Cost of sales	223,290	41.2
Gross profit	(4,779)	(3.6)
Selling, administrative, general and other expenses	14,985	15.7
Income from ordinary operations	(19,764)	(55.9)
Financial income	(7,342)	(60.8)
Financial expenses	(4,120)	(15.2)
Profit after financial expenses	(22,986)	152.8
Share in profits of associated companies, net	36,044	70.2
Income before taxes on income	13,058	18.2
Taxes on income	10,730	(292.9)
Profit for the year	23,788	35.0
Attributed to:		
Company shareholders	21,520	30.8
Minority interests	2,268	(129.6)

* The statements of income for the year ended December 31, 2009, and the applicable period in 2008 are presented in New Israeli Shekels as more fully described in Note 1 of our consolidated financial statements contained elsewhere in this Annual Report.

The number of New Israeli Shekels which were exchangeable for 1 U.S. dollar decreased over the prior year by (-0.7%) and (-1.1%) in 2009 and 2008, respectively. See Note 3 to the Financial Statements attached for the anticipated effect of adopting of accounting pronouncements that have been issued but are not yet adopted.

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

I. Overview of Results of Operations

1. Consolidated Data

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

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

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

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

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

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

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

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

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

II. The Business Environment

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

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

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

The trend of improving paper prices worldwide, that was reflected primarily in the last quarter of the year, is expected to continue throughout 2010. As of the date of this Annual Report, this trend is being reinforced by the declaration of the largest paper companies worldwide, regarding an additional increase in prices that is expected during the second quarter of 2010, by a sum of approximately €60 per ton (approximately 18%). The continuation of this trend, in addition to the sharp increase in prices in the second half of 2009, will support the continued growth and increase in the volume of operations that are expected in 2010.

Impact of the Business Environment on Company Operations

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

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

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

In the packaging paper and recycling sector, the significant additional rise in prices that is expected globally, as aforementioned, may positively affect the results of this sector of operations, that began the running-in process of Machine 8, the new manufacturing system for packaging paper, in January of 2010.

The Company estimates that since 2008, packaging paper products have been imported into Israel at dumping prices, primarily from Europe. The company is working to handle this problem vis-à-vis the Dumping Supervisor at the Ministry of Employment, Industry and Trade, who has decided to impose a temporary levy on the importing of packaging paper from Europe, at a rate of 52-67 euro per ton. Some of the manufacturers and importers have filed petitions against this decision. On December 3, 2009, the Company announced that in a hearing held in court regarding the petitions of five importers/producers that were appealing the decision of the Supervisor, it was agreed between the parties that the decision of the Supervisor would remain in place for the next four months, while the guarantees that were deposited by the petitioners in October and November would be reimbursed to them. This decision received of the validity of a court ruling. The said temporary guarantee was valid until March 31, 2010.

On January 21, 2010, the Supervisor informed the Dumping Committee of his recommendation to impose a dumping levy of €31-44 per ton, on most different producers from the European Union. The recommendation of the Dumping Supervisor is subject to the approval of the Dumping Committee and the signature of the Minister of Employment Industry and Trade and the Minister of Finance. There is no certainty regarding the approval of the recommendation of the Supervisor and the Company cannot estimate this stage the impact of the acceptance of the complaints on its results.

In the fine paper sector, the impact of the global crisis is evident primarily in the advertising industry, as demand for fine paper has decreased by a rate of 11%-14% in 2009 in the global market. Towards the end of 2009, pulp prices started to increase, and are expected to increase even more in the short –term due to the earthquake in Chile, which causes temporary delays in pulp supply to the global market.

The reduced demand is creating surplus supply in Europe and worldwide and the Company estimates that fine paper is being imported to Israel at dumping prices since 2008. In this respect, the Company is also working with the Dumping Supervisor in order to control imports at these prices. On February 26, 2009, the Company announced that Mondi had filed a complaint to the Supervisor, regarding the dumping imports of fine paper from several European nations to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. On May 27, 2010, Mondi, reported that the Supervisor announced his decision to terminate the investigation concerning the import in dumping prices of fine paper products due to the recent developments in the paper market and certain information provided to him. Albeit the damages caused to Mondi due to the import in dumping prices, Mondi does not object the Supervisor's decision, due to the recent market developments.

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

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

The signs of the said crisis and the recovery therefore, have affected and may continue to affect the business results of the Company and its investee companies, including an effect on their liquidity, the value of their assets, their ability to divest assets, the state of their business, their financial indicators and covenants, their credit rating, their ability to distribute dividends, ability to raise financing for their current operations and long-term plans, as well as on their financing terms.

As at the date of publication of the consolidated financial statements contained elsewhere in this Annual Report, no material changes have occurred to the Company's risk management policy.

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

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

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

III. Analysis of Operations and Profitability

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

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

1. Sales

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

Sales of the packaging paper and recycling sector amounted to NIS 263.2 million in the reported period, as compared with NIS 381.5 million in the corresponding period in the previous year.

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

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

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

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

2. Cost of Sales

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

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

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

Labor Wages

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

The labor wages within the Selling, General and Administrative expenses amounted to NIS 85.3 million during 2009 (approximately 9.6% of sales), as compared with the sum of NIS 73.9 million last year (approximately 11.0% of sales).

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

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

As part of the alignment with the global economic crisis, the Company's management adopted a policy of mutually-agreed pay cuts for executives.

In this capacity, senior executives and managers have voluntarily agreed to cut their wages by 8%-10% in 2009, while senior employees have agreed that their wages be cut by 5%. The Company also decided to freeze any raises in labor wages for employees under a personal employment contract in 2009.

3. Selling, General and Administrative Expenses

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

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

4. Operating Profit

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

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

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

The operating profit of the office supplies sector amounted to NIS 4.0 million in 2009, as compared with NIS 3.2 million last year.

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

5. Financial Expenses

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

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

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

Furthermore, financial revenues of NIS 5.2 million were included last year on account of a currency transaction on the dollar, and were not included this year.

6. Taxes on Income

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

7. Company’s Share in Earnings of Associated Companies

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

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

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

- The Company's share in the net profit of Mondi Hadera Paper (49.9%) rose by NIS 4.5 million. The increase in profit originated primarily from an increase in the operating profit of Mondi, that grew from NIS 34.1 million last year, to NIS 40.5 million this year, despite the erosion of prices as a result of imports at dumping prices, in light of the implementation of an aggressive efficiency program in operations and purchasing and a decrease in input prices. The net profit also grew as a result of recording tax revenues as a result of the change in the tax rate, in the sum of NIS 6.4 million, that was offset as a result of the increase in financial expenses during the reported period, as compared with last year, primarily as a result of the influence of the devaluation of the NIS against the U.S. dollar, as an average between the reported periods.

- The Company's share in the net profit of Hogla-Kimberly Israel (49.9%) increased by NIS 21.5 million. H-K's operating profit grew from NIS 169.0 million to NIS 210.0 million this year. The improved operating profit originated from a quantitative increase in sales, improved selling prices in some of the sectors of operation, innovating products and empowering the H-K's brands, a decrease in the prices of certain company inputs in view of the erosion of global commodity prices, continuing efficiency measures across the Company and growing savings in procurement that also contributed significantly to the improved profit.

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

Year ended December 31, 2008, compared to year ended December 31, 2007

I. Overview of Results of Operations

1. Consolidated Data

Consolidated sales in 2008 amounted to NIS 673.5 million, as compared with NIS 583.6 million in 2007, representing growth of approximately 15.4%.

The consolidated profit from ordinary operation amounted to NIS 35.4 million in 2008, as compared with NIS 71.1 million in 2007.

Profit after taxes and before the Company's share in earnings of associated companies for 2008, amounted to NIS 16.7 million, as compared with NIS 30.7 million in 2007.

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

The net profit attributed to the Company's shareholders in 2008 amounted to NIS 69.7 million, as compared with net profit of NIS 31.5 million in 2007, representing an increase of 121.1 %.

The net profit attributed to the Company's shareholders in 2008 was affected by the improvement in the profitability of some of the Group's companies in Israel, from recording profit from the allocation of excess negative cost as a result of the acquisition of Carmel and Frenkel CD whose net impact on the net profit attributed to the Company's shareholders amounted to NIS 10.6 million and the significant reduction of the Company's share in the losses of the operations in Turkey (KCTR), as compared with 2007. On the other hand, the net profit decreased as a result of recording an expenditure of NIS 10.0 million from the valuation of a put option on Mondi.

The surplus purchasing of Carmel and Frenkel CD was calculated to the consolidation date of the companies. See note 15 to our consolidated financial statements contained elsewhere in this Annual Report regarding details of the acquisition of Carmel and Frenkel CD.

The net profit attributed to the shareholders of the Company in the fourth quarter of 2008 amounted to NIS 10.2 million, as compared with net profit attributed to the Company's shareholders of NIS 17.5 million in the corresponding quarter of 2007.

Basic earnings per share amounted to NIS 13.77 per share ($3.62 per share) in 2008, as compared with basic earnings per share of NIS 7.63 per share ($1.98 per share) in 2007.

Diluted earnings per share amounted to NIS 13.77 per share ($3.62 per share) in 2008, as compared with diluted earnings per share of NIS 7.62 per share ($1.98 per share) in 2007.

II. The Business Environment

The global financial markets suffered a considerable upheaval in 2008, an upheaval that reached new highs during the period between September and October 2008, with the collapse of several large financial entities in the United States and elsewhere around the world, along with global stock markets. This economic and financial crisis came in the wake of the subprime mortgage crisis, that began in the second half of 2007 and affected additional financial sectors. The global economic and financial crisis resulted inter alia in severe damage to global capital markets, downturns and fierce fluctuations in stock exchanges both in Israel and worldwide and in the worsening of the credit crunch that started in the wake of the subprime mortgage crisis. Following the said events, several nations initiated various measures in order to stabilize and prevent an additional deterioration of financial markets, by way of injecting funds into financial institutions while also lowering interest rates. However, there is still no certainty that these measures have indeed tamed the crisis or prevented its deterioration and there is no certainty that they will in fact do so.

The financial crisis began to materialize in the form of a real economic crisis, as various economies around the world, including the United States, central economies in Europe and the Israeli market as well, entered into a recession, accompanied by the discontinuation of numerous operations and mass employee layoffs in various market sectors, including industry, services and high-tech.

In view of the global recession, the Company employed an action plan which included aggressive measures to improve efficiency, cut current investments, cut general expenses, continued measures for improved efficiency across the Group, focus on purchasing operations in order to reduce expenses related to the purchase of raw materials, services and products as well as focused management of operational working capital and control of customer credit exposure. Along with these actions, the Company continued to identify business opportunities to enable accelerated growth and improved margins in its various sectors of operation in Israel and overseas.

Alongside the said global financial crisis, several events occurred in the Israeli economy in the second half of 2008, including significant fluctuations in the exchange rates of principal currencies vis-à-vis the NIS.

In the course of the third quarter of 2008, the Company conducted two offerings in the aggregate amount of NIS 426 million, through a public issuance of a series of debentures that render it possible for the Company to promote the long-term strategic projects on which it is focusing.

In the first half of 2008, input prices rose for energy, fibers, chemicals and commodities, a trend that was reversed in the second half of the year due to the global crisis. The Company's transition, in the fourth quarter of 2007, to the use of natural gas, has led to NIS 46 million in Group-wide energy-cost savings in 2008, as compared with 2007, primarily due to the transition to steam production using natural gas and to self-generation of electricity based on gas rather than on fuel oil. These savings were partially offset as a result of the increase in electricity prices in 2008, by an average rate of 17% relative to 2007, as mentioned above.

