Hadera Paper Ltd
Form 6-K
March 12, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the Month of March 2009

HADERA PAPER LTD.

(Translation of Registrant s Name into English)

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

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

x Form 20-F o Form 40-F

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

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

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

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

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

o Yes x No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant s press release dated March 11, 2009 with respect to the Registrant s results of operations for the year ended December 31, 2008.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant s Management Discussion with respect to the Registrant s results of operations for the year ended December 31, 2008.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant s unaudited condensed consolidated financial statements for the year ended December 31, 2008.

Attached hereto as Exhibit 4 and incorporated herein by reference is the Registrant s periodical report for the year ended December 31, 2008.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries with respect to the year ended December 31, 2008.

Attached hereto as Exhibit 6 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the year ended December 31, 2008.

SIGNATURE

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

HADERA PAPER LTD.
(Registrant)

By: /s/ Lea Katz

Lea Katz
Corporate Secretary

Dated: March 11, 2009.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated March 11, 2009.
2.	Registrant's management discussion.
3.	Registrant's unaudited condensed consolidated financial statements.
4.	Registrant's periodical report.
5.	Unaudited condensed interim consolidated financial statements of Mondi Business Paper Hadera Ltd. and subsidiaries.
6.	Unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries.

Exhibit 1

NEWS

For Release: IMMEDIATE

Hadera Paper Ltd.
Reports Financial Results for Fiscal Year Ended December 31, 2008

Hadera, Israel, March 11, 2009 Hadera Paper Ltd. (AMEX:AIP) (the Company or Hadera Paper) today reported financial results for the year ended December 31, 2008. The Company, its subsidiaries and associated companies are referred to hereinafter as the Group .

As a result of the transition to reporting according to IFRS, the Company presented its financial statements for 2008, as well as the comparison figures for the year ended December 31, 2007, according to IFRS.

Since the Company s share in the earnings of associated companies constitutes a material component in the company s statement of income (primarily on account of its share in the earnings of Mondi Hadera Paper Ltd. (Mondi Hadera) and Hogla-Kimberly Ltd. (H-K)), before the presentation of the consolidated data below, the aggregate data which include the results of all the companies in the Hadera Paper Group (including the associated companies whose results appear in the financial statements under earnings from associated companies) is being presented, without considering the rate of holding therein and net of mutual sales.

Aggregate sales amounted to NIS 3,229.1 million in 2008, as compared with NIS 3,124.3 million in the corresponding period last year.

Aggregate operating profit in 2008 amounted to NIS 203.0 million, as compared with NIS 183.8 million in 2007. The significant improvement in the aggregate operating profit is attributed to the performance improvement at some of the Israeli companies on the one hand, coupled with the continuing trend of a lower operating loss in Turkey on the other hand.

The Consolidated Data set forth below excluding the results of operation of the associated companies: Mondi Hadera, H-K. Consolidated Data include the sales turnover of Carmel Containers Systems Ltd. (Carmel) and Frenkel- C.D. Ltd. (Frenkel- C.D.) that were consolidated as of September 2008 due to the completion of transaction for the acquisition of Carmel shares.

Consolidated sales during 2008 amounted to NIS 673.5 million, as compared with NIS 583.6 million in 2007.

Operating profit amounted to NIS 35.4 million in 2008, as compared with NIS 71.1 million in 2007. Most of the erosion in the profit was due to changes in the dollar exchange rate, which negatively impacted the selling prices, to dumping prices of competing imports and to the apparent slowdown in the operations during the final quarter of 2008, as a result of the financial crisis.

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, and 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 from the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR). 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 at Mondi.

The net profit attributed to the shareholders of the company in the fourth quarter this year 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 last year.

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.

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

Mr. Avi Brener, Chief Executive Officer of the Company said that In view of the global recession, the Company formulated in recent months an action plan which includes aggressive measures to improve efficiency, cut current investments, cut general expenses. True to this date, there is no material impact as a result of the escalation of the global financial crisis, on the Company s business results, its financial robustness or the value of its assets. 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, at the end of 2007, to using natural gas, has led to NIS 46 million in Group-wide (including associated companies) energy-cost savings in 2008. These savings were partially offset as a result of the increase in electricity prices in 2008. In the second half of 2008, the global paper market, particularly Europe, saw the start of a trend of slowing demand that led to surplus production in the market, which increased the importing of fine paper and packaging paper from Europe at dumping prices. In order to avoid erosion of its gross margin, the Group filed two complaints, with the Supervisor of Anti-Dumping Charges at the Israeli Ministry

of Industry, Trade and Employment, regarding dumping imports of packaging paper and fine paper from several European nations to Israel. In both cases, the Supervisor decided to launch an investigation. There is no certainty that the above complaints would be accepted, and the Company is currently unable to estimate the impact of such acceptance on its business results. The average revaluation of the NIS against the US$ 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 US$. In the fourth quarter, 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 operations of the Hadera Paper Group, including its associated companies, is relatively balanced and the Company s exposure to sharp fluctuations in exchange rates is therefore low.

In the reported period, KCTR continued to implement its strategic plan formulated by the Company together with the international partner, Kimberly Clark.

Financial expenses in 2008 amounted to NIS 15.0 million, as compared with NIS 22.2 million in the corresponding period last year.

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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 the year, as compared with NIS 7.9 million in the corresponding quarter last year.

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 (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 last year to NIS 34.1 million this year 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 this year in relation to last year, primarily on account of the impact of the revaluation of the NIS against the dollar.

The company s share in the net earnings of H-K Israel (49.9%) increased by approximately NIS 12.3 million. 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 the Company s brands.

The Company s share in the losses of KCTR Turkey (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 last year to approximately NIS 33.4 million this year. 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, 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 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 Hogla, 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% before 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.

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This report contains various forward-looking statements based upon the Board of Directors present expectations and estimates regarding the operations and plans of the Group and its business environment. The Company does not guarantee that the future results of operations will coincide with the forward-looking statements and these may in fact differ considerably from the present forecasts as a result of factors that may change in the future, such as changes in costs and market conditions, failure to achieve projected goals, failure to achieve anticipated efficiencies

and other factors which lie outside the control of the Company as well as certain other risks detailed from time to time in the Company s filings with the Securities and Exchange Commission. The Company undertakes no obligation for publicly updating the said forward-looking statements, regardless of whether these updates originate from new information, future events or any other reason.

	Hadera PAPER LTD.	
	SUMMARY OF RESULTS	
	(AUDITED)	
	except per share amounts	
	NIS IN THOUSANDS (1)	
	2008	2007
Net sales	673,484	583,650
Net earnings attributed to the Company's shareholders	69,710	31,535
Basic net earnings per share attributed to the Company's shareholders	13.77	7.63
Fully diluted earnings per share attributed to the Company's shareholders	13.77	7.62

(1) The representative exchange rate at December 31, 2008 was NIS 3.802=$1.00.

(2) 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 at Mondi

(3) The net profit in 2007 was affected by the growth in the Company s share in the losses of the operations in Turkey (KCTR), amounting to approximately NIS 11.8 million (from NIS 52.0 million last year to NIS 63.8 million this year), as compared with the preceding year. In 2007, the net profit included earnings from the realization of surplus cost at an associated company in the amount of NIS 2.5 million, a loss from the amortization of a tax asset at an associated company in the sum of NIS 13.4 million and a capital loss from the sale of cardboard machines (machine 6) and hub machines in the sum of NIS 2.4 million.

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Exhibit 2

Translation from Hebrew

March 11, 2009

MANAGEMENT DISCUSSION

We are honored to present the consolidated financial statements of the Hadera Paper Group Ltd. (Hadera Paper or The Company) (formerly American Israeli Paper Mills AIPM) for the year 2008. The Company, its consolidated subsidiaries and its associated companies hereinafter: The Group .

A. Description of the Corporation s Business

1. Company Description

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

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

2. General

a. Updating of data to comply with IFRS

As a result of the transition to reporting according to IFRS, the Company presented its financial statements for 2008, as well as the comparison figures for the year ended December 31, 2007, according to IFRS. Accordingly, the data appearing in the Management Discussion and the comparison figures are presented according to IFRS.

b. Principal Current Operations

1. Business Environment

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.

Over the last several months, the said 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.

As of the report date, it would seem that the direct economic repercussions of the aforementioned crisis have yet to run their course, and a concern exists that Israel s economy may slide into recession, similar to other economies around the world.

In view of the global recession, the Company formulated in recent months an action plan which includes aggressive measures to improve efficiency, cut current investments, cut general expenses (regarding the waiver of senior executive wages see Section K, below), 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 continues 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.

These market developments and fluctuations may potentially have adverse effects on the business results of the Company and its investee companies, including an effect on their liquidity, the value of their assets, the ability to divest assets, the state of their business, their financial indicators and standards, their credit rating, ability to distribute dividends, ability to raise financing for their current operations and long-term plans, as well as on their financing terms.

True to the date of publication of the financial statements, there is no material impact as a result of the escalation of the crisis, on the Company s business results, its financial robustness or the value of its assets.

In the course of the third quarter, the Company conducted two offerings in the total sum of NIS 426 million, by way of issuing to the public series of debentures that render it possible for the company to promote the long-term strategic projects on which it is focusing. The Company does not currently anticipate difficulties in raising additional financing in case of need.

The above information constitutes forward-looking information as defined in the Securities Law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as the global crisis in credit and banking markets.

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

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 using natural gas, has led to NIS 46 million in Group-wide energy-cost savings in 2008, as compared with last year 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% in relation 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 slowing 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 of Anti-Dumping Charges and Homogenization Charges at the Ministry of Industry, Trade and Employment (hereinafter: The Supervisor), regarding dumping imports of packaging paper from several European nations to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. On February 26, 2009, the company announced that the associated company Mondi Hadera Paper 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. According to the Company announcement, there is no certainty that the above complaints would be accepted, and the Company is currently unable to estimate the impact of such acceptance on its business results.

The average revaluation of the NIS against the US$ 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 US$. In the most recent quarter, 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 operations of the Hadera Paper Group, including its associated companies, is relatively balanced and the Company s exposure to sharp fluctuations in exchange rates is therefore low.

The above information pertaining to trends in the paper market constitutes forward-looking information as defined in the securities law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as changes in global raw material prices and changes in the supply and demand of global paper products.

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 in 2008 in the exchange rate of the US dollar in relation to the NIS, throughout the year. The US dollar exchange rate fell by 1.1% in 2008, in addition to a 9% decrease in 2007.

2. Principal Current Operations

In the course of the reported period and despite the sharp change in the business environment, the aggregate sales turnover continued to grow, as illustrated by a 3.3% increase in relation to the aggregate sales turnover in the corresponding period last year.

Implementation and Assimilation of Organization-Wide Processes

In the course of the reported period, the Group companies continued to implement and assimilate organization-wide processes that are intended to empower Group-company operations and support continued growth and increased profitability in organizational development, Group purchasing, B2B marketing, development and innovation. The gradual and successful implementation of these brands will enable the company to better deal with the challenging business environment, while improving profitability.

3. The Strategic Plans

In parallel to the ongoing operations, the Company is working to successfully implement the strategic plans that are intended to lead to continued growth in operations and improved profitability over the coming years:

a. Expanding the recycled packaging paper manufacturing network

The investment in the project for the construction of the new manufacturing network, totaling NIS 690 million was approved on October 15, 2007 by the Company s Board of Directors. The Company has selected the most highly advanced technologies in this area, from the leading suppliers in the sector, in order to amplify its competitive advantage and potential for profitability in the long term.

The implementation of the project is advancing as planned and the Company has completed the signing of central agreements for the purchasing of the main manufacturing equipment. The construction of the structure for the machine is advancing at the site, in preparation for receiving the equipment whose arrival will begin towards the end of the year.

In parallel, the Amnir Recycling Industries Ltd. (Amnir), a Company s subsidiary, is continuing preparations for the expansion of the collection of cardboard and newspaper waste and is continuing to accumulate inventories toward the planned operation of the new machine toward the end of 2009.

As part of this project, 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.

As part of the preparations for financing the project, additional capital of approximately NIS 211 million was raised in November 2007, by way of a private placement of shares to the controlling shareholders and to institutional investors. In the course of July 2008, the Company raised a net sum of approximately NIS 306 million, after deducting the offering expenses. In August 2008, the Company raised approximately NIS 120 million, after deducting offering expenses, by way of issuing debentures to institutional investors and to the public. The capital that was raised is intended to serve for covering the payments to the suppliers of equipment for Machine 8 and constitutes most of the sum necessary for financing this project. In addition to the above measures, the Company is continuing to explore additional ways to complete the remaining necessary project financing.

b. Innovative development of high-quality recycled paper

Over the past year, the packaging paper and recycling division launched the rapid development of paper types based on 100% recycled fibers, whose superior quality would allow them 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 170,000 tons per annum at the present time, to approximately 250,000 tons per annum in the coming years.

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, as early as in 2009 and throughout 2010.

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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.

The above information pertaining to the innovative developments in the paper market constitutes forward-looking information as defined in the Securities Law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company.

c. New Power Plant

The new power plant project, intended to supply steam and electricity to the production system in Hadera and to sell surplus electricity to Israel Electric Company (IEC) and/or to private consumers, is on hold, awaiting the business stabilization of potential gas sources in order to conclude the contract to acquire the required gas at a price range that would allow the Company to be competitive with expected IEC rates. The Company is working to extend the existing production license, for the purpose of building a 230 MW power station, to be constructed on an 80,000 $m^{(2)}$ plot of land that was acquired for this purpose, in immediate proximity to the Company s site in Hadera.

Discovery of additional natural gas deposits at Tamar-1 and progress made by the Egyptian gas franchisee (EMG) improve the likelihood of renewed negotiations to kick off the project.