In the second half of 2008, the global paper market, and particularly in Europe, saw the start of a trend of decline in demand that led to surplus production in the market. Due to the said surplus production, the importing of fine paper and packaging paper from Europe at dumping prices rose in the second half of 2008. In order to avoid erosion of its gross margin, the Company announced on January 15, 2009, that it had filed a complaint, as a manufacturer of packaging paper, with the Supervisor. For further information regarding the compliant filed with the Supervisor, see "Item 4.B – Business Overview – Competition."

The average revaluation of the NIS against the U.S. dollar, amounting to approximately 13% in 2008 as compared with 2007, - coupled with the revaluation of the NIS against the euro had a positive impact on the Company with regard to imported inputs while, on the other hand, serving to erode the selling prices in the main operating segments of the Company whose prices are denominated in U.S. dollars. In the fourth quarter of 2008, the trend in input prices was reversed and prices started to decline due to the aforementioned crisis, which served to somewhat offset the looming slowdown in operations in both local and export markets.

The overall business range and currency operation of the Group, including its associated companies, is relatively balanced and the Company's exposure to sharp fluctuations in exchange rates is therefore low.

The sharp fluctuations in global fuel prices in 2008 had no material impact on the Company, due to the transition to the use of natural gas instead of fuel oil in its production processes, which began in the fourth quarter of 2007. This fact served to improve the Group's competitive capability vis-à-vis its European competitors and partially offset the aforementioned impact of the price erosion.

The inflation rate in 2008 amounted to 3.8%, as compared with an inflation rate of 3.4% in 2007.

Considerable volatility was recorded throughout 2008 in the exchange rate of the U.S. dollar in relation to the NIS. The U.S. dollar exchange rate fell by 1.1% in 2008, in addition to a 9% decrease in 2007.

III. Analysis of Operations and Profitability

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

1. Sales

The consolidated sales during 2008 amounted to NIS 673.5 million, as compared with NIS 583.6 million in 2007, representing growth of 15.4%.

Sales of the packaging paper, recycling and cardboard activity in 2008 amounted to NIS 543.1 million, as compared with NIS 465.3 million in 2007.

Higher sales in the packaging paper, recycling and cardboard activity were primarily due to the initial consolidation, starting in September, of sales by Carmel and Frenkel CD, amounting to NIS 160.9 million on the one hand, and on the other hand to the decrease in the sales of packaging paper and recycling due to the impact of the weaker dollar on the selling prices, which was not offset by a rise in NIS-denominated prices (segment sales are impacted by dollar-denominated import prices).

Sales of the Office Supplies Marketing activity in 2008 amounted to NIS 131.1 million, as compared with NIS 119.0 million in 2007, representing growth of 10.2% due to continued implementation of the growth plan in this segment.

The consolidated sales in the fourth quarter of 2008 amounted to NIS 226.3 million, as compared with NIS 154.9 million in the corresponding quarter of 2007, representing an increase of 46.5%, that is primarily attributed to the inclusion of the data of Carmel and Frenkel CD in the fourth quarter, in the sum of NIS 119.9 million, that were not consolidated in 2007, as mentioned above. Net of the sales of Carmel and Frankel CD, the sales amounted to NIS 106.4 million, primarily as a result of the decrease in the sales of packaging paper as a result of price erosion in dollar terms, coupled with the apparent slowdown in the markets and the global financial crisis.

2. Cost of Sales

The cost of sales amounted to NIS 542.4 million – or 80.5% of sales – in 2008, as compared with NIS 440.7 million – or 75.5% of sales – in 2007.

The gross profit totaled NIS 131.1 million in 2008 (approximately 19.5% of sales), as compared with NIS 142.9 million (24.4% of sales) in 2007, representing a decrease of approximately 8.3% in relation to 2007.

The decrease in the gross profit and gross margin in relation to 2007 is attributed primarily to the erosion of the dollar-linked prices of packaging paper in light of the change in the exchange rate, coupled with a decrease in the quantitative sales on the local market as a result of the impact of the cold spell, the approximately 17% rise in electricity prices and the rise in paper waste collection costs - that were partially offset by the continuing efficiency measures and the transition to manufacture using natural gas. Additionally, the cost of sales included an amortization of approximately NIS 5.5 million in excess cost, as a result of excess cost recorded from the sale of Carmel and Frenkel CD.

Labor Wages

The labor wages within the cost of sales amounted to NIS 149.2 million in 2008 (22.3% of sales), as compared with NIS 115.7 million in 2007 (approximately 19.8% of sales).

The labor wages within the general and administrative expenses amounted to NIS 73.9 million in 2008 (approximately 11.0% of sales), as compared with the sum of NIS 58.3 million in 2007 (approximately 10.0% of sales).

The increase in salary costs as compared to 2007 is attributed to additional salary expenses of approximately NIS 50.0 million resulting from the consolidation of Carmel and Frenkel CD and the increase in personnel, primarily at Amnir and in the packaging paper sector, as part of the preparations for and the execution of the expanded collection of cardboard and newspaper waste that is to serve the upcoming operation of the new packaging paper manufacturing network, coupled with a nominal increase of 4% in wages.

Moreover, the labor costs include an increase in labor expenses as detailed in Section 3 below, as a result of expenses derived from the issuance of options to executives and the allocation of the expenses thereupon, at an accrued sum of NIS 4.9 million in 2008, an expenditure that does not involve cash flows.

3. Selling, General and Administrative Expenses

Selling, general and administrative expenses (including wages) and other expenses in 2008, amounted to NIS 95.7 million - approximately 14.3% of sales - as compared with NIS 71.8 million - approximately 12.3% of sales - in 2007. Net of the revenues from attribution of excess negative cost at a subsidiary and non-recurring expenses as set forth below, selling, general and administrative and other expenses amounted to NIS 94.5 million.

The increase in selling, general and administrative and other expenses was primarily attributed to the consolidation of the expenses of Carmel and Frenkel CD in the Company's financial statements, in the amount of NIS 17.3 million, along with the increase in wages expenses as a result of NIS 4.9 million in wages expenses recorded in respect of the option plan for executives approved in January 2008, as well as the increase in other expenses following the revaluation of a Mondi put option in the amount of NIS 10.0 million pursuant to IFRS.

The selling, general and administrative expenses amounted to NIS 37.8 million, approximately 16.7% of sales – in the fourth quarter of 2008, as compared with NIS 20.9 million, approximately 13.5% of sales, in the corresponding quarter of 2007. The growth is primarily attributed to the inclusion of the expenses of Carmel and Frankel CD in the sum NIS 12.8 million in the quarter, as well as a result of recording an expenditure on account of a put option on an associated company, in the sum of approximately NIS 4.3 million in the fourth quarter of 2008.

4. Operating Profit

The operating profit amounted to NIS 35.4 million, approximately 5.3% of sales – in 2008, as compared with NIS 71.1 million, approximately 12.2% of sales – in 2007. Most of the erosion in the profit was due to changes in the U.S. dollar exchange rate, which negatively impacted the selling prices of packaging paper and recycling, as well as to the dumping prices of competing imports, as set forth above, coupled with the apparent slowdown in the operations of the various companies during the final quarter of 2008 as a result of the financial crisis.

Operating profit for the packaging paper, recycling and cardboard activity in 2008 amounted to approximately NIS 32.1 million, as compared with NIS 70.4 million in 2007 - primarily due to the aforementioned impact of the exchange rate, at which segment sales are denominated, as well as due to the dumping prices of competing imports, as set forth above, and the impact of the severe cold spell on the demand for exported agricultural produce.

The operating profit of the office supplies operations amounted to NIS 3.2 million, as compared with a profit of NIS 0.7 million in 2007.

The operating loss amounted to NIS 2.6 million in the fourth quarter of 2008, as compared with approximately NIS 18.1 million in the corresponding quarter of 2007. This is primarily attributable to the decrease in sales for exports as well as the development of recycled products from pulp replacements, the influence of currency and the erosion of selling prices, as well as the result of recording an expenditure on account of a put option for an associated company in the sum NIS 4.3 million in the fourth quarter of 2008. Net of influence of the put option and losses from companies consolidated during the quarter, the operating profit for the quarter amounted to approximately NIS 5.5 million.

5. Financial Expenses

The financial expenses in 2008 amounted to NIS 15.0 million, as compared with NIS 22.2 million in the corresponding period of 2007, representing a decrease of 32.4%.

The total average of net interest-bearing liabilities, charged to the Company’s financial expenses, decreased by approximately NIS 85 million, between 2007 and 2008. This decrease was primarily due to proceeds of the private placement received in 2008, to the positive cash flows from operating activities in those years, offset by investments in fixed assets.

The interest on the short-term credit decreased by approximately NIS 6.3 million, both as a result of the decrease in the balance of short-term credit and as a result of the lower interest rate between the two periods. The interest expenses in respect of CPI-linked long-term liabilities (debentures) grew by approximately NIS 0.7 million, as compared with 2007, despite the decrease in the balance of debentures following redemptions made to the holders of the debentures both as a result of the increase in the costs of the hedging transactions on the CPI-linked debentures against the increase in the CPI, which grew by an annual rate of 2.6% in 2008, as compared with 1.3% in 2007, and as a result of the valuation of the hedging transactions to their fair value, in accordance with international standards. The actual index rose by approximately 3.8% in this period.

Furthermore, the Company recorded financial revenues in 2008 amounting to NIS 5.2 million in respect of a dollar currency transaction executed in the third quarter of 2008, as compared with financial revenues of NIS 4.6 million from euro currency transactions executed in late 2007. These revenues were offset last year by financial expenses amounting to NIS 2.3 million, primarily due to the impact of the revaluation of the NIS vis-à-vis the U.S. dollar by 9.0% in 2007, as compared with a 1.1% revaluation in 2008, applicable to U.S. dollar asset balances.

6. Taxes on Income

Expenses of taxes on income amounted to NIS 3.7 million in 2008, as compared with NIS 18.3 million in 2007. The sharp decrease of approximately NIS 14.6 million is primarily attributed to the sharp drop in taxable income (income after financial expenses, net of non-recurring income of approximately NIS 14.6 million from the allocation of a negative excess of cost), the inclusion of NIS 0.9 million in the 2007 tax expenses in respect of the closing of assessments for the years 2002 through 2005 and the decrease in the current tax rate of 2008 as compared with 2007.

7. Company's Share in Earnings of Associated Companies

The companies whose earnings are reported under this item (according to Hadera Paper's holdings therein), include primarily: Mondi Hadera, Hogla-Kimberly and Carmel Container Systems (until August 31, 2008 - the date of initial consolidation of the Carmel financial statements).

The Company's share in the earnings of associated companies totaled NIS 51.3 million in 2008, as compared with NIS 0.9 million in 2007. The Company's share in the earnings of associated companies amounted to NIS 14.7 million in the fourth quarter of 2008, as compared with NIS 7.9 million in the corresponding quarter of 2007, representing an increase of 86% in relation to the corresponding quarter of 2007.

The following principal changes were recorded in the Company's share in the earnings of associated companies, in relation to 2007:

- The Company's share in the net profit of Mondi Hadera Paper (49.9%) rose by NIS 0.6 million. The increased income was primarily attributed to the improvement in Mondi's operating profit, which grew from NIS 33.6 million in 2007 to NIS 34.1 million in 2008 - primarily due to a quantitative increase in sales, operating efficiency and lower energy costs due to the transition to using natural gas at the Hadera site. The net profit also increased as a result of the decrease in financial expenses in 2008 in relation to 2007, primarily on account of the impact of the revaluation of the NIS against the U.S. dollar.