The above information pertaining to trends in the energy sector, based on natural gas, constitutes forward-looking information as defined in the Securities Law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as the size of the actual gas reservoir, as well as changes in gas prices worldwide.

d. The Strategic Investment in Turkey

In 2008, Kimberly Clark Turkey, KCTR, a wholly-owned Hogla Kimberly subsidiary (49.9% of which is held by the company) continued to implement its strategic plan GBP (Global Business Plan) that was formulated together with the international partner, Kimberly Clark. The plan is intended to introduce Kimberly Clark s global brands to Turkey, on the basis of local manufacturing. If fully implemented, KCTR will grow to become a company with annual sales in the area of $300 million, by 2015.

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The sales turnover of KCTR amounted to approximately $115.0 million in 2008, as compared with $63.3 million in 2007, representing an increase of 81.7%.

In the course of 2008, the company continued to empower its brands and especially the Huggies® and Kotex® brands, was realizing constant growth in both market share and rising awareness toward the company s products. In parallel, the volume of exports to Kimberly-Clark in various other countries in Europe and Africa also increased.

The company s continuing marketing and advertising operations are being felt in the gradual strengthening of the brands, as expressed by consumer studies that are being conducted regularly, alongside consistent growth in sales, while curtailing the operating loss and a considerable reduction in the Company s net loss.

As part of the strategic plan, the Company intends to continue its marketing and sales promotion efforts, while launching new products that will support the establishment of the brands and the creation of customer loyalty.

Moreover, In the course of 2008, the Company continued to promote the collaboration with Unilever and expanded the number of points of sale in the Turkish market that sell KCTR brands.

The continuing high level of competition in the markets where the company is working to penetrate and empower its brands calls for regular and significant investments in advertising and sales promotion.

All of the expenses detailed above associated with the penetration of products, advertising, expansion of the distribution network and more are regularly recorded as an expenditure in the KCTR statements of income. KCTR recorded an operating loss of approximately NIS 33.4 million (approximately $9.3 million) in 2008, as compared with NIS 74 million (approximately $17.9 million) in 2007.

The implementation of the strategic business plan, while strengthening the brands and recording a gradual growth in the Unilever distribution and sales platforms, in combination with increased exports and continuing cost reductions at the diaper plant are rendering it possible to maintain the trend of improving gross margins as

mentioned above in 2008 as well.

The above information pertaining to the KCTR business plans and their implementation constitutes forward-looking information as defined in the securities law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as market conditions, legislation and various costs.

B. Analysis of the Company s Financial Situation

Starting September 1, 2008, the financial statements of Carmel Container Systems Ltd. (Carmel) and Frenkel- CD Ltd. (Frenkel- C.D.) (an associated company of Carmel s and of the Company), are being 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 at Frenkel CD, indirectly, from 37.93% to 52.72% (for details see Note 15 to the financial statements). The analysis of the financial statements, as described below, is affected by this consolidation.

The cash and cash equivalents item decreased from NIS 167.7 million as of December 31, 2007 to NIS 13.1 million as of December 31, 2008. The difference, together with additional amounts that resulted from the private placement carried out last year and from the issuance of several series of debentures in the third quarter of the year, was deposited in euro-linked deposits in the amount of NIS 125.7 million and in NIS deposits in the amount of 123.9 million, which have been designated for the payment of amounts pertaining to the construction of the facility for the manufacturing of packaging paper, and are presented under designated cash .

The balance of trade receivables in respect of packaging paper, recycling and cardboard, increased from NIS 138.3 million as of December 31, 2007 to NIS 273.8 million as of December 31, 2008. This increase is primarily attributed to the consolidation of the trade receivables of Carmel and Frenkel CD in the amount of NIS 186.1 million, net of the effect of the reduction in prices in NIS terms following the devaluation of the dollar exchange rate, net of trade receivable balances at Carmel, that were cancelled as a result of the consolidation of the financial statements. Accounts receivable for the office supplies marketing activity rose from NIS 40.3 million as at December 31, 2007 to NIS 45.1 million, as at December 31, 2008, as a result of growth in the volume of operations.

Accounts receivable in the packaging paper, recycling and cardboard activity increased from NIS 91.3 million as of December 31, 2007 to NIS 95.1 million as of December 31, 2008. This increase is primarily attributed to the consolidation of the accounts receivable of Carmel and Frenkel CD in the amount of NIS 5.8 million. In the office supplies marketing activity, the Other Accounts Receivable item increased from NIS 3.1 million on December 31, 2007, to NIS 5.8 million on December 31, 2008.

Inventories in the packaging paper and recycling activity increased from NIS 51.2 million as of December 31, 2007, to NIS 146.3 million as of December 31, 2008. This increase is primarily due to the consolidation of Carmel and Frenkel CD inventories, amounting to NIS 87.2 million. Inventories in the office supplies marketing activity grew from NIS 18.4 million on December 31, 2007, to NIS 22.5 million on December 31, 2008, primarily due to the increased share of products imported from Eastern Asia for the purpose of improving profitability, as well as due to acquired inventories in conjunction with the acquisition of the business operations of Yavne Pitango Ltd. in Northern Israel in early August, in order to accelerate Company growth.

Investments in associated companies decreased from NIS 346.4 million on December 31, 2007 to NIS 318.1 million on December 31, 2008. This decrease, despite the Company s share in the income of associated companies, amounting to NIS 51.3 million, was primarily due to the initial consolidation of Carmel and Frenkel CD as of September 1, due to a larger holding percentage which led to the removal of Carmel and of Frenkel CD from the Investments in Associated Companies item, to the amount of NIS 49.8 million, as well as due to the change in net capital reserves, amounting to NIS 28.1

million.

Short-term credit decreased from NIS 143.0 million on December 31, 2007 to NIS 77.7 million on December 31, 2008. The decrease in this item was primarily due to the use of part of the proceeds from the private placement to the shareholders in November of last year and of proceeds from the offering of bond series in July and August of this year intended for the repayment of short-term credit.

Accounts payable and other credit balances in the packaging paper, recycling and cardboard activity increased from NIS 65.8 million as of December 31, 2007, to NIS 100.4 million as of December 31, 2008. This increase is primarily due to the consolidation of accounts payable at Carmel and Frenkel CD, amounting to NIS 18.1 million, to an increase in expenses payable in respect of interest on bonds from issuances during the third quarter, and to the revaluation of the fair value of liabilities in respect of future transactions for hedging payments to suppliers of Machine 8, due to the lower euro exchange rate in 2008. In the office supplies marketing activity, the Other Accounts Payable item increased from NIS 4.8 million on December 31, 2007, to NIS 5.6 million on December 31, 2008.

The Company s shareholders equity increased from NIS 670.0 million on December 31, 2007, to NIS 757.6 million on December 31, 2008. This change was primarily due to the net profit associated with Company shareholders in 2008, amounting to NIS 69.7 million, to a positive capital reserve from transition to consolidation, amounting to NIS 15.9 million, and to the addition of the minority interest amounting to NIS 26.3 million, offset by an increase in net negative capital reserves, amounting to NIS 24.3 million.

1. Investments in Fixed Assets

Investments in fixed assets in 2008 amounted to NIS 230.1 million, as compared with NIS 83.4 million in 2007, with investments in 2008 primarily including payments on account of purchases from equipment vendors for the new packaging paper manufacturing network (Machine 8), amounting to approximately NIS 191 million. Additional investments included were related to environmental protection (wastewater treatment) and current investments in equipment renewal, means of transportation and building maintenance at the Hadera site.

2. Financial Liabilities

Long-term liabilities (including current maturities) amounted to NIS 785.3 million as at December 31, 2008, as compared with NIS 260.2 million as at December 31, 2007. Long-term liabilities grew year-over-year, primarily as a result of the issuing of two debenture series (Series 3 and Series 4) in the third quarter of this year, in the total sum of NIS 427 million, coupled with long-term loans assumed intended for financing payments on account of Machine 8 and the consolidation of the loans of Carmel and Frenkel CD, in the total sum of NIS 101.4 million.

The long-term liabilities include primarily four series of debentures and the following long-term bank loans:

Series 1 NIS 7.4 million, for repayment until 2009.

Series 2 NIS 158.6 million, for repayment until 2013.

Series 3 NIS 190.5 million, for repayment until 2018.

Series 4 NIS 235.6 million, for repayment until 2020.

Long-term loans NIS 159.2 million.

The balance of short-term credit, as at December 31, 2008, amounted to approximately NIS 77.7 million, as compared with NIS 143.0 million at December 31, 2007.

3. **Financial liabilities at fair value through the statement of income**

Put option for shareholder at an associated company

As part of an agreement dated November 21, 1999 with Mondi Business Paper (hereinafter MBP, formerly Neusiedler AG) Mondi Hadera acquired the Group s operation in fine paper and issued MBP 50.1% of its shares.

As part of this agreement, MBP was granted the option to sell its holdings in Mondi Hadera to the Company at a price 20% lower than its value (as defined in the agreement), or $20 million, less 20% the higher of the two. According to verbal understandings that were reached in proximity to the signing of the agreement, between elements at the company and elements at MBP, the latter can exercise the option only in the most exceptional cases, such as those that paralyze production in Israel for long periods of time.

Due to the extended period of time that has passed since these understandings were reached and in view of recent changes in the management of MBP, the Company has decided to adopt a conservative approach in this respect and to reflect the economic value of the option. The value of the option was calculated according to IFRS and was recognized as a liability that is measured at fair value, with changes in fair value being allocated to the statement of income in accordance with IAS 39.

The difference between the value of the liabilities according to the agreement NIS 54.7 million as compared with the value of the liabilities through fair value NIS 13.9 million amounts to NIS 40.8 million.

The liability on account of the Put option for shareholder at the associated company shares as at December 31, 2008, December 31, 2007, and as at January 1, 2007, amounts to NIS 13.9 million, NIS 3.9 million and NIS 1.6 million, respectively.

On account of the Put option, other expenses grew by NIS 10.0 million in 2008, as compared with growth of NIS 2.3 million in 2007.

The principal factors responsible for the change in fair value in 2008 include the change in the risk-free interest rate and the change in the standard deviation of the Hadera Paper share that serve for calculating the value of the option as a result of fluctuations in the price of the share during 2008 and in the risk-free, dollar-denominated interest rate.

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C. **Results of Operations**

1. **Aggregate Data**

Since the Company s share in the earnings of associated companies constitutes a material component in the company s statement of income (primarily on account of its share in the earnings of Mondi Hadera PaperLtd. [Mondi Hadera] and Hogla-Kimberly Ltd.), before the presentation of the consolidated data below, the aggregate data which include the results of all the companies in the Hadera Paper Group (including the associated companies whose results appear in the financial statements under earnings from associated companies) is being presented, without considering the rate of holding therein and net of mutual sales.

Regarding the consolidated data, see Section (3) below.

Aggregate Data

The aggregate sales amounted to NIS 3,229.1 million in 2008, as compared with NIS 3,124.3 million in the corresponding period last year, representing growth of 3.4%.

Aggregate operating profit in 2008 amounted to NIS 203.0 million, as compared with NIS 183.8 million in 2007 representing a 10.4% increase. The significant improvement in the aggregate operating profit is attributed to the performance improvement at some of the Israeli companies on the one hand, coupled with the continuing trend of a lower operating loss in Turkey on the other hand.

For the operations in Turkey see Section C7 below Company s share in the earnings of associated companies.

2. The 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 121.3%.

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 (see Strategic Investment in Turkey, above, and Section C7, below). 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 at Mondi.

Regarding details of the calculations of the surplus of assets fair value and liabilities resulting from purchasing Carmel, see assessments of the value which were added to the financial statements of the Company dated 30.9.08

The net profit attributed to the shareholders of the company in the fourth quarter this year 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 last year.

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.

3. 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 amounted to NIS 226.3 million, as compared with NIS 154.9 million in the corresponding quarter last year, 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 last year, 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 last year (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 last year (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 personal, 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 issue 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.

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 mutually agreed to cut their wages by 8% to 10% in 2009, while senior employees have agreed that their wages be cut by 5%.

3. Selling, General and Administrative and Other Expenses

Selling, general and administrative expenses (including wages) and other expenses in 2008, amounted to NIS 95.7 million or 14.3% of sales as compared with NIS 71.8 million or 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 this year, 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 or 16.7% of sales in the fourth quarter of the year, as compared with NIS 20.9 million, or 13.5% of sales, in the corresponding quarter last year. 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.

4. Operating Profit

The operating profit amounted to NIS 35.4 million or 5.3% of sales in 2008, as compared with NIS 71.1 million or 12.2% of sales in 2007. Most of the erosion in the profit was due to changes in the 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 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 the year, as compared with approximately NIS 18.1 million in the corresponding quarter last year. 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 the year. 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 last year, 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 last year, 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 this year, 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 USD by 9.0% in 2007, as compared

with a 1.1% revaluation in 2008, applicable to USD asset balances.

6. Taxes on Income

Expenses on 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 last year s tax expenses in respect of the closing of assessments for the years 2002 through 2005 and the decrease in the current tax rate this year as compared with the preceding year.

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 the year, as compared with NIS 7.9 million in the corresponding quarter last year, representing an increase of 86% in relation to the corresponding quarter last year.

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 last year to NIS 34.1 million this year 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 this year in relation to last year, primarily on account of the impact of the revaluation of the NIS against the dollar.

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The company s share in the net earnings of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 12.3 million. Hogla s operating profit grew from NIS 136.3 million to NIS 169.0 million this year. 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 the Company 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 (see above Section A(2)(b)(3)(4) Strategic Investment in Turkey) that led to a significant reduction in the operating loss, from NIS 73.7 million last year to approximately NIS 33.4 million this year. 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 Hogla, 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.