- The Company's share in the net earnings of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 12.3 million. H-K's operating profit grew from NIS 136.3 million to NIS 169.0 million in 2008. The improved operating profit originated from a quantitative increase in sales, improved selling prices net of the impact of higher raw material prices, the continuing implementation of efficiency measures and the continuing trend of raising the proportion of some of the premium products out of the products basket, while innovating products and empowering H-K's brands.

- The Company's share in the losses of KCTR Turkey (formerly, "Ovisan") (49.9%) decreased by NIS 48.0 million. The significant decrease in the loss is attributed to the growth in the volumes of operation that led to a significant reduction in the operating loss, from NIS 73.7 million in 2007 to approximately NIS 33.4 million in 2008. In 2007, the Company recorded a non-recurring loss in respect of termination of trade agreements with distributors following the transition to distribution by Unilever, amounting to approximately NIS 6 million ($1.5 million), of which the Company's share amounts to approximately NIS 3 million. Moreover, the tax asset that was recorded in previous years in Turkey, in the sum of approximately NIS 26.8 million (approximately $6.4 million) was reduced, of which our share is NIS 13.4 million. Moreover, due to the increase in the shareholders' equity of KCTR through a financial influx from H-K, the bank loans were repaid, while significantly reducing the financial expenses, thereby leading to an additional reduction in the net loss.

- The Company's share in the loss of Carmel (36.21% as at August 31, 2008 - the date of consolidation), increased by NIS 6.4 million. This increase is attributed to the sharp erosion in the operating margin as a result of lower demand for packaging due to the slowdown in industrial exports on account of the erosion of currency exchange rates vis-à-vis the NIS, coupled with the damages of the cold spell in the agricultural sector. On the other hand, the prices of imported raw materials did not decrease in NIS terms, due to hedging transactions on exchange rates.

B. Liquidity and Capital Resources

1. Cash Flows

The cash flows from operating activities in 2009 amounted to NIS 179.2 million, as compared with NIS 113.9 million in 2008. The increase in the cash flows from operating activities in 2009 in relation to 2008, originated primarily from the reduced working capital in the reported period that amounted to NIS 39.6 million, as compared with a decrease of NIS 30.0 million last year. The decrease in working capital in 2009 originated primarily from the decrease in inventory balances, an increase in accounts payable balances as mentioned above as well as from dividends net of income from the repayment of capital note, received from an associated company in the sum of NIS 45.4 million.

2. Financial Liabilities

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

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

The Company uses notes to finance its activities as of December 31, 2009, these notes consisted of the following:

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

- On July 14, 2008, the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008, of a new series of debentures. The Company has offered an aggregate principal amount of NIS 187.5 million of debentures issued in return for approximately NIS 187.5 million bearing an interest rate of 4.65% and payable annually each on July 10th of the years 2010-2018. The notes, principal and interest, are linked to the CPI (base CPI of May 2008).

- On July-August, 2008, the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008. The Company offered an aggregate principal amount of NIS 235.6 million of debentures issued in return for approximately NIS 240.4 million bearing an interest rate of 7.45%, and payable annually each on July 10th of the years 2010-2015.

As of December 31, 2009 the balance of the notes amounts to NIS 566.0 million, is after deduction of issuance costs (on December 31, 2008, the amounts were NIS 554.1 million).

The long-term liabilities (including current maturities) of the Company amounted to NIS 847.6 million as of December 31, 2009, compared with NIS 785.3 million as at December 31, 2008.

The Company uses loans from local financial institutions, mostly banks, to finance its activities. As of December 31, 2009, these loans consisted of the following:

- Short-term credit from banks – the Company has a bank credit facility of approximately NIS 413.0 million, of which, as of December 31, 2009, some NIS 131.6 million were utilized. The Company does not have any credit limitations (i.e. – financial covenants) other than this. See Notes 9b and 14c of our consolidated financial statements contained elsewhere in this Annual Report.

- Notes – see Note 9a of our consolidated financial statements contained elsewhere in this Annual Report.

- Long Term Loans – see Note 9b of our consolidated financial statements contained elsewhere in this Annual Report.

- Other liabilities – see Note 9d of our consolidated financial statements contained elsewhere in this Annual Report.

For information regarding financial instruments used for hedging purposes and market risks, see Note 17 of our consolidated financial statements contained elsewhere in this Annual Report, and "Item 11 - Quantitative and Qualitative Disclosure about Market Risk".

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

There exists a put option for a certain shareholder in an associated company. For information pertaining the put option see note 5.b.3 of our consolidated financial statements contained elsewhere in this Annual Report.

The difference between the value of the liabilities according to the agreement - NIS 64.0 million - as compared with the value of the liabilities through fair value - NIS 12.0 million - amounts to NIS 52.0 million.

Liability on account of the put option to a shareholder of an associated company, as at December 31, 2009, in December 31, 2008, is presented in the sum of NIS 12.0 million, and NIS 13.9 million, respectively.

On account of the put option, other incomes of NIS 1.9 million were recorded in 2009, as compared with other expenses of NIS 10.0 million in 2008.

The principal factors behind the change in the fair value during the reported period include the change in the risk-free interest rate and the change in the standard deviation of the the Company's share price that serves as the basis for the calculation of the value of the option.

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

4. Material Commitments for Capital Expenditures

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

- During the years 2008 and 2009, the Company entered into an agreement with the main equipment suppliers for the new manufacturing facility of packaging papers, in consideration of an aggregate amount of €62.3 million. Most of the equipment supplied during 2008 and 2009, the rest will be supplied during 2010.

- In November 3, 2008, the general meeting of the Company approved the validity of a lease agreement entered into on September 8, 2008, by and between the Company and Gev-Yam Lands Ltd. (for the purpose of this paragraph, the "Lessor"), a public company indirectly controlled by the controlling shareholder in the Company, pursuant to which the Company will lease a plot in Modiin, with a space of 74,500 square meters, and buildings that the Lessor plans to build for the Company, covering a total space of 21,300 square meters, which will be used as a center for the purposes of logistics, industry and office for subsidiaries and associated companies of the Company and in part will substitute existing lease agreements. The term of the lease will be 15 years from the date of delivery of possession in the leased property in addition to which the Company will have an option to extend the lease by a further 9 years and 11 months. The cost of annual lease amounts to NIS 13.6 million linked to the CPI for July 2008. The subsidiaries and associated company provided guarantees for their part in the rental agreement, yet for the associated company, this matter is still under discussion between the company and the other shareholder.

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

There were no significant investments in research and development activities during the last three years.

D. Trend Information

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

E. Off Balance Sheet Arrangements

Subsidiaries provided guarantees to various entities, in connection with tenders, in the aggregate amount of approximately NIS 4,900 thousands.

F. Contractual Obligations

		Payment due by Period			
in millions of NIS	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long term debt obligations*	1,019.8	200.4	370.7	258.0	190.7
Purchase obligations	341.0	68.3	96.1	60.6	116.1

* Including interest.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A Directors and Senior Management

The following table sets forth certain information with respect to the directors and executive officers of the Company, as of June 1, 2010:

Name	Age	Position/Principal Occupation
Senior management in Company and its subsidiaries		
Ofer Bloch	50	Chief Executive Officer (as of January 1, 2010)
Avi Brener	56	Former Chief Executive Officer (until December 31, 2009)
Shaul Gliksberg	48	VP Finance Business Development
Lea Katz	59	Legal counsel and Corporate Secretary.
Gur Ben David	58	General manager of Packaging Paper and Recycling Division.
Gideon Liberman	60	General Manager of Development and Infrastructure Division, VP Operation
Amir Moshe	44	General Manager, Graffiti Office Supplies & Paper Marketing Ltd.
Uzi Carmi	54	General Manager, Amnir Recycling Industries Ltd.
Simcha Kenigsbuch	52	Chief Information Officer
Doron Kempler	60	General Manager, Carmel Container Systems Ltd.
David Basson	51	VP group supply chain
Michal Mendelson	51	Group Marketing Manager
Noga Alon	45	Group Organizational Development Manager
Abraham Tenenboum	58	Development and Innovation Manager
Shmoel Molad	37	Accountant
Eli Greenbaum	58	Internal Auditor
Senior management in affiliated companies		
Arik Schor	53	General Manager, Hogla-Kimberly Ltd. (Until June 30, 2009)
Ari Melamud	42	General Manager, Hogla-Kimberly Ltd. (From July 1, 2009)
Avner Solel	55	General Manager, Mondi Business Paper Hadera Ltd.
Directors of the Company		

Zvi Livnat(1)	57	Chairman of the Board
Atalya Arad(2)	55	External Director
Ari Bronstein(3)		Director (until September 30,2009)
Roni Milo(4)	59	Director
Avi Fischer(5)	53	Director
Isaac Manor(6)	68	Director
Amos Mar-Haim(7)	71	Director
Adi Rozenfeld(8)	54	Director
Avi Yehezkel(9)	50	Director
Amir Makov(10)	75	External Director

(1) Mr. Livnat has been a member of our board of directors since 2003 and was appointed chairman of our board of directors in 2006.
(2) Mrs. Arad has been a member of our board of directors since 2008.
(3) Mr. Bronsthein served as a member of our board of directors from 2006 to September 30,2009Ms. Arad has been a member of our board of directors since 2008.
(4) Mr. Milo has been a member of our board of directors since 2007.
(5) Mr. Fischer has been a member of our board of directors since 2004.
(6) Mr. Manor has been a member of our board of directors since 2003.
(7) Mr. Mar-Haim has been a member of our board of directors since 1984.
(8) Mr. Rozenfeld has been a member of our board of directors since 2004.
(9) Mr. Yehezkel has been a member of our board of directors since 2003.
(10) Mr. Makov has been a member of our board of directors since 2005.

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

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

Mr. Ari Bornstein. Mr. Bornstein served as a member of our board of directors from 2006 until ,September 30,2009. Mr. Bronshtein is Vice President of Discount Investments Corporation Ltd. and also serves as director at various companies. Mr. Bornstein formerly served as Deputy Chief Executive Officer of Economics and Business Development of Bezeq, the Israeli Telecom Company Ltd. Mr. Bronshtein holds a graduate degree in Management and Economics and a masters degree in Management Science of Accounting and Finance from Tel-Aviv University.

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

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

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

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

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

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

Mr. Avi Yehezkel. Mr. Yehezkel has served as a member of the board of directors of the Company since 2003. Mr. Yehezkel is an External Director at Bank Yahav. Mr. Yehezkel served as a Knesset member from 1992-2003. Mr. Yehezkel holds a graduate degree in Economics from Tel-Aviv University, and holds a LLM degree from Bar- Ilan University.

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

Avi Brener. Avi Brener is the former Chief Executive Officer. Mr. Brenner announced his desire to resign his position after 21 years of employment with the Group, of which he served the last five years as the group CEO, due to a health related condition that prevented him from continuing to serve in this capacity. On December 31, 2009, Mr. Avi Brenner resigned his position as CEO of the Company.

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

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

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

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

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

Ms. Lea Katz. Ms. Katz serves as the Legal Counsel and the Corporate Secretary of the Company. Ms. Katz holds a LLB degree from Tel Aviv University.

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

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

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

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

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

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

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

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

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

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

6.B Compensation

The aggregate amount of remuneration paid to all directors and senior officers of the Company, and its subsidiaries (29 officers and directors) as a group for services provided by them during 2009 was approximately NIS 21,125,962 .The aggregate amount set aside for pension, retirement or similar benefits for all directors and senior officers of the Company and its subsidiaries as a group for services provided by them during 2009 was approximately NIS 1,872,421.