D. **Liquidity**

Cash Flows

The cash flows from operating activities in 2008 amounted to approximately NIS 113.9 million, as compared with NIS 91.9 million in 2007. The increase in the cash flows from operating activities in 2008, as compared with 2007, originated primarily as a result of the sharp improvement in net profit as well as from the decrease in working capital in 2008, that amounted to approximately NIS 41 million, as compared with a NIS 8.0 million decrease last year. The decrease in working capital in 2008 originated primarily from the reduction in the accounts receivable balance as a result of the lower dollar exchange rate, that is affecting the selling prices in NIS, especially as regards packaging paper and recycling.

E. **Sources of Finance**

See Section B2 Financial Liabilities and in the details of the table below.

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Debentures for institutional investors and the public

Series	Issue Date	Name of Rating Company	Rating at time of issue and at report date	Total stated value at issue date	Interest type	Stated Interest	Registered for trade on stock exchange (Yes/No)	Interest payment dates	Nominal par value as at Dec-31-08	Book value of debenture balances as at Dec-31-08	Book value of interest to be paid as at Dec-31-08	Market value as at Dec-31-08
				In NIS					NIS millions			
Series 1	Apr-1992	Maalot	AA-	48,000,000	Fixed	3.8%	No	Annual interest On June 10-30 In the years 1993-2009	3.25	7.42	0.1	
Series 2	Dec-2003	Maalot	AA-	200,000,000	Fixed	5.65%	No	Annual interest On December 21 In the years 2004-2013	142.9	158.6	0.3	
Series 3	Jul-2007	Maalot	AA-	187,500,000	Fixed	4.65%	Yes	Annual interest On July 10 In the years 2009-2018	187.5	190.5	4.1	182.4
Series 4	Jul/Aug-2007	Maalot	AA-	235,557,000	Fixed	7.45%	Yes	Semi-annual interest On January 10 and July 10 In the years 2009-2015	235.6	235.6	8.1	249.6

Comments:

1. Series 1 Linked to the Consumer Price Index (CPI). Principal repayment ends in June 2009.

2. Series 2 Linked to the Consumer Price Index (CPI). Principal repaid in 7 annual installments, between Dec-21-2007 and Dec-21-2013.

3. Series 3 Linked to the Consumer Price Index (CPI). Principal repaid in 9 annual installments, between July 2010 and July 2018.

4. Principal repaid in 6 annual installments, between July 2010 and July 2015.

5. The trustee of the debentures (Series 2) is Bank Leumi Le-Israel Trust Corporation Ltd. The responsible contact person on behalf of Bank Leumi Le-Israel Trust Corporation Ltd. is Ms. Idit Teuzer (telephone: 03-5170777).

6. The trustee of the public debentures (Series 3, 4) is Hermetic Trust Corporation (1975) Ltd. The responsible contact people on behalf of Hermetic Trust Corporation (1975) Ltd. are Mr. Dan Avnon and /or Ms. Merav Ofer-Oren (telephone: -3-5272272).

7. As at the date of the report, the Company has met all of the terms and undertakings of the trust notes and there exist no terms that constitute just cause for demanding the immediate repayment of the debentures.

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F. <u>Exposure and Management of Market Risks</u>

1. <u>General</u>

The Company conducts periodical discussions regarding market risks and exposure to exchange rate and interest rate fluctuations, with the participation of the relevant factors, so as to reach decisions in this matter. The individual responsible for the implementation of market risk management policy at the Company is Israel Eldar, the Company s Comptroller.

2. <u>Market Risks to which the Company is Exposed</u>

<u>Description of Market Risks</u>

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

<u>Exchange Rate Risks</u>

Approximately half of the Company s sales are denominated in US dollars, whereas a significant share of its expenses and liabilities are in NIS. The Company is therefore exposed to fluctuations in the exchange rate of the NIS vis-à-vis the US dollar. This exposure includes economic exposure (on account of surplus proceeds on payments in foreign currency or linked thereto) and accounting exposure (on account of a surplus of dollar-linked assets over foreign-currency-denominated liabilities).

The Company periodically reexamines the need for hedging on account of this exposure. True to December 31, 2008, the Company entered into hedging transactions in the sum of 25 million euro, in order to hedge the cash flows for the acquisition of fixed assets from equipment vendors for Machine 8.

<u>Consumer Price Index Risks</u>

The Company is exposed to changes in the Consumer Price Index, pertaining to the debentures issued by the Company, in the total sum of NIS 356.5 million. In early 2009, 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 250 million, pursuant to previous transactions that were made in early 2008 and in August 2008 and terminated at the end of 2008.

<u>Credit Risks</u>

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

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

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at December 31, 2008:

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value As at Dec-31-08	Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Series 1 Debentures	(16)	(8)	(7,537)	8	16
Series 2 Debentures	(1,866)	(937)	(155,637)	947	1,903
Series 3 Debentures	(3,979)	(2,005)	(195,959)	2,037	4,105
Series 4 Debentures	(3,956)	(1,990)	(269,078)	2,013	4,050
Other liabilities	(134)	(57)	(31,359)	68	136
Long-term loans and capital notes - granted	212	106	49,355	(106)	(213)

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 (4.5% in 2008).

Regarding the terms of the debentures and other liabilities See Note 8 to the financial statements

Regarding long-term loans and capital notes granted See Note 4 to the financial statements

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

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in 10%	Rise in 5%	Fair value as at Dec-31-08	Decrease in 5%	Decrease in 10%
	In NIS thousands				
Cash and cash equivalents	268	134	2,681	(134)	(268)
Designated deposits	12,575	6,287	125,747	(6,287)	(12,575)
Other Accounts Receivable	321	160	3,206	(160)	(321)
Supplier engagement transaction - Alstom	(92)	(46)	(922)	46	92
Other Accounts Payable	(2,397)	(1,198)	(23,969)	1,198	2,397
PUT options	-	-	(836)	(2,088)	(3,412)

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

NIS- forward transaction	12,293	6,996	1,304	(3,599)	(8,896)

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Sensitivity to the US Dollar Exchange Rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	Fair value as at Dec-31-08	Devaluation of $ 10%	Devaluation of $ 5%
	In NIS thousands				
Cash and cash equivalents	233	116	2,327	(116)	(233)
Other Accounts Receivable	1,472	736	14,722	(736)	(1,472)
Accounts Payable	(3,246)	(1,623)	(32,549)	1,623	3,246

Other accounts receivable reflect primarily short-term customer debts.

Capital note See Note 4d to the financial statements.

Accounts payable reflect primarily short-term liabilities to suppliers.

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Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at December 31, 2007:

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value As at Dec-31-07	Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Series 1 Debentures	(54)	(27)	(14,336)	27	54
Series 2 Debentures	(2,370)	(1,191)	(191,537)	1,203	2,417
Other liabilities	(121)	(60)	(31,510)	61	122
Long-term loans and capital notes - granted	186	93	48,644	(188)	(94)

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 2007).

Regarding the terms of the debentures and other liabilities See Note 8 to the financial statements

Regarding long-term loans and capital notes granted See Note 4 to the financial statements

Sensitivity of -linked instruments to changes in the exchange rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in 10%	Rise in 5%	Fair value as at Dec-31-07	Decrease in (euro) 5%	Decrease in 10%
	In NIS thousands				
NIS- forward transaction	(6,038)	(4,028)	(994)	3,741	8,439

See Note 12a to the financial statements.

Sensitivity to the US Dollar Exchange Rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	Fair value as at Dec-31-07	Devaluation of $ 10%	Devaluation of $ 5%
	In NIS thousands				
Other Accounts Receivable	1,272	636	12,720	(636)	(1,272)
Capital note	242	121	2,421	(121)	(242)
Accounts Payable	(1,036)	(518)	(10,363)	518	1,036

Other accounts receivable reflect primarily short-term customer debts.

Capital note See Note 4d to the financial statements.

Accounts payable reflect primarily short-term liabilities to suppliers.

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at December 31, 2008:

NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	8.1		2.3	2.7		13.1
Short-term deposits and investments	123.9			125.7		249.6
Other Accounts Receivable	396.0	0.9	15.8	3.2	3.9	419.8
Inventories					168.8	168.8
Current tax assets	6.3					6.3
Investments in Associated Companies	53.0				265.1	318.1
Deferred taxes on income					29.8	29.8
Fixed assets, net					767.6	767.6
Intangible Assets					31.5	31.5
Other assets					38.9	38.9
Assets on account of employee benefits	0.6					0.6
Total Assets	587.9	0.9	18.1	131.6	1,305.6	2,044.1
Liabilities						
Short-term credit from banks	77.7					77.7
Other Accounts Payable	240.3		36.8	24.0		301.1
Financial liability at fair value through the statement of income			13.9			13.9
Deferred taxes on income					76.6	76.6
Long-term loans, including current maturities	124.0	35.2				159.2
Notes (debentures) - including current maturities	238.6	354.7				593.3
Liabilities on account of employee benefits	31.9					31.9
Other Liabilities	32.8					32.8
Equity, funds and reserves					757.6	757.6
Total liabilities and equity	745.3	389.9	50.7	24.0	834.2	2,044.1
Surplus financial assets (liabilities) as at Dec-31-2008	**(157.4)**	**(389.0)**	**(12.6)**	**107.6**	**471.4**	

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

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at December 31, 2007:

NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	2.6		7.4	157.7		167.7
Other Accounts Receivable	259.8	0.5	10.9	1.8		273.0
Inventories					69.6	69.6
Investments in Associated Companies	52.2		2.4		291.8	346.4
Deferred taxes on income					20.6	20.6
Fixed assets, net					405.2	405.2
Intangible Assets					1.6	1.6
Other assets					34.9	34.9
Assets on account of employee benefits	0.9					0.9
Total Assets	315.5	0.5	20.7	159.5	823.7	1,319.9
Liabilities						
Credit from Banks	143.0					143.0
Other Accounts Payable	164.7		11.7	2.6		179.0
Financial liability at fair value through the statement of income			3.9			3.9
Deferred taxes on income					40.5	40.5
Long-Term Loans	33.5					33.5
Notes (debentures)		195.5				195.5
Liabilities on account of employee benefits	22.4					22.4
Other liabilities - including current maturities	31.2					31.2
Current tax liabilities					0.9	0.9
Equity, funds and reserves					670.0	670.0
Total liabilities and equity	394.8	195.5	15.6	2.6	711.4	1,319.9
Surplus financial assets (liabilities) as at Dec-31-2007	**(79.3)**	**(195.0)**	**(4.9)**	**156.9**	**112.3**	

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Associated Companies

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

G. Forward-Looking Statements

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

H. Donations and Contributions

The Hadera Paper Group, within the framework of its business and social commitment, invests efforts and funds in community assistance and support, while focusing on providing help to the weaker echelons of Israeli society and primarily teenagers.

As part of this policy, the Company makes contributions to various institutions active in the said areas. The Group s contributions and activity through the Shenkar Foundation amounted to NIS 456 thousand in 2008.

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

This year the company focused on donations to youth clubs, community centers operating in the afternoons with the intention of fortifying and enriching teenagers while granting them a proper opportunity. During this year assistance was provided to two projects: children's club in the Eastern Worker neighborhood of Hadera and youth studying centers in Hadera.

Moreover the company is active in the granting of student scholarships, through the Shenkar Foundation, that was established by the company together with its Austrian strategic partner in Mondi Hadera. The total contributions of the company through the Shenkar Foundation amounted to NIS 90 thousand.

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

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

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

Avi Yehezkel	Holds a degree in Economics from Tel Aviv University and a Masters degree in Law from Bar-Ilan University. External director at Bank Yahav. Served as a Knesset member between 1992-2003, also served as Chairman of the Economics Committee, Chairman of the Defense Budget Committee, Chairman of the Capital Market Sub-Committee, Chairman of the Banking Sub-Committee and member of the Finance Committee.
Ari Bronshtein	Holds a Bachelor's degree in Management and Economics from Tel Aviv University and a Master s degree in Management, Accounting and Finance from Tel Aviv University. Serves as VP of Discount Investments Ltd.; Director at Elron Electronic Industries Ltd. Former VP of Economics and Business Development and Director of Finance and Investments at Bezeq The Israel Telecommunications Company Ltd.

Itzhak Manor	Holds an MBA from Hebrew University. Serves as director at various publicly-traded and privately-held companies within the IDB Group; Chairman of companies in the David Lubinsky Group Ltd.; member of the Balance Sheet Committee at Israel Union Bank Ltd.
Amos Mar-Haim	Holds a BA in economics and an MBA from Hebrew University. Formerly served and currently serves as Chairman or Deputy Chairman at publicly-traded or privately-held companies. Member of the Israeli Accounting Standards Board.
Amir Makov	Holds a Law degree from Hebrew University and an Engineering degree from the Haifa Technion.Serves as Chairman of the Israel Petroleum and Gas Institute, served as CEO of Haifa Chemicals Ltd., Sonol Israel Ltd.. Served and serves as a director of various publicly-traded and privately-held companies including Leumi Card Ltd., Dead Sea Works Ltd., Dead Sea Bromine Ltd. and more.

J. **The Company s Internal Auditor**

a. Auditor s Name: Eli Greenbaum
In the position since: July 16, 2006
Credentials: CPA

b. The Auditor is employed by the Company.

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

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

e. The work plan for internal auditing is annual. The work plan is determined on the basis of: A five-year plan, covering numerous issues that were approved by the Audit Committee according to the auditing needs of the Company and covers issues that the Internal Auditor believes warrant his examination and consideration in the course of the current year. The work plan is determined by the Internal Auditor and the Audit Committee. The work plan is approved by the Audit Committee. The judgment of the Internal Auditor in terms of deviations from the audit program, subject to the approval of the Company s Audit Committee. The Internal Auditor participated in a meeting of the Audit Committee that discussed and approved an engagement in the form of a rental agreement with Gav-Yam, Bayside Land Corporation Ltd., a publicly-traded company indirectly controlled by the Company s controlling shareholder. For further details, see the Company s reports dated September 25, 2008.