As part of the alignment with the global economic crisis, the Company's management consented to a 8%-10% cut in their pay for the year 2009.

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

Following below is the accounting cost of remuneration (remuneration paid during the reporting year, including the Company's undertakings of remuneration on account of the reported year) for the five highest-paid senior officers of the Company (it should be noted that the Group CEO renounced 10% of his salary until the end of 2009 in comparison with 2008, and all the senior officers in the Company renounced 8% of their salary for the same period).

Recipient Details			Remuneration for Services (in NIS thousands)				Total in NIS thousands
Name	Position	Scope of employment	Salaries	Bonus	Other	Share based payment for options "out of the money"**	Total
Avi Brener (1)	Group CEO (until December 31, 2009)	100%	1,891(2)	971 (3)	356(4)	1,392(5)	4,610
Shaul Glicksberg(6)	VP Finance and Business Development	100%	1,243(7)	300(8)		226(9)	1,769
Gideon Lieberman(10)	VP operations and CEO Hadera Paper Development and Infrastructure Ltd.	100%	1,020(11)	355 (12)		226 (13)	1,601
Gur Ben David (14)	General Manager, Packaging Paper & Recycling Division	100%	864 (15)	250(16)		226(17)	1,340

Doron Kempler (18)	CEO of Carmel Container Systems Ltd.	100%	989 (19)	200 (20)		67 (21)	1,256

The sums appear in terms of the cost to the Company in 2009.

* The chart details remuneration paid by the Company to five most-highly compensated officers of the Company, as reported by the Companyin accordance with Israeli law in its annual report ("Barnea Report") for the year ended December 31, 2009, filed with the Israel SecuritiesAuthority in March 2010.

** The sum appearing under the column "share-based payment" reflects the expenditure recorded by the Company in its 2009 financialstatements, according to IFRS 2, on account of the allocation of the stock options.

The exercise periods of the stock options are as follows:

The offeree will be eligible to exercise into shares one quarter of the aggregate amount of options commencing one year from January 14, 2008 (the "Determining Date") and ending four years after the Determining Date.

The offeree will be eligible to exercise into shares one additional (second) quarter of the aggregate amount of options, commencing two years from the Determining Date and ending four years after the Determining date.

The offeree would be eligible to exercise into shares an additional (third) quarter of the aggregate amount of options, commencing three years from the Determining Date and ending five years after the Determining Date.

The offeree would be eligible to exercise into shares an additional (fourth) quarter of the aggregate amount of options, commencing four years from the Determining Date and ending six years after the Determining Date.

1. On November 11, 2009, Mr. Avi Brener informed the Company of his intention to retire his position. Mr. Brener served as CEO of the Company until December 31, 2009, and his employment with the Company terminated on January 31, 2010.

2. Includes salary, social and auxiliary provisions as accepted, provisions recognized in the financial statements for 2009 on account of retirement bonus according to the Mr. Brener's Employment Agreement, additional 13th bonus salary and a company car.

3. Reflects the sum of the annual bonus approved by the Company's board of directors for payment to Mr. Brener on account of the year ended December 31, 2009, equivalent to 9 monthly salaries, and that will actually be paid in 2010. According to Mr. Brener's Employment Agreement, the annual bonus of the CEO will be equal to between 6 and 9 monthly salaries, to be determined by the Company's board of directors.

4. Sum paid to Mr. Brener on account of the remaining period of advanced notice, of approximately 3.5 months, out of the period of the early announcement of 6 months set in Mr. Brener's Employment Agreement.

5. On March 28, 2008, as part of his employment terms, Mr. Brener was allocated a sum of 40,250 options, convertible into up to 40,250 ordinary shares of the Company, according to the terms of the employee share option plan adopted by the Company, exercisable in four equal tranches. Upon the date of termination of his employment (January 31, 2010), two of the four option tranches were exercisable. Upon the terms of the employee share option plan and since the Mr. Brener's employment was terminated due to disability, he was also eligible to exercise an additional (third) option tranche. Moreover, the remuneration committee, audit committee and the board of directors of the Company decided, under the circumstances of the termination of employment (due to disability), and taking into considering the period of his employment in the Group, all according to the terms of the share option plan, to enable Mr. Brener to exercise the additional (fourth) option tranche. All of the tranches will be eligible for exercise at the original dates set forth in the plan. Following the retirement of Mr. Brener, the sum appearing in the table above includes the entire accounting expenditure on account of the outstanding options (as it was recognized in the financial statements of the year ended December 31, 2009).

6. Employed as the Company's VP of Finance since January 1, 2008. According to the terns of his employment agreement, each of the parties may terminate the engagement at any time while providing advanced notice of three months.

7. Includes basic salary, social and additional deductions as normally accepted, additional 13th bonus salary and company car.

8. Reflects the sum of the bonus paid by the Company to Shaul Glicksberg in the March 2010 paycheck, on account of 2009. Mr. Glicksberg's employment agreement has no guaranteed bonus and the sums of the bonuses paid were determined according to the discretion of the Company's board of directors, based on their evaluation of the contribution made by Mr. Glicksberg to the results of operation of the Company.

9. On March 10, 2008, as part of his employment terms, Mr. Glicksberg was granted 11,000 options, convertible into up to 11,000 ordinary shares of the Company, according to the terms of the employee share option plan adopted by the Company.

10. Employed as the Company's COO and CEO Hadera Paper Development and Infrastructure Ltd. Is employed by the Company since August 25, 1975. According to his employment agreement, each of the parties may terminate the engagement at any time while providing advanced notice of three months.

11. Includes basic salary, social and additional deductions as normally accepted, additional 13th bonus salary and company car.

12. Reflects the sum of the bonus paid by the Company to Gideon Liberman in the March 2010 paycheck, on account of 2009. The employment agreement of Mr. Liberman includes no guaranteed bonus and the sums of the bonuses paid were determined according to the discretion of the Company's board of directors, based on their evaluation of the contribution made by Mr. Liberman to the results of operation of the Company.

13. On March 10, 2008, as part of his employment terms, Mr. Liberman was granted 11,000 options, convertible into up to 11,000 ordinary shares of the Company, according to the terms of the employee share option plan adopted by the Company.

14. General Manager, Packaging Paper Division, employed August 1, 2006. According to his employment agreement, each of the parties may terminate the engagement at any time while providing advanced notice of three months.

15. Includes basic salary, social and additional deductions as normally accepted, additional 13th bonus salary and company car.

16. Reflects the sum of the bonus paid by the Company to Gur Ben David in the March 2010 paycheck, on account of 2009. The employment agreement of Mr. Ben David includes no guaranteed bonus and the sums of the bonuses paid were determined according to the discretion of the Company's board of Directors, based on their evaluation of the contribution made by Mr. Ben David to the results of operation of the Company.

17. On March 10, 2008, as part of his employment terms, Mr. Ben David was granted 11,000 options, convertible into up to 11,000 ordinary shares of the Company, according to the terms of the employee share option plan adopted by the Company.

18. CEO of Carmel Container Systems Ltd., employed since May 2001. According to the terms of his employment agreement, each of the parties may terminate the engagement at any time while providing advanced notice of three months.

19. Includes basic salary, social and additional deductions as normally accepted, additional 13th bonus salary and company car.

20. Reflects the sum of the bonus paid to Doron Kempler in the March 2010 paycheck, on account of 2009. The employment agreement of Mr. Kempler includes no guaranteed bonus and the sums of the bonuses paid were determined by the Company's board of directors, based on their evaluation of the contribution made by Mr. Kempler to the results of operation of the Group.

21. On March 10, 2008, as part of his employment terms, Mr. Kempler was granted 11,000 options, convertible into up to 11,000 ordinary shares of the Company, according to the terms of the employee share option plan adopted by the Company.

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

On May 13, 2007, the Board of Directors of the Company approved the employment agreement of the company's CEO, Mr. Avi Brener, who retired as the company's CEO on December 31, 2009 and finished his work at the Company on January 31, 2010. The principal points of the CEO's employment agreement include (in addition to wages): In the event of dismissal or resignation, advanced notice of 6 months will be provided. Moreover, a tax rebate will be provided to cover the value of the company car. The annual bonus of the CEO was equal to between 6 and 9 paychecks, as determined according to the discretion of the Company's Board of Directors. The CEO was also entitled to related benefits as customary for senior employees in the company, including: Company car, bonus 13th month salary, directors' insurance, continuing education fund, annual vacation, convalescence pay, sick pay, social benefits, clothing, reimbursement of telephone expenses, reimbursement of per diem and entertainment expenses. Regarding the terms of retirement, in addition to the release of funds accumulated in a directors' insurance or provident fund and such, at the date of retirement, the CEO shall be paid a retirement bonus in the sum of his last monthly salary prior to the retirement, multiplied by the number of years he worked at the group (since August 1988). It should be noted that, in a discussion held by the Audit Committee and by the Board of Directors of the Company, on the approval of the terms of employment of the CEO as aforesaid, a proposal was raised, that was initially discussed by the Company's Remuneration Committee, to establish a personal bonus plan for the company's CEO (in addition to the bonuses paid under the said employment contract), in accordance with the CEO's success in achieving specific goals that shall be determined in advance and that address two strategic projects of the company. The Board of Directors is examining the possibility of granting the retired CEO an additional bonus, on account of the said strategic projects. As regards the salary paid in 2009 and the granting of 40,250 stock options of the Company to the CEO, see Appendix D, Regulation 21, below. For details regarding the employment contract with the company's CEO, see Note 12c to the Company's .

Following the proposal mentioned above to establish a personal bonus plan for the company's CEO , the Board of Directors decided on March 23, 2010, to pay a special bonus to the retiring CEO in the sum of NIS 5.0 million on account of promoting strategic projects of the company.

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

Remuneration of Directors

The audit committee and the board of directors have resolved to update the annual remuneration and attendance compensation for all Company board members, including board members who are controlling shareholders or relatives thereof, independent board members and the external directors of the Company. Pursuant to regulations under the Israeli Companies Law, 5759-1999, or the Companies Law, each external director of the Company must receive the same annual compensation, which must be between NIS 45,000 and NIS 73,200, plus an additional fee for each meeting attended which must be between NIS 1,590 and NIS 2,820.

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

Pursuant to the resolutions of the general meetings of the Company dated June 21, 2006 and July 14, 2004, the Company issued letters of indemnification to all the directors and officers of the Company, including directors that may be considered controlling shareholders in the Company (Messrs. Zvi Livnat and Mr. Issac Manor), by virtue of being controlling shareholders in IDB Holdings, which is an indirect controlling shareholders of the Company.

On July 14, 2009, following the approval of the Company's audit committee and board of directors, the Company's shareholders' meeting approved the Company's engagement for the acquisition of an officers' and directors' liability insurance policy for the period commencing June 1, 2009 until May 31, 2010, and a premium payment in the amount of $52,000. The policy was acquired from an insurance company, which is a company owned by a controlling shareholder in the Company. The policy is under market conditions and in accordance with customary transactions of this type. According to the Company's resolution, said insurance policy will also apply to directors that may be considered controlling shareholders in the Company (Messrs. Zvi Livnat and Issac Manor). The amount of insurance coverage ($6.0 million) under said policy is identical to the amount of coverage of previous policies for the years 2008 and 2007. The premium will also cover Carmel that was an affiliated company and became a subsidiary of the Company. On May 31, 2010, the Company's audit committee and board of directors approved the Company's engagement in the acquisition of an officers' and directors' liability insurance policy for the period commencing June 1, 2010, and ending on May 31, 2011, and a premium payment in the amount of $37,000. The policy was acquired from an insurance company which is a company owned by a controlling shareholder in the Company and is subject to the approval of the shareholder of the Company's in the upcoming shareholders' meeting.