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

g. Scope of employment: Full-time job as Auditor, plus an assistant. The auditing hours number a total of 370 monthly hours, totaling 4,100 hours annually, divided equally between the corporation and its investee companies:

Audited body	Estimated hours of audit annually
Internal auditing at the Company	370 hours
Auditing at investee companies	3,730 hours
Total hours	4,100 hours

The internal auditor conducts his audit in accordance with acceptable professional standards for internal audit in Israel and overseas, and according to the Company s Board of Directors, based on the assessment of the Company s Audit Committee, the internal auditor complies with the requirements set forth in those standards.

h.

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

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

Submitted	Discussed
Mar-6-08	Mar-10-08
May-6-08	May-11-08
Aug-5-08	Aug-7-08
Nov-6-08	Nov-10-08

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

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

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

K. Senior Employee Compensation

In determining the compensation and bonuses of senior employees, the directors and Compensation Committee took into consideration the position and standing of each executive and his contribution to the operations and business of the Company. Labor wage expenses and benefits granted to senior executives and position holders are reasonable and reflect the company s accomplishments, based on its results as compared with 2007 and as compared with market standards.

The implementation of IFRS in the financial statements had a negative impact on the financial statements for 2008, see Section C(3)3, above.

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

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 framework, the senior executives and position holders mutually consent to waiving between 8% and 10% of their wages in 2009.

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L. Auditing CPA Fees

Current Fees

In 2008, fees paid to the Company s auditing CPA, inclusive of audit services including audits of internal auditing for financial reporting amounted to approximately $326 thousand, compared to $312 thousand in 2007. The hours invested by the auditing CPAs on account of these services amounted to 7,190 hours and 7,800 hours in the years 2008 and 2007, respectively.

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

	2008		2007	
	Thousands of $	**Hours**	**Thousands of $**	**Hours**
Corporate auditing and auditing of tax reports for the company (including shelf prospectus in 2008).	206,000	5,140	150,000	4,510
Auditing of internal auditors	73,000	1,200	120,000	2,400
IFRS Auditing services	-	-	22,000	440
Miscellaneous	46,800	850	20,000	450
Total	325,800	7,190	312,000	7,800

M. External Directors

The Company chose not to adopt in its Article of Association provision with regard to the percentage of external board members.

N. Negligibility procedure

1. On August 5, 2008, the amendment to Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the Periodic Report regulations) became effective. In conjunction with this amendment, reporting requirements applicable to public companies in respect of transactions with a controlling shareholder or transactions with another person in which a controlling shareholder has a personal interest (hereinafter: transactions with a controlling shareholder) were expanded to also include transactions which are not exceptional transactions, as defined by the Companies Law, except for transactions classified as negligible in the most recent financial statements.

   On March 8, 2009, the Company s Board of Directors resolved to adopt rules and guidelines for categorizing a transaction of the Company or of one of its consolidated subsidiaries with a controlling shareholder (controlling shareholder transaction) as a negligible transaction as set forth in Regulation 64(3)(d)(1) of the Securities Regulations (Preparation of Annual Financial Statements), 1993. These rules and guidelines shall also serve to examine the extent of disclosure in the periodical reports and the prospectus (including shelf prospectus reports) regarding a transaction of the Company, Corporation under its control and any affiliated company, with a controlling shareholder, or in whose approval a controlling shareholder possesses a personal interest, as set forth in Regulation 22 of the Periodic Report Regulations and in Regulation 54 of the Securities Regulations (Prospectus Details and Prospectus Draft Form and Shape) 1969, as well as for the purpose of submitting an immediate report regarding a said transaction of the company, as stipulated in Regulation 37(a)(6) of the Periodic Report Regulations.

2. The Company and its consolidated and affiliated companies, in the normal course of their business, execute or may execute transactions with interested parties, as well as undertakings to conduct transactions with interested parties in relation to the purchase or sale of products or services, including transactions of the following types and having the following attributes: Transactions related to money management deposited with Provident Funds and Continuing Education Funds, telecommunication services, leasing and rental of real estate assets, financial services (including portfolio management and investment consulting), banking services, economic consulting services, tourism services, advertising and marketing campaigns, legal services, purchasing, purchase and rental of vehicles, vehicle garage services, waste treatment, archive services, dispatch services, administrative services and engagements with equipment vendors for regular use, product sales, rental of heavy mechanical equipment, transportation services and earthwork, purchasing gift coupons and various types of insurance.

3. In the absence of any special qualitative considerations arising from the circumstances, a transaction with an interested party shall be deemed negligible if it is not an exceptional transaction and if the applicable benchmark calculated for (one or more) transactions is less than one percent (1%).

Any interested party transaction classified as a negligible transaction, one or more of the criterions relevant to the specific transaction will be calculated based on the recent annual consolidated financial statements of the Company: (a) Sales ratio total sales covered by the interested party transaction divided by total annual sales; (b) Sales cost ratio cost of the interested party transaction divided by the total cost of annual sales; (c) Earnings ratio the actual or projected profit or losses attributed to the interested party transaction divided by the average annual profit or loss in the last three years, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements were published; (d) Assets ratio the amount of assets covered by the interested party transaction divided by total assets; (e) Liabilities ratio the liability covered by the interested party transaction divided by total liabilities;

Thus, for example, the applicable benchmark for a transaction involving the purchase of goods or services would typically be the ratio of cost of sales.

In cases where, at the Company s discretion, all the aforementioned quantitative benchmarks are not applicable for evaluation of the negligibility of the transaction with an interested party, the transaction shall be deemed negligible, in accordance with another applicable benchmark to be determined by the Company, provided that the applicable benchmark calculated for said transaction is less than one percent (1%).

4. The negligibility of the transaction should also be reviewed in qualitative aspects; thus, for example, a transaction with an interested party shall not usually be deemed negligible if it is conceived as a significant event by the Company s management, and if it serves as a basis for making managerial decisions, or if in the course of the transaction with an interested party, the latter is expected to receive benefits which are important to disclose publicly.

5. The negligibility of a transaction will be examined on an annual basis for the purpose of reporting within the framework of a periodical report, financial statements and a prospectus (including shelf prospectus reports), while consolidating all of the transactions of the same type with the relevant controlling shareholder, or with corporations controlled by the same shareholder. For the purposes of immediate reporting, the negligibility of the transaction will be examined as a single transaction provided that separate transactions, that are in fact interconnected, and that are in fact part of the same engagement (for example: conducting negotiations regarding the entirety of the transactions), shall be examined as a single transaction. It is hereby clarified that separate transactions made frequently and repeatedly every period, that are not interconnected (such as the purchase of inventories every period from a controlling shareholder, on the basis of ad hoc orders, and where there exists no undertaking for the said purchase), shall be examined on an annual basis for the purpose of reporting as part of a periodical report, financial statements and a prospectus (including shelf prospectus reports) and on the basis of the specific transaction for the purposes of immediate reporting. In general, the Company shall assume that all of the transactions classifiers negligible by its investee companies, are indeed negligible at the Company level as well.

O. Detailed processes undertaken by the Company s supreme supervisors, prior to the approval of the financial statements

The Company s Board of Directors has appointed the Company s Audit Committee to serve as a Balance Sheet Committee and 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. The Committee consists of three directors, of which two possess accounting and financial expertise. The meetings of the Balance Sheet Committee, as well as the board meetings during which the financial statements are discussed and approved, are attended by the company s auditing CPAs, who are instructed to present the principal findings if there are any that surfaced during the audit or review process, as well as by the Internal Auditor.

The Committee conducts its examination via detailed presentations from company executives and others, including: CEO Avi Brener, and CFO Shaul Glicksberg. The material issues in the financial reports, including any extraordinary transactions if any, the material assessments and critical estimates implemented in the financial statements, the reasonability of the data, the financial policy implemented and the changes therein, as well as the implementation of proper disclosure in the financial statements and the accompanying information. The Committee examines various aspects of risk assessment and control, as reflected in the financial statements (such as reporting of financial risks), as well as those affecting the reliability of the financial statements. In case necessary, the Committee demands to receive comprehensive reviews of matters with especially relevant impact, such as the implementation of international standards.

The approval of the financial statements involves several meetings, as necessary: The first is held by the Audit Committee to discuss the material reporting issues in depth and at great length, whereas the second is held by the Board of Directors to discuss the actual results. Both meetings are held in proximity to the approval date of the financial statements. As to the supreme supervision regarding the impact of the transition to international financial reporting standards, the Committee held a detailed discussion regarding the said disclosure and the accounting policy implemented in its respect.

By: /s/ Zvika Livnat	By: /s/ Avi Brener
Zvika Livnat Chairman of the Board of Directors	Avi Brener General Manager

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Exhibit 3

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008

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Report of Independent Registered Public Accounting Firm

To the shareholders of
Hadera Paper ltd.

We have audited the accompanying consolidated balance sheets of **Hadera Paper Ltd.** (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, consolidated statement of recognized income and expenses and consolidated cash flows of the Company for each of the two years in the period ended December 31, 2008. 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, whose assets constitute approximately 20% of total consolidated assets as of December 31, 2008, and whose revenues constitute approximately 25% of total consolidated revenues for the year ended December 31, 2008.

Likewise we did not audit the financial statements of certain associated companies, the Company s interest in which as reflected in the balance sheets as of December 31, 2007 is 45,933 Thousands NIS, and the Company s share in their profits or losses is a net amount of 1,440 and 7,627 Thousands NIS, for the years ended December 31, 2008 and 2007 respectively. The financial statements of those companies were audited by other Independent registered Public Accounting Firms 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 independent auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973 and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 audit and the reports of other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2008 and 2007, and the results of operations, changes in shareholders equity and cash flows of the Company on consolidated basis, for each of the two years in the period ended December 31, 2008, in conformity with international financial reporting standards and in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

Brightman Almagor & Co.

Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Tel-Aviv, Israel
March 11, 2009

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HADERA PAPER LTD

CONSOLIDATED BALANCE SHEETS

December 31

	Note	December 31 2008	December 31 2007
		NIS in thousands	
Current Assets			
Cash and cash equivalents	2e	13,128	167,745
Designated deposits	2e	249,599	-
Accounts receivable:	13a		
Trade receivables		318,926	178,553
Other receivables		100,888	94,415
Current tax assets		6,271	-
Inventories	13b	168,755	69,607
		857,567	**510,320**
Non-Current Assets			
Fixed assets	5	767,542	405,231
Investments in associated companies	4	318,101	346,403
Deferred tax assets	11	29,848	20,622
Deferred lease expenses	6	36,344	34,900
Other intangible assets	7	31,519	1,578
Other assets		2,549	-
Employee benefit assets	9	624	861
		1,186,527	**809,595**
		2,044,094	**1,319,915**
Current Liabilities			
Credit from banks	8b, 13c	77,655	143,015
Current maturities of long-term notes and long term loans	8a, b	76,469	42,775
Trade payables	13d	195,020	108,409
Other payables and accrued expenses	13d	106,062	70,585
Other financial liabilities	8c	32,770	-
Financial liabilities at fair value through profit and loss	2p(2)	13,904	3,901
Current tax liabilities		-	908
		501,880	**369,593**
Non-Current Liabilities			
Loans from banks and others	8b	121,910	28,127
Notes	8a	554,124	158,134
Other financial liabilities	8c	-	31,210
Deferred tax liabilities	11	76,641	40,515
Employee benefit liabilities	9	31,910	22,365
		784,585	**280,351**
Capital and reserves	10		
Issued capital		125,267	125,267
Reserves		299,949	308,267
Retained earnings		306,097	236,437
Capital and reserves attributed to shareholders		**731,313**	**669,971**
Minority Interests		26,316	-

	December 31	
Total capital and reserves	**757,629**	**669,971**
	2,044,094	**1,319,915**

Z. Livnat
Chairman of the Board of Directors

A. Brener
Chief Executive Officer

S. Gliksberg
Chief Financial and Business Development Officer

Approval date of the financial statements: March 11, 2009.