6.C Board Practices

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

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

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

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

In reliance upon Section 801(a) of the NYSE Amex Company Guide, as a "controlled company", the Company has elected not to follow the requirement that a majority of the members of our board of directors be independent, pursuant to Sections 121 and 802 of the NYSE Amex Company Guide. The Company is considered a "controlled company" under the NYSE Amex Company Guide as over 50% of the voting power in the Company is held by Clal. According to Section 801(a) of the NYSE Amex Company Guide, a controlled company is not required to comply with board independence requirements under Section 802. Accordingly, the Company's board of directors is composed of ten members, of whom to the Company's best knowledge five meet the independence requirements of the NYSE Amex Company Guide, namely, Amir Markov, Avi Yehezkel, Roni Milo, Atalya Arad and Amos Mar-Haim, and for are non-independent directors, namely Zvi Livnat, Avi Fischer, Isaac Manor and Adi Rozenfeld.

External Directors

Under the Companies Law, the Company (as a public company) is required to have at least two external directors as members of its board of directors. An external director may not have any financial or other substantial connection with the Company and must be appointed at the annual general meeting of shareholders. The external directors are elected for a three-year term of office that may be extended for another three years. Mr. Makov and Ms. Arad are the external directors of the Company. For the period of time each director served in his or her respective position, see "Item 6.A - Directors and Senior Management."

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

Audit Committee

Under the Companies Law, members of the audit committee are elected from members of the board of directors of the Company by the board of directors. The audit committee must be comprised of at least three directors, including all of the external directors, but excluding: (i) the chairman of the board of directors; (ii) any director employed by the Company or who provides services to the Company on a regular basis; or (iii) a controlling shareholder of the Company or his relative. In addition, according to the rules of the NYSE Amex the audit committee must have at least three members, each of whom satisfies the independence standards of Section 803A of the NYSE Amex Company Guide and Rule 10A-3 under the Securities Exchange Act of 1933, as amended, must not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years and is able to read and understand fundamental financial statements. Additionally, the audit committee must have at least one member who is financially sophisticated.

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

The Company's audit committee members are currently: Amos Mar-Haim, chairman, Atalya Arad and Amir Makov. All of whom to the Company's best knowledge, meet the independence requirements of the NYSE Amex Company Guide and Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

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

Nominating Committee

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

Compensation Committee

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

6.D Employees

As of April 10, 2010, the Group had 3,167 employees in Israel, of which the Company and its subsidiaries had 1,785 employees in Israel. Of the Company employees in Israel, 210 were engaged in the office supplies activities, 480 in the packaging paper and recycling division, 799 in the corrugated board containers activities (and 91 were management and clerical personnel at the Company's headquarters in Hadera. The associated companies had 1,385 employees in Israel, of whom 1,065 were engaged in the household paper activities (in addition, KCTR had 393 employees in Turkey engaged in household paper activities) and 320 in the printing and writing paper activities.

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

6.E Share Ownership

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

On January 14, 2008, following the approval of the audit committee, the board of directors approved a bonus plan for senior employees in the Company and/or in subsidiaries and/or in associated companies, under which up to 285,750 options (159,083 share options of at the date of this Annual Report), each exercisable into one ordinary share of the Company, will be allotted to senior employees and officers in the Group, including the CEO of the Company (the "Plan"). On the date of approval of the bonus plan, the number of shares to be allotted accounted for 5.65% of the issued share capital of the Company. The offerees in the said bonus plan are not interested parties in the Company, except for the CEO who is an interested party by virtue of his position. Pursuant to the conditions of the said options, the offerees who will exercise the option will not be allocated all of the shares derived therefrom, but only a quantity of shares that reflects the sum of the financial benefit that is inherent to the option at the exercise date only. The options vest in four yearly installments. The vesting period of the first installment is one year, commencing on the date of grant, and the next three installments vest on the second, third and fourth anniversary of the grant date. The first installment is exercisable for three years from the vesting date. Each installment of the next three installments is exercisable for two years from the vesting date of such installment. For further information regarding the 2008 bonus plan, see Note 11 of our consolidated financial statements contained elsewhere in this Annual Report.

Of the 281,500 options under the bonus plan, 40,250 options were allotted to the former CEO of the Company, 135,500 were allotted to management of the subsidiaries and 74,750 were allotted to management of the affiliates. The date of grant of the options was set for the months of January-March 2008, subject to the restrictions of Section 102 (Capital Route) of the Israeli Income Tax Ordinance. In the course of the first quarter of 2008, a sum of 250,500 share options were granted as aforesaid, and on January 8, 2009, a sum of 34,000 share options were granted, out of 35,250 share options that were allocated to the trustee, as a reservoir for future granting. The balance of options warrants held by the trustee were deleted by the Board on August 9, 2009 .

For further information regarding the options awarded to Mr. Avi Brenner, the Company's former CEO, see "Item 6.B – Compensation".

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A Major shareholders

The following table sets forth, as of June 10 2010, the number of ordinary shares of the Company beneficially owned by (i) all those persons who, to the Company's knowledge, were the beneficial owners of more than 5% of such outstanding shares, and (ii) all officers and directors of the Company as a group:

Name and Address:	Amount Beneficially Owned Directly or Indirectly*		Percent of Class Outstanding	
Clal Industries and Investments Ltd. ("Clal") 3 Azrieli Center, the Triangle Tower, Tel Aviv, Israel	3,007,621	(1)	59.15	%(1)
Clal Insurance Holdings Ltd. ("Clal Holdings")	275,850		5.43	%(2)
Clal Finance Ltd. ("Clal Finance")	46,188	(3)	0.91	%(3)
All officers and directors as a group	**		**	

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

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

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

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

- Ganden Holdings Ltd., ("Ganden Holdings"), a private company incorporated in Israel, which holds directly and via Ganden Investments IDB Ltd., (" Ganden"), a private company incorporated in Israel wholly owned by it (indirectly), 54.72% of the equity and voting rights of IDB Holdings (approximately 53.65%, on a fully diluted basis), as follows: Ganden holds 37.22% of the equity and voting rights of IDB Holdings(approximately 36.49%, on a fully diluted basis), and Ganden Holdings directly holds 17.50% of the equity and voting rights of IDB Holdings (approximately 17.15%, on a fully diluted basis). The controlling shareholders of Ganden Holdings are as described below. In addition, Shelly Bergman (one of the controlling shareholders of Ganden Holdings) holds, via a wholly-owned private company incorporated in Israel, approximately 4.17% of the equity and voting rights of IDB Holdings (approximately 4.09%, on a fully diluted basis).

- Manor Holdings B.A. Ltd., (" Manor Holdings"), a private company incorporated in Israel, which holds directly and via Manor Investments - IDB Ltd., (" Manor"), its subsidiary which is a private company incorporated in Israel, 13.30% of the equity and voting rights of IDB Holdings (approximately 13.04%, on a fully diluted basis), as follows: Manor holds 10.25% of the equity and voting rights of IDB Holdings (approximately 10.05%, on a fully diluted basis) and Manor Holdings directly holds 3.05% of the equity and voting rights of IDB Holdings (approximately 2.99%, on a fully diluted basis). The controlling shareholders (and other material shareholders) of Manor Holdings are as described below.

- Avraham Livnat Ltd., a private company incorporated in Israel, holds directly and via Avraham Livnat Investments (2002) Ltd., (" Livnat"), a wholly-owned private company incorporated in Israel, approximately 13.31% of the equity and voting rights of IDB Holdings (approximately 13.05%, on a fully diluted basis), as follows: Livnat holds 10.20% of the equity and voting rights of IDB Holdings (approximately 10%, on a fully diluted basis), and Avraham Livnat Ltd. directly holds 3.11% of the equity and voting rights of IDB Holdings (approximately 3.05%, on a fully diluted basis). The controlling shareholders (and other material shareholders) of Avraham Livnat Ltd. are as described below.

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

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

The aforementioned additional holdings in IDB Holdings, held by Ganden Holdings (approximately 17.5%), by Ganden (approximately 6.2%), by Manor Holdings (approximately 2.96%), by Avraham Livnat Ltd. (approximately 2.97%) and by Shelly Bergman, via its wholly-owned subsidiary (approximately 4.17%), are excluded from the "controlling interest" as defined in the IDB Shareholders' Agreement.

IDB Development holds 11,336,914 of its own shares, which are dormant shares which confer no rights at all.

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

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

Other material corporate shareholders of Ganden Holdings are as follows: (i) Nolai BV (a private company indirectly owned by The L.S. Settlement, which is held in trust by a law firm based in Gibraltar, whose beneficiaries are descendants of Ms. Anna Schimmel, including Yaakov Schimmel) holds 9.9% of the capital and voting rights in Ganden Holdings; and (ii) Avi Fisher, in person and via Noga MGA Investments Ltd., a company controlled by him and by his wife, holds, directly and indirectly, 9.1% of the capital and voting rights in Ganden Holdings.

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

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

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

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

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

To our knowledge, the significant changes in the percentage of ownership held by our major shareholders during the past three years have been the sale of all the DIC holdings in the Company to Clal, whereby DIC ceased being a controlling shareholder of the Company, with Clal increasing its holdings in the Company accordingly. For further information, see "Item 4.C – Organizational Structure".

As of May 31, 2010, our ordinary shares were held by 125 registered holders. Based on the information provided to us by our transfer agent, as of May 30, 2010, 625 registered holders were U.S. holders and held approximately 8.4% of outstanding ordinary shares.

7.B Related Party Transactions

The information is included in our consolidated financial statements contained elsewhere in this Annual Report. For loans to associated companies, see Note 5 of our consolidated financial statements contained elsewhere in this Annual Report. For a capital note to an associated company, see Note 9d of our consolidated financial statements contained elsewhere in this Annual Report. For transactions and balances with related parties, see Note 18 of our consolidated financial statements contained elsewhere in this Annual Report.

On June 1, 2010, the Company entered into an agreement for the sale of its rights to a plot of land with an area of approximately 7600 square meters in Totseret HaAretz Street in Tel Aviv, that is currently leased by the Company from the Tel Aviv municipality in consideration of NIS 64 million, plus VAT. The purchasing parties are Bayside Land Corporation Ltd., ("Bayside"), a company indirectly controlled by IDB Development Company Ltd., the controlling shareholder of the Company and by Amot Investments Ltd. ("Amot"), with holdings in Bayside of 71% and 29%, respectively. The transaction is subject to a precondition and two nullifying conditions. Pursuant to the finalization of the transaction according to the terms of the agreement, the Company is expected to record in its financial statements net capital gains totaling approximately NIS 27.5 million.

For further information see also Note 18b of our consolidated financial statements contained elsewhere in this Annual Report.

7.C Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A Consolidated Statements and Other Financial Information

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

Export Sales

In 2009, the Company had NIS 69.8 million of export sales, which represents approximately 7.8% of the NIS 892.0 million total sales volume of the Company.

Legal Proceedings

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

In November 2006, the Environmental Protection Ministry announced that, even though the Company's plant at Hadera has made considerable investments in sewage treatment and environmental protection issues, an investigation may be launched against it to review deviations from certain emission standards into the air. Based on the opinion of its legal advisors, the Company anticipates that the investigation will not materially impact its operations.

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

A demand to pay purchasing tax of NIS 1,460 thousands was submitted by the Israeli Tax Authorities to the Company in respect of the extension of the lease on a plot of land located in Totzeret Haaretz Street in Tel Aviv (formerly the Shafir plant). A decision was handed down by the appeals committee pursuant to which the Company was required to pay a total of NIS 1.39 million, which accounts for 66% of the original demand for payment. The Company paid the amount. Both the Company and the Israeli Tax Authorities have appealed this decision to the Israeli Supreme Court.