The accompanying notes are an integral part of the financial statements

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HADERA PAPER LTD

CONSOLIDATED INCOME STATEMENTS

		Year ended December 31	
	Note	**2 0 0 8**	**2 0 0 7**
		NIS in thousands	
Revenue	13e	673,484	583,650
Cost of sales	13f	542,387	440,739
Gross profit		**131,097**	**142,911**
Selling, marketing, general and administrative expenses	13g		
Selling and marketing expenses		45,674	31,344
General and administrative expenses		54,970	35,991
Other (income) expenses, net	13k	(4,898)	4,467
Total expenses		**95,746**	**71,802**
Profit from ordinary operations		**35,351**	**71,109**
Finance income		12,069	10,648

	Note	Year ended December 31	
Finance expenses		27,112	32,817
Finance expenses, net	**13j**	**15,043**	**22,169**
Profit after financial expenses		**20,308**	**48,940**
Share in profit of associated companies, net	4	51,315	856
Profit before taxes on income		**71,623**	**49,796**
Taxes on income	11	3,663	18,261
Profit for the year		**67,960**	**31,535**
Attributed to:			
Company shareholders		69,710	31,535
Minority interests		(1,750)	-
		67,960	**31,535**

	NIS	
Earning for regular share of NIS 0.01 par value (see note 14):		
Primary attributed to Company shareholders	13.77	7.63
Fully diluted attributed to company shareholders	13.77	7.62
Number of share used to compute the primary earnings per share	5,060,774	4,132,728
Number of share used to compute the fully diluted earnings per share	5,060,774	4,139,533

The accompanying notes are an integral part of the financial statements

HADERA PAPER LTD

CONSOLIDATED STATEMENT

OF RECOGNIZED INCOME AND EXPENSES

	Note	Year ended December 31 2008	Year ended December 31 2007
		NIS in thousands	
Exchange differences arising on translation of foreign operations	10	(25,996)	3,810
Profit (loss) on cash flow hedges, net	10	(5,564)	(652)
Actuarial profit (loss) and defined benefit plans, net	10	(1,808)	-
Reevaluation from step acquisition	10	17,288	-
Net income (loss) recognized directly in equity		**(16,080)**	**3,158**
Transfer to profit or loss from equity on cash flow hedges, net	10	1,467	17
Profit for the year		67,960	31,535
Total recognized income and expense for the period		**53,347**	**34,710**
Attributed to:			
Company shareholders		55,115	34,710
Minority interests		(1,768)	-
		53,347	**34,710**

The accompanying notes are an integral part of the financial statements

HADERA PAPER LTD

CONSOLIDATED CASH FLOWS STATEMENTS

	Year ended December 31 2008	Year ended December 31 2007
	NIS in thousands	
Cash flows - operating activities		
Net Profit for the year	67,960	31,535
Taxes on income recognized in profit and loss	3,663	18,261
Finance expenses recognized in profit and loss	15,043	22,169
Capital loss on sale of fixed assets	(284)	1,403
Capital loss on sale investment in associated company	-	28
Share in profit of associated companies	(51,315)	(856)
Depreciation and amortization	59,784	36,138
Share based payments expense	4,913	-
Gain from negative goodwill	(14,664)	-

	Year ended December 31	
	85,100	108,678
Changes in assets and liabilities:		
Decrease (Increase) in trade and other receivables	66,805	(5,416)
Increase in inventories	(19,868)	(7,498)
Increase (Decrease) in trade and other payables	(15,804)	18,646
Increase in financial liabilities at fair value through profit and loss	10,003	2,289
Increase (Decrease) in employee benefit liabilities	(4,182)	2,913
	36,954	**10,934**
Tax Payments	(8,182)	(27,755)
Net cash generated by operating activities	**113,872**	**91,857**

The accompanying notes are an integral part of the financial statements

HADERA PAPER LTD

CONSOLIDATED CASH FLOWS STATEMENTS

	Year ended December 31	
	2 0 0 8	**2 0 0 7**
	NIS in thousands	
Cash flows - investing activities		
Acquisition of fixed assets	(230,053)	(83,363)
Acquisition of subsidiaries	(70,567)	-
Proceeds from sales of fixed assets	825	31,415
Investment in designated deposits	(255,244)	-
Interest received	7,764	1,716
Prepaid leasing expenses	(2,622)	(2,596)
Acquisition of other assets	(2,770)	-
Associated companies:		
Granting of loans and shares purchasing	(422)	(318)
Collection of loans	2,851	2,893
Proceeds from sale of investment of associated companies	-	27,277
Net cash used in investing activities	**(550,238)**	**(22,976)**

Cash flows - financing activities

	Year ended December 31	
Proceeds from private share allocating	-	211,645
Proceeds from issuing notes	424,617	-
Short-term bank credit - net	(111,444)	(59,988)
Borrowings received from banks	39,448	-
Repayment of borrowings from banks	(11,801)	(5,212)
Interest Paid	(20,360)	(24,994)
Redemption of notes	(38,904)	(37,167)
Net cash generated by financing activities	**281,556**	**84,284**
Increase (decrease) in cash and cash equivalents	**(154,810)**	**153,165**
Cash and cash equivalents beginning of period	167,745	13,621
Net foreign exchange difference	193	959
Cash and cash equivalents end of period	**13,128**	**167,745**

The accompanying notes are an integral part of the financial statements

HADERA PAPER LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF BUSINESS AND GENERAL

A. Description Of Business

Hadera Paper Limited (former American Israeli Paper Mills Limited) and its subsidiaries (hereafter the Company) are engaged in the production and sale of paper packaging, in paper recycling activities and in the marketing of office supplies. The Company also has holdings in associated companies that are engaged in the productions and sale of paper and paper products including the handling of solid waste (the Company and its investee companies hereafter the Group). Most of the Group s sales are made on the local (Israeli) market. For segment information, see note 19.

B. Definitions:

The Company - Hadera Paper Limited.

The Group - the Company and its Subsidiaries.

Related Parties - as defined by IAS 24.

Interested Parties - as defined in the Israeli Securities law and Regulations 1968.

Controlling Shareholder - as defined in the Israeli Securities law and Regulations 1968.

NIS - New Israeli Shekel.

CPI - the Israeli consumer price index.

Dollar - the U.S. dollar.

Subsidiaries - companies in which the Company control, (as defined by IAS 27) directly or indirectly, and whose financial statements are fully consolidated with those of the Company.

Associated Companies - companies in which the Group has significant influence, and the Group investments in them, directly or indirectly are included in the financial statements using the equity method.

Affiliated Companies - Subsidiaries and associated companies.

HADERA PAPER LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Applying International Accounting Standards (IFRS)

(1) Basis of preparation

The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (hereafter IFRS).

The principal accounting policies described in the following notes were applied in accordance to the IFRS, in a manner consistent with previous reporting periods presented in these consolidated financial statements and in accordance to the opening balance sheet.

(2) First term IFRS standards adoption

According to standard No. 29 Adoption of International Financial Reporting Standards IFRS (standard No. 29), the Company applies International Financial Reporting Standards and interpretations of the committee of the International Accounting Standard Board (IASB) Starting January 1, 2008.

In compliance with the above mentioned, the consolidated financial statements, as of December 31, 2008 and for the year then ended, have been prepared under accounting policies consistent with International are the first consolidated Financial Reporting Standards.

In these consolidated financial statements the Company applied IFRS 1 First time Adoption of International Financial Reporting Standards (IFRS No. 1), which determines instructions for first time implementation of IFRS.

According to IFRS No. 1 the effective date for implementing IFRS standards is commencing January 1, 2007.

The Company has applied in a retroactive manner the IFRS standards for all reporting periods presented in the financial statements. The Company implemented the IFRS standards which have been published as of the preparation date of the Financial Statements and expected to be affective as of December 31, 2008.

In implementing the transitional rules as above, the Group elected to apply the following concessions permitted by IFRS 1:

1. Share based payments

The rules of IFRS 2, which deals with share based payments, were not retroactively applied with regard to capital instruments which had been granted prior to November 7, 2002 and vested before the transition date.

2. Translation differences

The company elected to desist from retroactively applying the rules of IAS 21 for translation differences accumulated as of January 1, 2007 with respect to foreign operations. As a result, accumulated translation differences have not been included in the Opening Balance Sheet.

3. Deemed cost for items of fixed assets

IFRS 1 permits the measurement of items of fixed assets as of the transition date to the IFRS, or at an earlier date, on the basis of a revaluation executed according to previously applied generally accepted accounting principles, as deemed cost as of the date of the revaluation, if, in general, the revaluation was comparable to cost or undepreciated cost according to the IFRS, adjusted for changes such as changes in the index of prices.

Through December 31, 2007, the company adjusted its financial statements to changes in the rate of exchange of the dollar, in accordance with the rules of Accounting Opinion 36 of the Institute of Certified Public Accountants.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Applying International Accounting Standards (IFRS) (Cont.)

(2) First term IFRS standards adoption (cont.)

3. Deemed cost for items of fixed assets (cont.)

For purposes of the transition to reporting pursuant to the IFRS, the company chose to apply the concession in IFRS 1 as above and to measure the items of its fixed assets acquired or constructed through December 31, 2003 at deemed cost as of that date, based on their amounts, as adjusted to changes in the rate of exchange of the dollar up to that date.

Prior to the adoption of the IFRS, the Group prepared its financial statements according to accounting principles generally accepted in Israel. The latest annual financial statements of the company according to accounting principles generally accepted in Israel were prepared as of December 31, 2007 and for the year ended on that date. Comparative figures for that period were restated in these financial statements pursuant to the IFRS.

See Note 21 with respect to the material differences between reporting pursuant to the IFRS and reporting according to Israeli generally accepted accounting principles, as they are relevant to the Group.

B. The financial statements are drawn up in conformity with accounting principles generally accepted in Israel and in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993, except for regulations that do not allow for the implementation of IFRS standards, or permissible regulations there under.

C. Basis of preparation

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the exchange rate of the U.S. dollar. As of December 31, 2003 when the economy ceases to be hyper-inflationary and the Company no longer

adjusted its financial statements to the U.S. dollar, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

Derivative financial instruments measured by fair value.

Inventories are stated at the lower of cost and net realizable value.

Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.

Liabilities to employees as described in note 2W below.

D. Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in the New Israeli Shekel (NIS), which is the functional currency of the Company and the presentation currency for the consolidated financial statements, see note 2Y (3) as follows with regard to the exchange rate and the changes in them during the reported period.

HADERA PAPER LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Foreign currencies (cont.)

In preparing the financial statements of the individual entities, transactions in currencies other than the entity s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period which they were created, except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (Hedge accounting details are set out in Note 2Q below) and for rate differences of loans taken in different currency then NIS (see note 2M below).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group s foreign operations of affiliated company (mainly because of it s investment in a subsidiary company that presents it s financial statements in foreign currency) are expressed in NIS using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

E. Cash and cash equivalents

Cash and cash equivalents include deposits that can be withdrawn anytime as well as short-term bank deposits that are not restricted in use, with a maturity of three months.

Deposits that are restricted in use or whose maturity at the time of investment, is greater than three months but less than one year are classified under designated deposits.

F. Basis of consolidation

(1) General

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

For the effect of the issuance of IAS 27 (revised) Consolidated and Separate Financial Statements see note 2Z below.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Basis of consolidation (Cont.)

(2) Minority interests

Minority interests in net assets (except for goodwill) of consolidated subsidiaries are presented separately under the Group s shareholders equity. Minority interests include the sum of these interests on the date of the business combination (see below) as well as the share of minority shareholders in the changes that occurred in the capital of the consolidated company subsequent to the date of the business combination. Losses of consolidated subsidiaries that relate to minority, which exceed the minority interests in the shareholders equity of the consolidated subsidiary, are allocated to minority interests up to the amount in which the minority has a valid obligation and ability to perform additional investments to cover the losses.

G. Business combinations

Acquisitions of consolidated subsidiaries and activities are measured by using the purchase method. The cost of a business combination is measured based on the aggregate fair value (as of the date of exchange) of the assets acquired, liabilities incurred and capital instruments issued by the group in exchange for obtaining control in the acquired company, plus any acquisition costs incurred to the group which directly relate to the business combination. The identifiable assets of the acquired company, liabilities and contingent liabilities that meet the recognition criteria in accordance with IFRS 3 regarding business combinations are recognized at fair value on the date of acquisition, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 regarding non-current assets held for sale and discontinued activities, which are recognized and measured at fair value net of selling costs.

Goodwill arising from the business combination is recognized as an asset and initially measured at cost, which represents the excess cost of the business combination over the group s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities that were recognized. If, after re-assessment, the total group s interests in the net fair value of the identifiable

assets, liabilities and contingent liabilities recognized exceed the cost of the business combination, the excess must be immediately recognized in the statement of income.

In business combinations, where control is obtained after several exchange transactions (acquisition in stages) the assets, liabilities and contingent liabilities of the acquired company will be measured at fair value on the date in which control was obtained, while the difference between their fair value on the date of the acquisitions that preceded the business combination and their fair value on the date of the business combination shall be carried to a Capital reserve from reevaluation from step acquisition , which is transferred to retained earnings on the date in which the item in respect of which has been created is amortized or retired to income statement.

The interests of minority shareholders in the acquired company are initially measured on the date of the business combination in accordance with their pro rata share in the net fair value of the assets, liabilities and contingent liabilities that were recognized. As to the accounting policy with respect to minority interest see note 2(F)2 above.

As to the publication of IFRS 3 (amended) Business Combinations , see note 2Z below.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Investments in associated companies

An associated company is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The financial statements of the consolidated companies adopted to the accounting policies of the group.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition change in the Group s share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group s interest in that associate (which includes any long-term interest that, in substance, form part of the Group s net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a group entity transacts with an associate of the Group material, profits and losses are eliminated to the extent of the Group s interest in the relevant associate.

I. Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition.

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then, the remaining impairment loss is allocated to the other assets of the unit pro-rata on the basis of the

carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

HADERA PAPER LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Property, plant and equipment

Property, plant and equipments are tangible items, which are held for use in the manufacture or supply of goods or services, or leased to others, which are predicted to be used for more than one period. The Company presents its property, plant and equipments items according to the cost model.

Under the cost method a property, plant and equipment are presented at the balance sheet at cost (net of any investment grants), less any accumulated depreciation and any accumulated impairment losses. The cost includes the cost of the asset s acquisition as well as costs that can be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Spare parts which are not used on a current basis are designated for use in the context of specific items of fixed assets, where necessary. The reason for holding them is to prevent delays in the manufacturing process and to avoid a shortage in spare parts in the future. The spare parts that are not used on a current basis have not been installed on items of fixed assets and are, therefore, not available for use in their present state. In the light of this, spare parts that are not being used currently are presented with fixed assets and are depreciated beginning from the date that they are installed on the items of fixed assets for which they were purchased.

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. The depreciation starts once the asset is ready for use and takes into consideration of the anticipated scrap value at the end of the asset s useful lives.

The annual depreciation and amortization rates are:	Years
Buildings	10-50
Machinery and equipment	7-20
Motor vehicles	5-7
Office furniture and equipment	3-17

Scrap value, depreciation method and the assets useful lives are being reviewed by management in the end of every financial year. Changes are handled as a change of estimation and are applied from here on.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income statement.

HADERA PAPER LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Intangible assets

(1) Intangible assets, except for goodwill

Intangible assets are defined as identifiable, non-monetary assets without physical substance.