In December 2006, Israel Natural Gas Lines Ltd., or Natural Gas Lines, informed the Company that owners of lands adjacent to the gas production plant had initiated a damages claim against Natural Gas Lines, on account of the decrease in value to the adjacent lands. The agreement between the Company and Natural Gas Lines addresses the indemnification of Natural Gas Lines as part of the payment of compensation due the decrease in value to the adjacent lands. The proceeding is conducted before the appeals committee and the Company is not a party to the proceedings. At this stage, it is impossible for the Company to assess the chances of success of the damages claim and thus, the extent of the Company's exposure, particularly since the Company is not a party to the proceedings. In any case, in the Company's considers any exposure as immaterial.

A consolidated company received from the Municipality of Netanya and from the lessee of a property, claims of payment amounting to NIS 2,700 thousands relating to assessments regarding taxes and levies for the years 2000-2008 for the above company's offices in Netanya. The consolidated company submitted an appeal to the claim, in the amount of NIS 2,000 thousands, which was rejected by the Municipality. The consolidated company submitted an appeal on the rejection. In June 2009, a compromise agreement was reached whereby the consolidated company will pay approximately NIS 950 thousand for the assessments regarding taxes and levies. The aforementioned compromise agreement did not have a material effect on the operating results of the consolidated company for the year 2009, since the financial statements included a sufficient provision in the past.

During 2009, as part of a formal tax inspection of the Turkish Tax Authorities, an examination was held in respect to the financial reports of KTCR for the years 2004-2008. On February 16, 2010, KCTR received a tax inspection report, following the aforementioned inspection, according to which KCTR is required to an additional tax payment for two matters audited, as detailed below, in the aggregate amount of 135 million YTL (approximately 89 million USD) including interest and penalty. The Company has included a provision in its financial reports for the year ended December 31, 2009, with regards to one of these two matters (Stamp Tax) of 158 thousands YTL (approximately 104 thousand USD), which KCTR considers to be the required estimated cash outflow for the matter. Regarding the second matter, which is the essential part of the tax demand (tax on capital injection from H- K to KCTR), KCTR, based on its tax consultant opinion, estimates that the likelihood that it will be required to pay the additional tax payment, is rather low, and therefore it has not included a provision at its financial reports for the year ended December 31, 2009, with regards to this matter. It should be noted that KCTR, based on its tax consultant opinion, opposes the Turkish Tax Authorities demands regarding the second matter, and intends to appeal the decision.

On June 7,2010 a petition was filed against Hogla-Kimberly LTD (H-K), an affiliated company (49.9%) and against another competitor company (the "Competitor"), for the approval of a class action.

According to the petition, the Competitor and H-K has misled the public by presenting plastic bags as oxo biodegradable and therefore environmentally friendly, while the products are breaking down into fragments.

The plaintiff estimates the scope of the petition, if approved as class action, to be approximately NIS 111 million. At this early stage H-K is examining the petition and is not able to assess its chances and its influences.

Dividend Policy

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

8.B Significant Changes

The following significant changes occurred since December 31, 2009, the date of the most recent annual financial statements contained elsewhere in this Annual Report:

On February 11, 2010, the Company assumed a long-term loan from banks in the sum of NIS 70 million, carrying a variable interest rate of prime plus 1.15%, and to be repaid within seven years. The principal and the interest are to be repaid in quarterly installments, commencing from the second year.

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

On February 18, 2010, an associated company declared the distribution of a dividend in the amount of approximately NIS 20 million from the retained earnings. The dividend was paid during May 2010. The Company's share in the dividend is approximately NIS 10 million.

On April 22, 2010, an associated company declared the distribution of a dividend in the amount of approximately NIS 40 million from the retained earnings. The dividend will be paid during the third quarter of 2010. The Company's share in the dividend is approximately NIS 20 million.

On May 10, 2010, the Company announced that Maalot (Israeli Securities Rating Company Ltd., an affiliate of Standard and Poor's) decided to rate Series 5 Debentures as (ilA+)/Negative. On May 20, 2010, the Company filed with the Israeli Securities Authority a report with respect to a contemplated public offering in Israel pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008 of the Series 5 Debentures. The Series 5 Debentures, with an aggregate principal amount of up to NIS 181.5 million, 1 NIS par-value each, were offered at 100% of their par value, bearing an annual interest rate of 5.85%. The principal amount shall be payable in five annual and equal installments made on the 30th day of November of each of the years between 2013 and 2017 (inclusive). The interest shall be payable in biannual installments made on the 31th day of May and the 30th day of November of each of the years between 2010 and 2017 (inclusive). Both the principal amount and the interest payments shall not be linked to the CPI or to any other index or foreign currency. Through the offering, the Company raised a gross total of NIS 181,519 thousand (approximately $ 47,500 thousand).

ITEM 9. THE OFFER AND LISTING

9.A Listing Details

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

	NYSE Amex		Tel Aviv Stock Exchange			
	High	Low	High	Low	High	Low
	$		NIS		$*	
Yearly Highs and Lows						
2009	71.5	29.6	272.00	117.30	71.64	29.73
2008	80.80	26.55	270.20	104.50	83.58	26.98
2007	67.50	41.90	259.40	185.00	65.60	43.65
2006	52.12	38.50	237.00	168.50	53.01	38.42
2005	57.98	37.50	246.90	176.90	56.42	38.24
Quarterly Highs and Lows						
2010						
Second Quarter (until June 15 2010)	83.00	67.42	309.90	260.20	83.03	67.60
First Quarter	82.25	68.53	311.30	252.50	82.40	67.80
2009						
Fourth Quarter	71.50	54.19	272.0	206.2	71.64	55.18
Third Quarter	58.36	41.25	218.90	165.60	57.67	41.86
Second Quarter	44.30	35.00	177.80	147.70	45.17	35.11
First Quarter	39.48	29.62	164.0	117.3	39.16	29.73
2008						
Fourth Quarter	60.25	26.55	205.60	104.50	58.84	26.98
Third Quarter	74.5	52.5	256.10	186.70	74.73	53.02
Second Quarter	80.8	59.71	270.20	212.10	83.58	62.09
First Quarter	69.05	56.5	261.30	192.10	67.68	56.83
Monthly Highs and Lows						
June 2010 (until June 15 2010)	74.49	67.42	281.50	260.20	73.20	67.60
May 2010	83.00	70.00	309.90	272.20	83.03	70.34
April 2010	81.94	76.46	304.00	283.70	81.55	76.70
March 2010	82.25	74.32	311.30	279.80	82.40	74.30
February 2010	81.64	73.49	302.40	273.3	80.77	73.17
January 2010	73.51	68.53	275.00	252.50	73.61	67.80
December 2009	69.89	61.78	272.00	241.40	71.64	63.95

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

9.B Plan of Distribution

Not applicable.

9.C Markets

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

9.D Selling Shareholders

Not applicable.

9.E Dilution

Not applicable.

9.F Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A Share Capital

Not applicable.

10.B Memorandum and Articles of Association

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

Objects and Purposes of the Company

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

Director's Personal Interest

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

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

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

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

Powers and Function of Directors

According to the Companies Law, the board of directors shall formulate the policies of the Company and shall supervise the performance of the office and actions of the General Manager (CEO), including, inter alia, examination of the financial position of the Company and determination of the credit framework of the Company. According to the

Company's Articles, as authorized by the Companies Law, and without derogating from any power vested in the board of directors in accordance with the Articles, the board of directors may, from time to time, at its discretion, decide upon the issuance of a series of debentures, including capital notes or undertakings, including debentures, capital notes or undertakings which can be converted into shares, and also the terms thereof, and mortgage of the property of the Company, in whole or in part, at present or in future, by floating or fixed charge. Debentures, capital notes, undertakings or other securities, as aforesaid, may be issued either at a discount or at a premium or in any other manner, whether with deferred rights or special rights and/or preferred rights and/or other rights, all at the board of directors' discretion.

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

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

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

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

The Shares – Rights and Restrictions

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

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

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

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

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

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

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

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

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

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

Modification of Rights of Shares

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

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

Shareholders Meeting

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

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

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

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

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

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

Each shareholder holding at least ten percent (10%) of the issued capital and one percent (1%) of the voting rights, or each shareholder holding at least ten percent (10%) of the voting rights, is entitled to request that the board include in the agenda any issue, provided that this issue is suitable to be discussed in a general meeting.

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

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

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

Voting and Adopting Resolutions at General Meetings

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

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

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

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

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

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

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

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

Right of Non-Israeli Shareholders to Vote

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

Change of Control

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

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

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

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

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

Transfer Agent and Registrar

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

Listing

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

10.C Material Contracts

For a description of material contracts other than those described below, see "Item 7.B - Related Party Transactions."

In February 2007, the Company finalized the sale of all its direct and indirect holdings in TMM, as well as its holdings in Barthelemi, to CGEA (in an agreement signed January 4, 2007). The sale price was approximately $27 million. Following the sale, the Company ceased to be a shareholder in TMM. For further information, see "Item 4.A-History and Development of the Company".

In March 2007, KCTR signed an agreement in principle with Unilever, according to which Unilever shall distribute and sell KCTR's products in Turkey, excluding distribution and sales to food chains, which will be done directly by KCTR. The agreement was signed to help KCTR increase its market penetration and volume of sales following the approval of a strategic plan by KCTR to expand its activities in Turkey in the coming decade. The complete strategic plan is designed to expand the activities of KCTR from the current yearly sales volume of $50 million to a volume of $300 million in the year 2015.

On July 29, 2005 the Company signed an agreement in London, with the Yam Tethys Sea Group (Noble Energy Mediterranean Ltd., Delek Drilling Limited Partnership, Avner Oil Exploration Limited Partnership and Delek Investment and Assets Ltd.), for the purchase of natural gas. The gas that will be purchased is intended to fulfill the Company's requirements in the coming years, for the operation of the existing energy co-generation plant at Hadera that was converted for the use of natural gas, instead of fuel oil. The overall financial volume of the transaction totals $35 million over the term of the agreement from the initial supply of gas and until the earlier of: (i) the point at which the Company will have purchased an aggregate of 0.43 BCM of natural gas; or (ii) July 1, 2011. As of the date of this Annual Report, the Company is dependent on Tethys Sea Group for the supply of natural gas, since to the best of the Company's knowledge, as of a little prior to publication of this report, Tethys Sea Group is the only natural gas supplier in Israel for the manufacturing market, except for an Egyptian [gas supplier which supplies gas to the Israel Electric Company].

On July 11, 2007, the Company entered into an agreement with Israel Natural Gas Routes Ltd. for transportation of natural gas to its facility in Hadera for a six-year term, with an optional extension for another two-year. Consideration, pursuant to the agreement includes payment of a non-recurring connection fee upon connection based on the actual cost of connection to the Company's facility, as well as monthly payments based on two components: (a) a fixed amount for the gas volume ordered by the Company; and (b) an additional amount based on the actual gas volume delivered to the facility. As of the date of this Annual Report, the Company is dependent on Gas Routes, since in the agreement the Company undertook to pay a set annual payment of NIS 2 million even if it does not actually make use of Gas Routes' transportation services.

During 2008, the Company completed the execution of the key agreements for purchase of major equipment required for a Machine 8. The principal equipment for the production system was acquired from the leading companies in the world in the manufacture and sale of paper machines, with the central equipment purchased from the Italian company Voith, while additional complementary items were ordered from Finnish company METSO and Italian company SEEI. According to the signed agreements, the Company the Company is committed to a total sum of approximately €60 million for the equipment detailed above, of which about €53million were already paid .