Intangible assets with an indefinite useful life are not amortized. Instead they are tested for impairment once a year or more frequently if indications exist that there may a decline in the value of the asset in accordance with the provisions of IAS 36. The useful life of intangible assets with an indefinite useful life is estimated at the end of each reporting year. The accounting treatment with respect to the useful life of an intangible asset that has changed from indefinite to finite, is carried out prospectively.

Intangible assets with a definite useful life are amortized using the straight line method over the estimated useful life of the assets subject to an impairment test. The accounting treatment of the change in the estimated useful life of an intangible asset with a finite life, is carried out prospectively.

As to the accounting treatment of goodwill see note 2I.

The useful life which is used to amortize intangible assets with a finite useful life is as follows:

Customer relations	5-10 years
Software	3 years

(2) Intangible assets acquired under a business combination

Intangible assets acquired under a business combination are identified and recognized separately from goodwill when the meet with the definition of intangible asset and their fair value can be measured reliably. The cost of these intangible assets is their fair value on the date of the business combination.

In subsequent periods to the initial recognition, intangible assets acquired under a business combination are presented at cost less any accumulated amortization and subsequent accumulated impairment loss. The amortization of intangible assets with a finite life is calculated based on the straight line method over the estimated useful life of these assets. The estimated useful life and method of amortization are tested at the end of each reporting year while the effect of changes in the estimates useful life is accounted for prospectively.

As to the amendment of IAS 38 Intangible Assets under the improvements to International Financial Reporting Standards see note 2Z.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Impairment of value of tangible and intangible assets, excluding goodwill

At each balance sheet date, the Group examines the book value of its tangible and intangible assets for the purpose of determining whether there are any indications that point towards losses from impairment of value of these assets. Should there be any such indications, the recoverable amount of the asset is estimated for the purpose of determining the amount of the loss from impairment of value that was created, if at all. If it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash- generating unit to which the asset is relevant. Shared assets are also allocated to individual cash generating units to the extent that a reasonable and consistent basis can be identified for such allotment. Should allocating the shared assets to individual cash generating units on the above basis not be feasible, the shared assets are allocated to the smallest groups of cash generating units as to which a reasonable and consistent basis for allocation can be identified.

Intangible assets with an indefinite useful life and intangible assets that are still not available for use are tested for impairment once a year or more frequently if indications exist that there may a decline in the value of the asset.

The recoverable amount is the higher of the sales price of the asset, less selling costs, and of its utility value. In estimating utility value, an approximation of future cash flows is discounted to their present value, using a pre- tax discount rate which reflects the current market estimates of the value of money over time and the specific risks for the asset for which the estimate of future cash flows has not been adjusted.

If the carrying value of the asset (or of the cash generating unit) exceeds recoverable amount, the book value of the asset (or of the cash generating unit) is reduced to its recoverable amount. The impairment loss is recognized immediately to as an expense in the statement of income.

If an impairment loss that was recognized in previous periods is reversed, the book value of the asset (or of the cash generating unit) will be restored back to the estimate of the up to date recoverable value but not to exceed the book value of the asset (or of the cash generating unit) that would have existed, had a related impairment loss not been recognized in prior periods. The reversal of the loss from impairment of value is immediately recognized in the statement of income.

As to the impairment of goodwill see note 2I. As to the impairment of investment in an affiliate company, see note 2H.

M. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are assed to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

The rest of the borrowing costs are recognized in profit or loss.

For the effect of the issuance of IAS 23 (revised) Borrowing costs see Note 2Z below.

N. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production over heads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories that purchased on differed settlement terms, which contains a financing element, are stated in purchase price for normal credit terms. The difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of the financing.

Cost determined as follows:	
Raw, auxiliary materials and others	Based on weighted-average basis.
Finished products and products in process	Based on overhead absorption costing.

The spare parts that are in continuous use, are not associated with the specific fixed assets. Some of these spare parts are even sold to the Group s affiliated companies, as needed, and are part of the inventory. Based on the experience accumulated by the Company, these spare parts are held for no longer than 12 months. In light of the above, the spare parts that are in continuous use are presented in inventory clause, and recognized in the profit and loss report when used.

O. <u>Financial assets</u>

(1) General

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into loans and receivables and to financial assets through profit and loss. The classification of those categories arises from the reason of the financial assets holding and it is determined at its initial recognition.

O. <u>Financial assets (Cont.)</u>

(2) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(3) Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

it has been acquired principally for the purpose of selling in the near future; or

it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(4) Impairment of financial assets

Financial assets, except for financial assets classified as at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

Significant financial difficulty of the issuer or counterparty; or

Default or delinquency in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain financial assets, such as customers as to which no indications of value impairment have been identified, the company evaluates value impairment on a specific basis, in reliance on past experience and changes in the level of delinquency in payments, as well as economic changes related to the sector and the economic environment in which it operates.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. Financial liabilities and equity instruments issued by the Group

(1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or Other financial liabilities for the published IAS 32 (amended), financial instruments: present an IAS-1: presentation of financial statements see note 2Z as follows.

(2) <u>Options to sell sales of an investee</u>

The company has an obligation that is derived from an option that it gave for the sale of shares of an investee, which provide the holder thereof with the right to sell its holdings in the investee in consideration of a variable amount of cash.

The value of the option was computed according to the economic value of the option and is presented with non current liabilities, and classified as a liability at fair value through operations.

Any gain or loss that results from changes in the fair value of the option is recognized in operations.

See Note 4B (3) below for further details on the conditions of the option.

(3) <u>Other financial liabilities</u>

Other financial liabilities (capital note issued to an investee), are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Financial liabilities which stand for immediately payment, presented at their full value.

For the treatment at CPI-linked other financial liabilities see note 2P (4) below.

(4) <u>CPI-linked liabilities</u>

The Company has liabilities that are linked to the Consumer Price Index (hereinafter the CPI), which are not measured at fair value under the statement of income. The Company determines the effective interest rate in respect of these liabilities as a real rate with the addition of linkage differences in line with actual changes in the CPI until the balance sheet date.

<u>NOTE 2</u> <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)</u>

Q. <u>Derivative financial instruments</u>

(1) General

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts on exchange rate, options on exchange rate and contracts on the CPI due to notes.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss

immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The Group implements cash flow hedge accounting both in respect of future transactions, foreign currency deposits and options transactions on foreign currency that are designed to secure payments for the acquisition of fixed assets in foreign currency in respect of future transactions for the purchase or sale of foreign currency that are designed to secure payments for imports and which are linked to foreign currency and in respect of future transaction on the Consumer Price Index, which are designed to secure payments on CPI-linked bonds.

The effective part of the changes in the value of financial instruments designed for cash flow hedging is immediately recognized in shareholders equity under the headline **capital reserve in respect of cash flow hedging** and the non-effective part is immediately recognized in the statement of income.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. Derivative financial instruments (Cont.)

(2) Hedge accounting (Cont.)

Hedge accounting for cash flows is discontinued when the hedging instrument expires, sold or realized of when the hedging relations no longer meet the threshold conditions for hedging. After the discontinuation of hedge accounting, the amounts carried to shareholders equity are carried to the income statement while the hedged item or the hedged projected transactions are recorded in the income statement.

When hedging a forecasted transaction on non-monetary assets (fixed income), the capital reserve is added to the initial cost of the hedged item immediately upon the initial recognition of said item and recorded in the income statement over the period of amortization of the fixed asset in respect of which it was recorded.

R. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

(1) Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the entity; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(2) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset s net carrying amount.

(3) Dividends

Revenue is recognized when the Group s right to receive the payment is established.

(4) Reporting of revenues on a gross basis or a net basis

The Company s revenues as an agency or intermediary from providing electricity, water, steam, and logistical services to the Group without bearing the risks and returns that derive from the transaction are presented on a net basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. Leasing

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risks and rewinds of ownership to the lessee. All other leases are classified as operating leases.

Leases of land from the Israel Lands Administration

Leases of land from the Israel Lands Administration are classified as operating leases. The deferred lease payments that were made on the date of the start of the lease are presented in the balance sheet with Deferred lease expenses, and are amortized on the straight line basis over the balance of the lease period, including the extension option.

The company has land lease rights from the Municipality of Tel Aviv which comply with the definition of investment real estate, and, pursuant to IAS 40, have been classified as operating leases and not as investment real estate.

T. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present bligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

U. Share Based payments

In accordance with IFRS 2 and IFRIC 11, equity-settled share based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Company determines the fair value of equity-settled share-based transaction according to the Black-Scholes model. Details regarding the determination of the fair value of share-based transactions are set out in note 10.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group s estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

For the effect of the issuance of amendment to IFRS 2 Share Based Payment- Vesting and Revocation Conditions, see note 2Z below.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Taxation

(1) General

Income tax expense represents the sum of the tax currently payable and change in deferred tax excluding deferred tax as result of transaction that was attribute directly to the equity.

(2) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(3) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business

combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

W. Employee benefits

(1) Post-Employment Benefits

The Group s post-employment benefits include: benefits to retirees and liabilities for severance and retirement benefits. The Group s post-employment benefits are classified as either defined contribution plans or defined benefit plans. Most of the Group s employees have signed Section 14 to the Severance Law, 1963, pursuant to which the Group s regular deposits with pension funds and/or insurance policies exempt it from any further obligations to the workers, for whom said amounts were deposited. The Group s deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

Expenses in respect of a Defined Benefit Plan are carried to the income statement in accordance with the Projected Unit Credit Method, while using actuarial estimates that are performed at each balance sheet date. The current value of the Group s obligation in respect of the defined benefit plan is determined by discounting the future projected cash flows from the plan by the market yields on government bonds, denominated in the currency in which the benefits in respect of the plan will be paid, and whose redemption periods are approximately identical to the projected settlement dates of the plan.

Actuarial profits and losses are carried to the statement of recognized income and expenses on the date they were incurred. The Past Service Cost is immediately recognized in the Group s income statement to the extent the benefit has vested. A past service cost which has not yet vested is amortized on a straight-line basis over the average vesting period until the benefit becomes vested.

The Group s liability in respect of the Defined Benefit Plan which is presented in the Group s balance sheet, includes the current value of the obligation in respect of the defined benefit, with the addition (net of) actuarial profits (losses), which were not yet recognized and less past service cost that was not yet recognized, net of the fair value of the plan s assets. A net plan, which is created from said calculation, is limited to the amount of the actuarial losses and past service cost that were not yet recognized with the addition of the current value of available economic benefits in the shape of returns from the plan or in the shape of reduction in future contributions to the plan.

(2) Other long term employee benefits

Other long term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that exceeds 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Other employee benefits of the company include liabilities for vacation pay. These liabilities are recorded to operations in accordance with the projected unit credit method, through the use of actuarial estimates which are performed at each balance sheet date. The present value of the company s obligation for vacation pay was determined by means of the capitalization of anticipated future cash flows from the program at market yields of government bonds, denominated in the currency in which the benefits for vacation will be paid and having redemption dates nearly identical to the forecasted payment dates of the vacation pay.

Gains and losses are recorded to the statement of operations at the time that they are created. Past service cost is immediately recognized in the financial statements of the company.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

W. Employee benefits (Cont.)

(3) Short term employee benefits

Short term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that does not exceed 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Short term company benefits include the company s liability for short term absences, payment of grants, bonuses and compensation. These benefits are recorded to the statement of operations when created. The benefits are measured on a non capitalized basis. The difference between the amount of the short term benefits to which the employee is entitled and the amount paid is therefore recognized as an asset or liability.

X. Net income per share

The computation of basic net income per share is generally based on earnings available for distribution to holders of ordinary shares, divided by the weighted average number of ordinary shares outstanding during the period.

In computing diluted net incomeper share, the weighted average number of shares to be issued, assuming that all dilutive potential shares are converted into shares, is to be added to the average number of ordinary shares used in the computation of the basic income (loss) per share. Potential shares are taken into account, as above, only when their effect is dilutive (reducing net income per share from continuing activities).

Y. Exchange Rates and Linkage Basis

(1) Foreign currency balance, or balances linked to foreign currency are included in the financial statements according to the exchange rate announced by the Bank of Israel on the balance sheet date.

(2) Balances linked to the CPI are presented according to index of the last month of the report period (the index of the month of the financial reports).

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

	Representative exchange rate of the dollar (NIS per $1)	Representative exchange rate of the Euro (NIS per 1)	CPI "in respect of" (in points)
As of:			
December 31, 2008	3.802	5.297	198.42
December 31, 2007	3.846	5.659	191.15
	%	%	%
Increase (decrease) during the:			
Year ended December 31, 2008	(1.1)	(6.39)	3.8
Year ended December 31, 2007	(9.0)	1.7	3.4

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. Adoption of new and revised Standards and interpretations

(1) New effective standards and interpretations, which are implemented in these financial statements

IFRS 2, IFRIC 11 - "Group and Treasury Share Transactions"

IFRIC 11 provides guidance on applying **IFRS 2** with respect to certain arrangements of share-based payments involving an entity s own equity instruments as well as arrangements involving the parent company s equity instruments. The interpretation stipulates the method of classification of these arrangements as share-based payment transaction that are settled with equity instruments or as share-based payment transactions that are settled in cash.

IAS 19, IFRIC 14 The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 determines the meaning of refunds from the plan or reductions in future contributions to the plan during the calculation of the a defined benefit asset that will be recognized in respect of a defined benefit plan, and clarifies how an asset or liability guidance in respect of a pension plan could be affected by statutory or contractual funding requirements. The provisions of IFRIC 14 apply to annual reporting periods commencing on January 1, 2008

The implementation of IFRIC 14 does not have any impact on the Group s financial statements.

(2) Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption

IAS 1 (Amended) Presentation of Financial Statements

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. Changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the

framework of the financial statements known as the report of comprehensive income , and the addition of a balance sheet as of the beginning of the earliest period that was presented in the financial statements, in cases of changes in accounting policy by means of retroactive implementation, in cases of restatement and in cases of reclassifications.

The standard will be effective for reporting periods beginning from January 1, 2009. The standard permits earlier application.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. Adoption of new and revised Standards and interpretations (cont.)

(2) Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)

IAS 23 (Amended) Borrowing Costs

The standard stipulates the accounting treatment of borrowing costs. In the context of the amendment to this standard, the possibility of immediately recognizing borrowing costs related to assets with an uncommon period of eligibility or construction in the statement of operations was cancelled. The standard will apply to borrowing costs that relate to eligible assets as to which the capitalization period began from January 1, 2009. The standard permits earlier implementation.

The company s management estimates that the implementation of the Standard is not expected to have a material effect on the Company s financial statements.

IFRS 8, Operating Segments

The standard, which replaces IAS 14, details how an entity must report on data according to segments in the annual financial statements. The standard, among other things, stipulates that segmental reporting of the company will be based on the information that management of the company uses for purposes of evaluating performance of the segments, and for purposes of allocating resources to the various operating segments. The standard will apply to annual reporting periods commencing on January 1, 2009, with restatement of comparative figures for prior reporting periods. The standard permits earlier adoption.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

IAS 27 (Amended) Consolidated and Separate Financial Statements

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The minority interest in the losses of a subsidiary, which exceed its share in shareholders equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneous with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively

The company s management estimates that the implementation of the Standard is not expected to have a material effect on the Company s financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. Adoption of new and revised Standards and interpretations (cont.)

(2) Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)

IFRS 3 (Amended) Business Combinations

The new standard stipulates the rules for the accounting treatment of business combinations. Among other things, the standard determines measurement rules for contingent consideration in business combinations which is to be measured as a derivative financial instrument. The transaction costs directly connected with the business combination will be recorded to the statement of operations when incurred. Minority interests will be measured at the time of the business combination to the extent of their share in the fair value of the assets, including goodwill, liabilities and contingent liabilities of the acquired entity, or to the extent of their share in the fair value of the net assets, as aforementioned, but excluding their share in goodwill.

As for business combinations where control is achieved after a number of acquisitions (acquisition in stages), the earlier purchases of the acquired company will be measured at the time that control is achieved at their fair value, while recording the difference to the statement of operations.

The standard will apply to business combinations that take place from January 1, 2010 and thereafter. Earlier adoption is possible, on the condition that it will be simultaneous with early adoption of IAS 27 (amended).

The company s management estimates that the implementation of the Standard is not expected to have a material effect on the Company s financial statements.

Amendment to IFRS 2, Share Based Payment- Vesting and Revocation Conditions

The amendment to the standard stipulates the conditions under which the measurement of fair value must be considered on the date of the grant of a share based payment and explains the accounting treatment of instruments without terms of vesting and revocation. The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

The company s management estimates that the implementation of the Standard is not expected to have a material effect on the Company s financial statements.

Amendment to IAS 32, Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements

The amendment to IAS 32 changes the definition of a financial liability, financial asset and capital instrument and determines that certain financial instruments, which are exercisable by their holder, will be classified as capital instruments.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. Adoption of new and revised Standards and interpretations (cont.)

(2) Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

This interpretation establishes the nature of the hedged risk and the amount of the hedged item under the hedges of a net investment in a foreign operation. In addition, the interpretation stipulates that the hedging instrument may be held by any entity within the group, and the amount to be reclassified from equity to profit or loess when the entity disposes of the foreign operation, for which the accounting method of hedges of a net investment in a foreign operation has been implemented.

The provisions of the interpretation apply to annual reporting periods commencing on January 1, 2009. An early adoption is permitted.

The Group s management estimates that the implementation of the interpretation will not have any impact on the financial statements of the Group.

(3) Improvement to International Financial Reporting Standards (IFRS) 2008

In May 2008 the IASB published a series of improvements for IFRS.

Improvements include amendments to some of the standards, which change the manner of presentation, recognition and measurement of different items in the financial statements.

In addition, amendments have been made to terms that have a negligible impact, if any, on the financial statements.

Most of the amendments will become effective as of the annual reporting period commencing January 1, 2009 or thereafter, with an option for early adoption. The implementation of most amendments will be carried out by retrospective adjustment of comparative figures.

Some of the amendments to the standards are expected, under relevant circumstances, to have a material impact on the financial statements. The prominent amendments are the new or amended requirements with respect to the following:

Amendment to IAS 28 Investments in Associated Companies , which stipulates that the impairment of investment in an associated company shall be treated as an impairment of a single asset and that the amount of impairment can be cancelled in subsequent periods.

The amendment will apply to annual periods commencing on January 1, 2009. This amendment allows for the early implementation while implementing the amendments relating to Section 4 in IAS 32 Financial Instruments: Presentation , Section 1 in IAS 31 Rights in Joint Transactions and Section 3 in IFRS 7 Financial Instruments: Disclosure . The amendments can be applied retrospectively.

At this stage the Group s management cannot assess the effect of implementation of the amendment on its financial statements.

Amendment IAS 38 Intangible Assets , which stipulates that payments in respect of advertising and sales promotion activities will be recognized as an asset until the date in which the entity has the right to access the acquired goods or in the event of a receipt of services,the date of receipt of the services.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. Adoption of new and revised Standards and interpretations (cont.)

(3) Improvement to International Financial Reporting Standards (IFRS) 2008 (cont.)

The amendment will apply to annual periods commencing on January 1, 2009 and shall be carried out retroactively. The amendment allow for early adoption. The Group s management estimates that the effect of implementing the amendment on the Group s financial statements is immaterial.

Amendment to IAS 19 Employee Benefits

a. Curtailments and negative past service costs

The amendment changes the definitions in the Standard and makes the following distinction: curtailments may be created when reducing the degree of link between future wage increases and benefits to be paid in respect of past services. In contrast, when the plan amendment relates to past services and leads to a reduction in the present value of defined plan obligation, the amendment will meet the definition of negative past service cost. That is, the amendment stipulates that when a plan amendment reduces the benefits to which the employee is entitled, the effect of the reduction in respect of future services falls under the definition of curtailment, whereas the reduction in benefits to which the employee is entitled in respect of past services constitutes negative past service costs.

The amendments will apply on changes in benefits that occurred as of January 1, 2009 and are to be applied prospectively. Early implementation is permitted.

b. Plan management costs

The amendment cancels the existing inconsistency and changes the definition of Return on Plan Assets .

The defined was amended so as to clarify that plan management costs should be deducted from the calculation of the return on plan assets only to the extent that they are not included in the actuarial assumptions used to measure the liabilities in respect of a defined benefit.

The amendment shall apply to annual reporting periods commencing on January 1, 2009 and shall be applied prospectively. Early implementation is permitted.

c. **Amendments to the definitions of Short-term Employee Benefits and Other Long-term Employee Benefits**

Short-term employee benefits are employee benefits which fall due wholly within twelve months after the end of the period in which the employees render the related service.

Other long-term employee benefits are employee benefits which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

As a result, there was a lack of clarity regarding the method of classification of employee benefits, such as absence of payment to which the employee is entitled, but which is not expected to be used within 12 months of the end of the period.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Z. Adoption of new and revised Standards and interpretations (cont.)

(3) Improvement to International Financial Reporting Standards (IFRS) 2008 (cont.)

Under the amendment, the definitions of short-term employee benefits and long-term employee benefits were changed so as to determine that for the purpose of establishing whether the employee benefit is short term or long term, the expected date of using the benefit should be examined. As a result, entities will have to examine the need to bifurcate employee benefits, such as entitlement to compensation in respect of short-term absences, into the aforementioned two categories.

The amendment shall apply to annual reporting periods commencing on January 1, 2009 and shall be applied prospectively. Early implementation is permitted.

Amendment of IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements

This amendment stipulates, *inter alia*, the method of measurement of investments in subsidiaries, companies under joint control and associated companies on the date of the first-time adoption of IFRS and the method of recognition of revenue from dividends received from said companies. The provisions of the amendment apply to the separate financial statements of the entity.

The provisions of the amendment apply to annual reporting periods commencing on January 1, 2009.

The Company elected for an early adoption of the amendment to IFRS 1 (hereinafter IFRS 1) which permits an entity, for presentation in the separate financial statements, to measure the company s investments in subsidiaries and in associated companies at deemed cost as of January 1, 2007.

Amendment of IAS 39 Financial instruments: Recognition and Measurement

The amendment, *inter alia*, stipulates that inflation may be hedged if changes in inflation are a contractually specified portion of cash flows of a recognized financial instrument. The amendments make clear that the intrinsic value, not the time value of acquired options, can be used as a hedging instrument of a one-sided risk arising from a forecast transaction. The provisions of the amendment apply to annual reporting periods commencing on January 1, 2010 or thereafter. Early adoption of the amendment is permitted.

At this stage, the company s management is unable to estimate the effect of implementing the amendment on its financial condition and operating results.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A. General

In the application of the Group s accounting policies, which are described in Note 2 above, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

B. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management have made in the process of applying the entity s accounting policies and that have the most significant effect on the amounts recognized in financial statements:

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.

Approximation of length of life of items of fixed assets- each period, the company s management evaluates salvage values, depreciation methods and length of useful lives of the fixed assets.

Measuring provisions and contingent liabilities and contingent liabilities- see C(1) below.

Measuring obligation for defined benefits and employee benefits- see C(2) below.

Measuring share based payments- see NOTE 10 below.

Measuring the fair value of an option to sell shares of an associated company see C(3) below.

Measuring the fair value on account of the allocation of the cost of acquisition see C(4) below.

C. Key sources of estimation uncertainty .

1. Provisions for legal proceeding

Against the company and its subsidiaries there are 5 claims pending and open in a total amount of approximately NIS 10,680 thousands (December 31, 2007: NIS 23,124 thousands), in respect of them a provision was credited in a sum of NIS 28 thousands (December 31, 2007: NIS 300 thousands was recorded). For purposes of evaluating the legal relevance of these claims, as well as determining the reasonableness that they will be realized to its detriment, the company s

management relies on the opinion of legal and professional advisors. After the company s advisors expound their legal position and the probabilities of the company as regards the subject of the claim, whether the company will have to bear its consequences or whether it is will be able to rebuff it, the company approximates the amount which it must record in the financial statements, if at all.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)

C. Key sources of estimation uncertainty (cont.)

1. Provisions for legal proceeding (cont.)

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.

2. Employee benefits

The present value of the company s obligation for the payment of benefits to pensioners and severance pay to employees that are not covered under Section 14 to the Severance Pay Law is based upon a great amount of data, which are determined on the basis of an actuarial estimation, through the utilization of a large number of assumptions, including the capitalization rate. Changes in the actuarial assumptions could affect the book value of the obligation of the company for employees benefits payments, vacation and severance pay. The company approximates the capitalization rate once annually, on the basis of the capitalization rate of government bonds. Other key assumptions are determined on the basis of conditions present in the market, and on the basis of the cumulative past experience of the company.

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

As stated in note 2P (2), 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 objective as possible, but at the same time the process of establishing the fair value includes some objective 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.

4. Measurement at fair value on account of the allocation of the cost of acquisition

For the purpose of allocating the cost of acquisition and determining the fair value of the tangible and intangible assets and the liabilities of the consolidated subsidiaries at the date of consolidation, the Company s management based itself primarily on valuations prepared by external and independent real-estate appraisers and assessors, possessing the required know-how, experience and expertise.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)

C. Key sources of estimation uncertainty (cont.)

4. Measurement at fair value on account of the allocation of the cost of acquisition (cont.)

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

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

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

For additional details regarding the Group s use of measurement of fair value on account of the allocation of cost of acquisition, see Note 15.

NOTE 4 INVESTMENTS IN ASSOCIATED COMPANIES:

a. Details of Subsidiaries and Associated Companies

	Percentage of direct and indirect holding in shares conferring equity and voting rights
	%
Main subsidiaries: *	
Amnir Recycling Industries Limited	100.00
Graffiti Office Supplies and Paper Marketing Ltd.	100.00
Attar Marketing Office Supplies Ltd.	100.00
Hadera Paper Industries Ltd.	100.00
Carmel Container Systems Limited	89.30
Frenkel C.D. Limited**	52.74
Main associated companies:	
Hogla-Kimberly Ltd.	49.90
Mondi Hadera Paper Ltd.	49.90

* Not including dormant companies.

** Frenkel C.D. Limited is partly held through the Company in the rate of 27.85% and partly held through Carmel Container Systems Limited (in the rate of 24.86%) the holding in voting shares of C.D. Packaging Systems Limited is 52.74%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS IN ASSOCIATED COMPANIES: (cont.)

b. Investments in associated companies

The Company has a number of investments in associated companies, which are held either directly or through investee companies on December 31, 2008. The financial statements of significant associated companies Mondi Hadera Paper Ltd. (formerly Neusiedler Hadera Paper Ltd, NHP) and Hogla-Kimberly Ltd are attached to these financial statements.)The data for December 31, 2007 including also Carmel Containers System Ltd. and Frenkel C.D. Ltd. Since September 1 2008, the company consolidate Carmel Containers System Ltd. and Frenkel C.D. Ltd data, see note 15 below)

1. Composed as follows:

	December 31	
	2008	2007
	NIS in thousands	
Investment in Shares:		
Cost	1,875	7,325
Gain on issuance of shares of an associated company to a third party	40,241	40,241
Adjustments from translation of foreign currency financial statements	(22,186)	3,810
Share in cash flow hedging capital	(2,426)	(635)
Share in Actuarial losses	(307)	-
Share in profits since acquisition, net	247,935	241,008
	265,132	291,749
Long-term loans and capital notes *	52,969	54,654
	318,101	346,403

* Classified by linkage terms and rate of interest, the total amounts of the loans and capital notes are as follows:

	Weighted average interest rate at December 31, 2008	December 31	
		2008	2007
	%	NIS in thousands	
Capital notes in dollars		-	2,698
Unlinked loans and capital notes	5.3%	52,969	51,956
		52,969	54,654

As of December 31, 2008, the repayment dates of the balance of the loans and capital notes have not yet been determined.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS IN ASSOCIATED COMPANIES: (cont.)