On November 3, 2008, the Company's general meeting approved the lease agreement signed on September 18, 2008 between the Company and Gav-Yam Land Ltd., a public company controlled by the Company's indirect controlling shareholders (for the purpose of this paragraph, the "Lessor"), whereby the Company would lease a plot in Modi'in with an area of 74,500 square meters, as well as buildings to be constructed by the Lessor for the Company, with a total constructed area of 21,300 square meters, to serve as a logistics center, industrial and office space for the Company's subsidiaries and associated companies, which would, in part, replace existing lease agreements. The leasing period shall be 15 years from the date of receiving possession of the leased property. The Company will also have an option to extend the lease by an additional 9 years and 11 months.

In August 2008, a transaction was completed for the acquisition of shares of Carmel, pursuant to an agreement signed on July 10, 2008, whereby the Company acquired the shares of Carmel held by Robert Kraft, the principal shareholder in Carmel, as well as those of several other shareholders, in consideration of a total of $20.77 million, paid upon closing of the transaction. The shares were acquired "as-is" and the transaction closed subsequent to receiving the approval of the Antitrust Supervisor, which was a pre-condition for said closing. Upon conclusion of the transaction and as of May 31, 2009, the Company holds approximately 89.3% of Carmel shares and starting September 1, 2008, the financial statements of Carmel and those of Frenkel CD have been consolidated with the Company's financial statements.

10.D Exchange Controls

Foreign exchange regulations

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

10.E Taxation

Investors are advised to consult their tax advisors with respect to the tax consequences of their purchases, ownership and sales of our shares, including the consequences under applicable state and local law and federal estate and gift tax law, and the application of foreign laws or the effect of nonresident status on United States taxation. This tax summary does not address all of the tax consequences to the investors of purchasing, owning or disposing of the ordinary shares.

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

In December 2007, the Company and one of its subsidiaries, Hadera Paper Industries Ltd. (formerly American-Israeli Paper Mills (1995) Ltd.), submitted an application to the Israeli Tax Authorities to split the production services business, specified below, which Hadera Paper Industries Ltd. has provided to Group companies at the Company's site in Hadera, to a new company called Hadera Paper Development and Infrastructures Ltd. (in this section, the "Infrastructure Company"). The infrastructure services include engineering services, regular maintenance for maintaining production continuity, supply of gas, electricity, steam, sewage treatment, environmental issues and water. The Infrastructure Company also provides additional services, including a spare-parts warehouse, employee transportation services, cleaning, security and catering services (these services are also provided to the Company's associated companies at the Company site in Hadera). The split was made is in accordance with the provisions of Section 105 of the Income Tax Ordinance. The split was made on December 31, 2007, and from date forward, the Infrastructure Company is active as an independent entity and has therefore begun drawing up separate financial statements and tax reports since 2008.

In accordance with Amendment No. 147 of the Income Tax Ordinance in 2005, a tax rate of 34% which is applicable to companies was gradually reduced starting from 2006 (for which a tax rate of 31% was determined) until 2010 - for which a tax rate of 25% was determined (the tax rate in the years 2007, 2008 and 2009 is 29%, 27% and 26%, respectively).

The Economic Efficiency Law (Legal Amendments to the Implementation of the Economic Program for 2009 and 2010) of 2009, or the Settlement Law, was published in July 23, 2009. According to the Settlement Law, the tax rates of 26% and 25% that apply to companies in the years 2009 and 2010, respectively, will be gradually reduced starting in fiscal year 2011, for which a company tax rate of 24% was set, through to fiscal year 2016, for which a company tax rate of 18% was determined. Subsequent to this change, the Company recognized deferred tax revenues in the amount of NIS 8,571 thousands in 2009.

Various issues related to the effective date of the 2009 tax reform remain unclear in view of ambiguous legislative language and the lack of authoritative interpretations at this time. The analysis below is therefore based on our current understanding of the new legislation.

Taxation of Shareholders

Capital Gains

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

The capital gain accrued by individuals on the sale of our ordinary shares will be taxed at the rate of 20%. However, if the individual shareholder is a “Significant Shareholder” (i.e., a person who holds, directly or indirectly, alone or together with other, 10% or more of one of the Israeli resident company’s means of control) at the time of sale or at any time during the preceding 12 months period such gain will be taxed at the rate of 25%. In addition, capital gain derived by an individual claiming deduction of financing expenses in respect of such gain will be taxed at the rate of 25%. The real capital gain derived by corporation will be generally subject to a corporate tax rate (25% in 2010).

Individual and corporate shareholder dealing in securities in Israel are taxed at the tax rates applicable to business income (25% tax rate in 2010 for a corporation and a marginal tax rate of up to 45% in 2010 for individual). Notwithstanding the foregoing, capital gain derived from the sale of our ordinary shares by a non-Israeli shareholder may be exempt under the Israeli Income Tax Ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the ordinary shares were purchased upon or after the registration of the securities on the stock exchange, (ii) the seller does not have a permanent establishment in Israel to which the derived capital gain is attributed, and (iii) if the seller is a corporation, less than 25% of its means of control are held, directly and indirectly, by Israeli resident shareholders. In addition, the sale of the ordinary shares may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. Thus, the U.S.-Israel Double Tax Treaty exempts U.S. resident from Israeli capital gain tax in connection with such sale, provided (i) the U.S. resident owned, directly or indirectly, less than 10% of an Israeli resident company's voting power at any time within the 12 – month period preceding such sale; (ii) the seller, being an individual, is present in Israel for a period or periods of less than 183 days at the taxable year; and (iii) the capital gain from the sale was not derived through a permanent establishment of the U.S. resident in Israel.

Either the seller, the Israeli stockbrokers or financial institution through which the ordinary shares are held are obliged, subject to the above mentioned exemptions, to withhold tax upon the sale of securities from the real capital gains at the rate of 25% in respect of a corporation and 20% in respect of an individual.

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

Dividends

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

Under the Israeli Income Tax Ordinance, a non-Israeli resident (either individual or corporation) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 20% (25% if the dividends recipient is a "Significant Shareholder", at the time of distribution or at any time during the preceding 12 months period); those rates are subject to a reduced tax rate under the provisions of an applicable double tax treaty. Thus, under the U.S.-Israel Double Tax Treaty the following rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the taxable year which precedes the date of payment of the dividend and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying corporation and not more then 25% of the gross income of the Israeli resident paying corporation for such prior taxable year (if any) consists of certain type of interest or dividends – the tax rate is 12.5%, (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income which was entitled to a reduced tax rate applicable to an Approved Enterprise/Privileged Enterprise – the tax rate is 15%, and (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the Israel-U.S. Double Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

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

10.F Dividends and Paying Agents

Not applicable.

10.G Statement by Expert

Not applicable.

10.H Documents on Display

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

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

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

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

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

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

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

As of December 31, 2009 the Company owned CPI-linked long-term loans and notes in the total amount of approximately NIS 356.2 million. The interest on such loans is not higher than the market interest rate. In the event that the inflation rate rises significantly, a loss may be recorded in the Company's financial statements, due to the surplus of CPI-linked liabilities.

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

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

The Company also enjoys natural hedging due to the current debt of an associated company that is linked to the consumer price index.

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

	Maturity In NIS thousands 2010	2011-12	2013-14	More than 5 years	Total book value	Total fair value
Series 2 debentures	32,922	65,845	32,922	-	131,689	136,715
Series 3 debentures	21,979	43,959	43,959	87,918	197,815	207,266
Series 4 debentures	39,260	78,519	78,519	39,260	235,557	266,721

Credit Risks

The Company's and its subsidiaries' cash and cash equivalents and the short-term deposits as of December 31, 2009 are deposited mainly with major Israeli banks. The Company and its subsidiaries consider the credit risks in respect of these balances to be immaterial.

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

Fair Value of Financial Instruments

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

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

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

Sensitive Instruments	Sensitivity to Interest Rates Profit (loss) from changes Interest rise 10%	Interest rise 5%	Fair value as of December 31, 2009	Profit (loss) from changes Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Series 2 Debentures	1,247	626	(136,715)	(631)	(1,266)
Series 3 Debentures	3,160	1,590	(207,266)	(1,611)	(3,442)
Series 4 Debentures	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- fixed interest	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 our consolidated financial statements contained elsewhere in this Annual Report.

Regarding long-term loans and capital notes granted - See Note 5 of our consolidated financial statements contained elsewhere in this Annual Report.
U

Sensitive Instruments	Sensitivity of €-linked instruments to changes in the € exchange rate				
	Profit (loss) from changes		Fair value as of	Profit (loss) from changes	
	Rise in € 10%	Rise in € 5%	December 31, 2009	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)
Other Accounts Payable	(7,258)	(3,629)	(72,583)	3,629	7,258
NIS-€ forward transaction	5,123	1,994	(1,114)	(4,264)	(7,393)

Sensitive Instruments	Sensitivity to the U.S. Dollar Exchange Rate				
	Profit (loss) from changes		Fair value as of	Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	December 31, 2009	Devaluation of $ 10%	Devaluation of $ 5%
	In NIS thousands				
Cash and cash equivalents	495	247	4,945	(247)	(495)
Other Accounts Receivable	1,271	635	12,707	(635)	(1,271)
Other Accounts Payable	(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 5d of our consolidated financial statements contained elsewhere in this Annual Report.

Accounts payable reflect primarily short-term liabilities to suppliers.

Sensitive Instruments	Sensitivity to the Consumer Price Index				
	Profit (loss) from changes		Fair value as of	Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	December 31, 2009	Devaluation of $ 10%	Devaluation of $ 5%
	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 of our consolidated financial statements contained elsewhere in this Annual Report.

Sensitive Instruments	Sensitivity to the exchange rate of the yen				
	Profit (loss) from changes		Fair value as of	Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	December 31, 2009	Devaluation of $ 10%	Devaluation of $ 5%

			In NIS thousands		
Accounts Payable	260	130	2,605	(130)	(260)

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Quantitative Information Regarding Market Risk

The following are the balance-sheet components by linkage bases at December 31, 2009:

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	398.7	1.1	13.3	5.1	4.6	422.8
Inventories					175.9	175.9
Investments in Associated Companies	17.8	36.7			286.5	341.0
Deferred taxes on income					29.7	29.7
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	540.1	37.8	18.3	31.0	1,689.1	2,316.3
Liabilities						
Short-term credit from banks	131.6					131.6
Other Accounts Payable	252.6		43.4	72.6		368.6
Current tax liabilities	2.7					2.7
Deferred taxes on income					58.1	58.1
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	915.6	356.2	55.4	72.6	916.5	2,316.3
Surplus financial assets (liabilities) as at December 31, 2009	(375.5)	(318.4)	(37.1)	(41.6)	772.6	0.0

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

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

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

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

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

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

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective.

(c) Attestation report of the registered public accounting firm

Our independent auditors, Brightman Almagor Zohar & Co. a member firm of Deloitte Touche Tohmatsu and registered public accounting firm, has audited the consolidated financial statements in this Annual Report on Form 20-F, and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting as of December 31, 2009.

(d) Changes in Internal Control Over Financial Reporting

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

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Amos Mar-Haim, a member of the Company's audit committee, meets the criteria of an audit committee Financial Expert under the applicable rules and regulations of the SEC and his designation as the audit committee's Financial Expert has been ratified by the board of directors. Amos Mar-Haim is "independent", as that term is defined in the NYSE Amex's listing standards.

ITEM 16B. CODE OF ETHICS

The Company has adopted a code of ethics which is applicable to all directors, officers and employees of the Company, including its principal executive officer, principal financial officer, and principal accounting officer or controller and persons performing similar functions. The Code of Ethics covers areas of professional and business conduct, and is intended to promote honest and ethical behavior, including fair dealing and the ethical handling of actual or apparent conflicts of interest; support full, fair, accurate, timely and understandable disclosure in reports and documents the Company files with, or submits to, the SEC and other governmental authorities, and in its other public communications; deter wrongdoing; encourage compliance with applicable laws and governmental rules and regulations; and ensure the protection of the Company's legitimate business interests. The Company encourages all of its officers and employees promptly to report any violations of the Code of Ethics, and has provided mechanisms by which they may do so. The Company will provide a copy of the Code of Ethics to any person, without charge, upon written request addressed to the Corporate Secretary of the Company at the Company's corporate headquarters in Hadera, Israel.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The audit committee maintains a policy of approving and recommending only those services to be performed by the Company's external auditors which are permitted under the Sarbanes-Oxley Act and the applicable rules of the SEC relating to auditor independence, and which are otherwise consistent with and will encourage, and are remunerated at levels that accord with, the basic principles of auditor independence. The practice of the audit committee is to receive from the Company's management a list of all services, including audit, audit-related, tax and other services, proposed to be provided during the current fiscal year to the Company and its subsidiaries by Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tohmastu (on July 14, 2009, at a general meeting the shareholders approved the appointment of Brightman Almagor Zohar & Co. as the Company's external auditors for the year 2009. Brightman Almagor Zohar & Co. replaced Kesselman & Kesselman & Co. who served as the Company's external auditors since 1954 until 2006). After reviewing and considering the services proposed to be provided during the current fiscal year and, where appropriate in order better to understand their nature, discussing them with management, the audit committee approves prior to the accountant being engaged such of the proposed services, with a specific pre-approved budget, as it considers appropriate in accordance with the above principles. Additional services from Brightman Almagor Zohar and any increase in budgeted amounts will similarly be approved during the year by the audit committee prior to the accountant being engaged on a case-by-case basis.

All audit-related and non-audit-related services performed by Brightman Almagor Zohar during 2009 were proposed to and approved by the audit committee prior to the accountant being engaged, in accordance with the procedures outlined above.

The following table provides information regarding fees we paid to Brightman Almagor Zohar for all services, including audit services, for the years ended December 31, 2009 and 2008, respectively.

	U.S. $ in thousands	
	2009	2008
Audit fees		
Audit of financial statements (including shelf prospectus in 2008)	135	206
Audit-related Fees		
ICFR audit	66	73
Tax Fees	-	-
All Other Fees	-	-
Differentials	19	47
Total	220	326

"Audit Fees" are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that the independent accountant generally provides, such as statutory audits, consents and assistance with and review of documents filed with the SEC.

"Audit-Related Fees" are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under Audit Fees. These fees include mainly accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time.

"Tax Fees" are the aggregate fees billed for professional services rendered for tax compliance, tax advice, other than in connection with the audit of the financial statements. Tax compliance involves preparation of original and amended tax returns, tax planning and tax advice.

"All Other Fees" are the aggregate fees billed for products and services provided other than those included in "Audit Fees," Audit-Related Fees," or "Tax Fees."

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Neither the Company nor any affiliated purchaser purchased any of the Company's equity securities during 2009.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.

None.

ITEM 16G. CORPORATE GOVERNANCE

There are no significant ways in which the corporate governance of our company, as a foreign private issuer, differ from those followed by domestic companies listed on the NYSE Amex. For further information regarding the structure of our board of directors and its committees and the exemption available to our company as a "controlled company", see "Item 6.C. - Board Practices."

PART III

ITEM 17. FINANCIAL STATEMENTS

In lieu of responding to this item, we have responded to Item 18 of this Annual Report.

ITEM 18. FINANCIAL STATEMENTS

The information required by this item is set beginning on page F-1 of this Annual Report.

ITEM 19. EXHIBITS

(a) The following financial statements and supporting documents are filed with this report:

(i) Consolidated Audited Financial Statements of the Company for the year ended December 31, 2009 (including Reports of Independent Registered Public Accounting Firms).

(ii) Financial statements of Mondi Hadera Paper Ltd. for the year ended December 31, 2009.

(iii) Financial statements of Hogla-Kimberly Ltd. for the year ended December 31, 2009.

(b) For additional documents filed with this report see Exhibit Index.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

HADERA PAPER LTD.

By:	/s/ Shaul Gliksberg Shaul Gliksberg Chief Financial and Business Development Officer

Dated: June 16, 2010

EXHIBIT INDEX

Exhibit Number	Description
1.1	Memorandum of Association of the Company (incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 1987).
1.2	Articles of Association of the Company (incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 2008).
3.1	Voting Agreement dated February 5, 1980 by and among Clal Industries Ltd., PEC Israel Economic Corporation and Discount Bank Investment Corporation Ltd. (incorporated by reference to exhibit 3.1 to the Company's Annual Report on Form 20-F for the year ended December 31, 1987).
12.1	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act.*
12.2	Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act.*
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act.*
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act.*

*Filed herein.

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009

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Report of Independent Registered Public Accounting Firm
To the shareholders of
Hadera Paper ltd.

We have audited the accompanying consolidated statements of financial position of Hadera Paper Ltd. ("the Company") and subsidiaries as of December 31, 2009 and 2008, and the related, consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain subsidiaries, which statements reflect total assets constituting approximately 12% and 20% of consolidated total assets as of December 31, 2009 and 2008, respectively, and total revenues constituting approximately 41% and 12% of consolidated total revenues for the years ended December 31, 2009 and 2008, respectively.

Likewise we did not audit the financial statements of certain associated companies, in which the Company's share in their profits or losses is a net amount of 1,440 and 7,267 Thousands NIS, for the years ended December 31, 2008 and 2007 respectively. The financial statements of those companies were audited by other Auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion

In our opinion, based on our audits and the reports of other auditors, such consolidated statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2009 and 2008, and the results of their operations, and cash flows, for each of the three years in the period ended December 31, 2009, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 16, 2009 expressed an unqualified opinion on the company's internal control over financial reporting based on our audit and the report of the other auditors.

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

Israel
June 16, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders of
Hadera Paper Ltd

We have audited the internal control over financial reporting of Hadera Paper Ltd. and subsidiaries (the "Company") as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission (COSO).

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We did not examine the effectiveness of internal control over financial reporting of a subsidiary, whose financial statements reflect total assets and revenues constituting 12% and 41%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2009. The effectiveness of the subsidiary company's internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as they relate to the effectiveness of the subsidiary company's internal control over financial reporting, are based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusioion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis.. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the report of the other auditors, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Company and our report dated June 16, 2010 expressed an unqualified opinion on those financial statements based on our audit and the report of the other auditors.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu
June 16, 2010

HADERA PAPER LTD

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2009	December 31 2008
		NIS in thousands	
Assets			
Current Assets			
Cash and cash equivalents	2f	26,261	13,128
Designated deposits	2f	127,600	249,599
Accounts receivable:	14a		
Trade receivables		323,882	318,926
Other receivables		98,897	100,888
Current tax assets		-	6,271
Inventories	14b	175,944	168,755
Total Current Assets		752,584	857,567
Non-Current Assets			
Fixed assets	6	1,126,360	767,542
Investments in associated companies	5	340,975	318,101
Deferred tax assets	12	29,745	29,848
Deferred lease expenses	7	37,630	36,344
Other intangible assets	8	27,084	31,519
Other assets		1,298	2,549
Employee benefit assets	10	649	624
Total Non-Current Assets		1,563,741	1,186,527
Total Assets		2,316,325	2,044,094

Z. Livnat	O. Bloch	S. Gliksberg
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial and Business Development Officer

Approval date of the financial statements: June 16, 2010

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2009	December 31 2008
		NIS in thousands	
Liabilities and Equity			
Current Liabilities			
Credit from banks and others	9b, 14c	131,572	77,655
Current maturities of long-term notes and long term loans	9a, b	149,940	76,469
Trade payables	14d	255,895	195,020
Other payables and accrued expenses	14d	112,745	* 104,943
Short term employee benefit liabilities	10a	22,421	* 17,478
Other financial liabilities	9d	-	32,770
Financial liabilities at fair value through profit and loss	2q(2)	11,982	13,904
Current tax liabilities		2,760	-
Total Current Liabilities		687,315	518,239
Non-Current Liabilities			
Loans from banks and others	9b	225,802	121,910
Notes	9a	471,815	554,124
Deferred tax liabilities	12	58,053	76,641
Employee benefit liabilities	10a	14,911	* 15,551
Total Non-Current Liabilities		770,581	768,226
Capital and reserves	11		
Issued capital		125,267	125,267
Reserves		307,432	299,949
Retained earnings		399,346	306,097
capital and reserves attributed to shareholders		832,045	731,313
Minority Interests		26,384	26,316
Total capital and reserves		858,429	757,629
Total Liabilities and Equity		2,316,325	2,044,094

* Reclassified.

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

HADERA PAPER LTD

CONSOLIDATED INCOME STATEMENTS

	Note	Year ended December 31 2009	2008	2007
		NIS in thousands		
Revenue	14e	891,995	673,484	583,650
Cost of sales	14f	765,677	542,387	440,739
Gross profit		126,318	131,097	142,911
Selling, marketing, general and administrative expenses	14g			
Selling and marketing expenses		71,998	45,674	31,344
General and administrative expenses		58,967	54,970	35,991
Other (income) expenses, net	14l	(20,234)	(4,898)	4,467
Total expenses		110,731	95,746	71,802
Profit from ordinary operations		15,587	35,351	71,109
Finance income	14j	4,727	12,069	10,648
Finance expenses	14k	22,992	27,112	32,817
Finance expenses, net		18,265	15,043	22,169
Profit (loss) after financial expenses		(2,678)	20,308	48,940
Share in profit of associated companies, net	5b	87,359	51,315	856
Profit before taxes on income		84,681	71,623	49,796
Taxes on income	12e	(7,067)	3,663	18,261
Profit for the year		91,748	67,960	31,535
Attributed to:				
Company shareholders		91,230	69,710	31,535
Minority interests		518	(1,750)	-
		91,748	67,960	31,535
Earning for regular share of NIS 0.01 par value (see note 15):			NIS	
Primary attributed to Company shareholders		18.03	13.77	7.63
Fully diluted attributed to company shareholders		18.03	13.77	7.62
		5,060,788	5,060,774	4,132,728

Number of share used to compute the primary earnings per share			
Number of share used to compute the fully diluted earnings per share	5,060,788	5,060,774	4,139,533

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

HADERA PAPER LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31		
	2009	2008	2007
	NIS in thousands		
Comprehensive Income	91,748	67,960	31,535
Other Comprehensive Income			
Profit (loss) on cash flow hedges, net	5,191	(2,306)	-
Allocation to the income statement on account of cash flow hedging transactions, net	(1,128)	-	-
Actuarial profit (loss) from defined benefit plans, net	477	(1,501)	-
Revaluation from step acquisition	-	17,288	-
Share in Other Comprehensive Income of associated companies, net	(507)	(29,111)	3,158
Share in other comprehensive income associated companies, which allocated to the income statements, net	1,163	1,017	17
Total Other Comprehensive Income for the period, net	5,196	(14,613)	3,175
Total Comprehensive Income for the period	96,944	53,347	34,710
Attributed to:			
Company shareholders	96,428	55,115	34,710
Minority interests	516	(1,768)	-
	96,944	53,347	34,710

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

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Share capital	Premium of share	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Hedging reserves