2. **The changes in the investments during 2008 are as follows:**

	NIS in thousands
Balance at the beginning of the year	346,403
Changes during the year:	
Share in profits of associated companies - net	51,315
increase in the share of holding from associated companies to subsidiaries	(49,839)
Differences from translation of foreign currency financial statements	(25,996)
Share in capital surplus of hedging cash flows at associated companies	(1,790)
Share in capital surplus from recording actuarial gains to reserves	(307)
Decrease in balance of long-term loans and capital notes - net	(1,685)
Balance at end of year	318,101

3. **Mondi Hadera Paper Ltd.** (hereafter - Mondi Hadera; formerly Neusiedler Hadera Paper Ltd. NHP):

Mondi Hadera is held to the extent of 49.9% by the Company and also by Mondi Business Paper LTD (hereafter MBP), As part of an agreement dated November 21, 1999 with Mondi Business Paper (hereafter MBP, formerly Neusiedler AG), Mondi Hadera purchased the operations of the Group in the area of writing and typing paper and issued 50.1% of its shares to MBP.

As part of this agreement, MBP was granted an option to sell its holdings in Mondi Hadera to the company, at a price 20% lower than its value (as defined in the agreement) or $ 20 million less 20%, whichever is higher. According to oral understandings between persons in the company and persons in MBP, which were formulated in proximity to signing the agreement, MBP will exercise the option only in extremely extraordinary circumstances, such as those which obstruct manufacturing activities in Israel over a long period.

In view of the extended period which has passed 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. The total value of the option as of December 31, 2008, is NIS 13.9 million and as of December 31, 2007 is 3.9 million.

4. **Hogla-Kimberly Ltd.** (hereafter Hogla-Kimberly)

Hogla-Kimberly is held to the extent of 49.9% by the Company and to the extent of 50.1% by Kimberly Clark Corporation (hereafter- KC).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 FIXED ASSETS:

a. Composition of assets and the accumulated depreciation thereon, grouped by major classifications, and changes therein during 2008, are as follows:

	Cost					Accumulated depreciation					Depreciated balance
											December 31
	Balance at beginning of year	Additions during the year	Disposals during the year	Initial Consolidation	Balance at end of year	Balance at beginning of year	Additions during the year	Disposals during the year	Initial Consolidation	Balance at end of year	2008
	NIS in thousands										
Land and buildings thereon	207,001	2,393	25	19,888	229,257	114,653	2,478	-	13,925	131,056	98,201
Machinery and equipment	762,771	31,147	1,997	488,341	1,280,262	529,195	44,187	1,496	344,147	916,033	364,229
Vehicles	35,245	6,617	903	6,902	47,861	21,311	4,248	872	6,073	30,760	17,101
Office furniture and equipment (including computers)	72,417	2,779	8	23,183	98,371	51,310	2,478	8	21,720	75,500	22,871
Payments on account of machinery and equipment, net	21,782	216,921	-	142	238,845	-	-	-	-	-	238,845
Spare parts - not current, net	22,484	3,811	-	-	26,295	-	-	-	-	-	26,295
	1,121,700	263,668	2,933	538,456	1,920,891	716,469	53,391	2,376	385,865	1,153,349	767,542

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 FIXED ASSETS: (cont.)

a. Composition of assets and the accumulated depreciation thereon, grouped by major classifications, and changes therein during 2007, are as follows:

Cost **Accumulated depreciation**

	Balance at beginning of year	Additions during the year	Disposals during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Disposals during the year	Balance at end of year	Depreciated balance December 31 2007
	NIS in thousands								
Land and buildings thereon	191,237	15,863	99	207,001	111,248	3,557	154	114,651	92,350
Machinery and equipment	702,206	80,592	20,027	762,771	512,044	25,658	8,505	529,197	233,574
Vehicles	35,339	5,228	5,322	35,245	23,049	3,409	5,147	21,311	13,934
Office furniture and equipment (including computers)	70,847	2,377	807	72,417	59,379	2,125	10,194	51,310	21,107
Payments on account of machinery and equipment, net	49,329	(27,547)	-	21,782	-	-	-	-	21,782
Spare parts - not current, net	22,705	-	221	22,484	-	-	-	-	22,484
	1,071,663	76,513	26,476	1,121,700	705,720	34,749	24,000	716,469	405,231

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 FIXED ASSETS: (cont.)

b. The item is net of investment grants in respect of investments in approved enterprises .

c. Depreciation expenses amounted to NIS 53,391 thousands and NIS 34,749 thousands NIS for the years ended December 31, 2008 and 2007 respectively.

d. As of December 31, 2008 and 2007, the cost of fixed assets includes borrowing costs of NIS 27,071 thousands and NIS 1,007 thousands capitalized to the cost of machinery and equipment for the years ended December 31, 2008 and 2007, respectively.

e. As of December 31, 2008 and 2007, the cost of fixed assets includes payroll costs of NIS 1,987 thousands and NIS 2,168 thousands capitalized to the cost of machinery and equipment for the years ended December 31, 2008 and 2007, respectively.

f. For details of rights in lands see note 6 as follows.

NOTE 6 RIGHTS LANDS:

The Company s real estate is partly owned and partly leased and some lease fees have been capitalized. The leasehold rights are for 49-57 year periods ending in the years 2008 to 2059, with options to extend for an additional 49 years.

Details as of December 31, 2008:

NIS in thousands

	NIS in thousands
Land owned	50,226
Property under capitalized lease (lease rights for the period ending on 2059).	24,438
Property under non-capitalized lease (lease rights for different periods ending in 2049).	11,906
	86,570

Presented in the balance sheets as follows:

	December 31	
	2008	2007
	NIS in thousands	
Fixed assets	50,226	45,172
Expenditure for lease	36,344	34,900
	86,570	80,072

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 OTHER INTANGIBLE ASSETS:

a. **Composition and changes are as follows:**

	Software	Order backlog	Goodwill	Portfolio of Customers	Total
	NIS in thousands				
Cost					
Balance at January 1, 2008	-	-	-	4,147	**4,147**
Purchase of intangible assets	178	-	-	1,750	**1,928**
Initial Consolidation	1,199	3,082	599	29,095	**33,975**
Balance at December 31, 2008	**1,377**	**3,082**	**599**	**34,992**	**40,050**
Cost					
Balance at January 1, 2007	-	-	-	4,147	**4,147**
Balance at December 31, 2007	**-**	**-**	**-**	**4,147**	**4,147**

	Software	Order backlog	Goodwill	Portfolio of Customers	Total
Accumulation amortization and impairment:					
Balance at January 1, 2008	-	-	-	2,569	**2,569**
Deduction	334	3,082		1,799	**5,215**
Initial Consolidation	747	-	-	-	**747**
Balance at December 31, 2008	**1,081**	**3,082**	**-**	**4,368**	**8,531**
Accumulation amortization and impairment:					
Balance at January 1, 2007	-	-	-	1,864	**1,864**
Deduction	-	-	-	705	**705**
Balance at December 31, 2007	**-**	**-**	**-**	**2,569**	**2,569**
Amortized cost:					
December 31, 2008	296	-	599	30,624	**31,519**
December 31, 2007	-	-	-	1,578	**1,578**

b. Amortization of intangible assets is presented in the statement of income under the following items:

	Year ended December 31	
	2008	**2007**
	NIS in thousands	
Selling and marketing expenses	970	-
Cost of sales	3,082	-
General and administrative expenses	1,163	705

c. Additional information:

The Group has a list of customers that was created internally. This list is a significant asset for the group, but at the same time is not recognized as an asset in the group s financial statements, since the list, which was created internally, does not meet the criteria for asset recognition.

As for testing the impairment of other intangible assets see note 2L above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 FIINANCIAL LIABILITIES:

a. Notes

	December 31					
	2008				2007	
	NIS in thousands					
	Series IV	Series III	Series II	Series I	Series II	Series I
Balance *	235,557	190,541	158,559	7,422	182,052	14,098
Less - current maturities	-	-	31,712	7,422	30,342	7,049
	235,557	190,541	126,847	-	151,710	7,049

Distribution according to repayment dates as of December 31, 2008:

	Nis in thousands
1st year - Current maturity	39,134
2nd year	92,142
3rd year	92,142
4th year	92,142
5th year	92,144
6th year and forward	184,375
	592,079 *

* The aforementioned detailed balance does not include deferred issuance expenses in the amount of NIS 1,179 thousands (as of December 31, 2007 NIS 625 thousand) which were deducted from the bonds balance.

1) Series I May 1992

The balance of the notes as of December 31, 2008 is redeemable in one installment, due in June 2009. The installment amounting to 6.66% of the original par value of the notes, which is NIS 105,055 thousands, in December 2008 terms; the unpaid balance of the notes bears annual interest of 3.8%, payable annually each June. The notes principal and interest are linked to the Israeli known CPI (base CPI of February 1992).

2) Series II December 2003

The balance of the notes as of December 31, 2008 is redeemable in 5 equal, annual installments due in December of each of the years 2009-2013; the unpaid balance of the notes bears annual interest of 5.65%, payable annually each December. The notes principal and interest are linked to the Israeli known CPI (based CPI of November 2003).

3) Series III and IV July August 2008

On July 14, 2008 the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008 of two new series of debentures. The Company has offered an aggregate principal amount of NIS 187,500 thousands of debentures (Series 3 CPI linked) issued in return for approximately NIS 187,500 thousands bearing an interest rate of 4.65% and payable annualy each on July 10th of the years 2010-2018. In addition the company has offered an aggregate principal amount of NIS 120,560 thousands of (Series 4) debentures issued in return for approximately NIS 120,560 thousands bearing an interest rate of 7.45% and payable annualy each on July 10th of the years 2010-2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 NOTES AND OTHER LONG-TERM LIABILITIES: (cont.)

a. Notes: (cont.)

3) Series III and IV July August 2008 (cont.)

The net proceeds of the offering net of issue expenses are NIS 306,000 thousands.

On August 14, 2008 the Company raised of (Series 4) debentures according to the shelf prospectus published by the Company in Israel on May 26, 2008. The company issued NIS 114,997 thousands of Series 4 debentures issued in return for approximately NIS 119,800 thousands bearing an interest rate of 7.45%. The net proceeds of the offering net of issue expenses are NIS 119,167 thousands.

4) As of December 31, 2008 the balance of the notes amounts to NIS 554,124 thousands, is after deduction of issuance costs.

b. Credit from bank and others

1) Composition of financial liabilities measuring at depreciated balance:

	Yearly Interest Rate	Current Liabilities As of December 31		Non-Current Liabilities As of December 31		Total As of December 31	
	31/12/08	2008	2007	2008	2007	2008	2007
	%	NIS in thousands		NIS in thousands		NIS in thousands	
Banks:							
Credit from banks	3.8%-4.5%	77,655	143,015	-	-	77,655	143,015
Loans:							
linked to the CPI	3.8%-5.65%	11,060	-	24,212	-	35,272	-
Unlinked	3.8%-7.45%	26,275	5,384	97,698	28,127	123,973	33,511
Total financial liabilities measured at amortized cost		114,990	148,399	121,910	28,127	236,900	176,526

2) Distribution according to repayment dates as of December 31, 2008:

	NIS in thousands
1st year - Current maturities of long-term loans	37,335
2nd year	36,096
3rd year	36,028
4th year	31,123
5th year	15,122
6th year and forward	3,541
	159,245

c. Financial Parameters and Covenants

The Company has no financial covenants vis-à-vis the banks. However, in relation to long-term loans to the bank, from a company that was associated until August 31, 2008, and that was consolidated for the first time on September 1, 2008, whose balance as at December 31, 2008, amounts to a total sum of NIS 19,316 thousands, the consolidated subsidiary undertook toward the bank, inter alia, that the ratio of tangible shareholders equity of the company to the balance sheet total will not fall below 19%.

The said consolidated subsidiary fails to meet the aforesaid financial covenants, yet the bank nevertheless agreed, true to the balance sheet date, to delay the exercise of its rights pursuant to the letter of undertaking, provided that the company will forward the bank signed financial statements for the year 2008, by May 31, 2009, and will make available to the bank by that date, collateral and security at a sum that will not fall below the sum necessary in order to supplement the tangible shareholders equity, until such time that the financial covenants are met. The Company believes that the consolidated subsidiary will meet these covenants.

d. Other financial liabilities

Other financial liabilities include capital note from an associated company. The capital note is unlinked and interest free. The associated company intend to demand the repayment of the capital note till March 31, 2009, and due to the abovementioned intention, as of December 31, 2008, the capital note was classified to current liabilities .

NOTE 9 EMPLOYEE BENEFITS

a. Composition

	As of December 31	
	2008	2007
Post Employment Benefits at defined benefit plan:		
Benefits to retirees	7,632	8,117
Severance pay and retirement liability (asset)	3,560	(861)

	As of December 31	
	11,192	7,256
Other long term employee benefits:		
Benefits for unused vacation	16,360	11,603
Severance pay benefits	3,734	2,645
	31,286	21,504
Short term employee benefits:		
Salaries and wages, payroll and social benefits	27,711	17,722
Profit-sharing and bonus plans	15,766	10,522
	43,477	28,244
Stated in the balance sheet as follows:		
Employee benefit assets:		
Current assets	-	-
Non-current assets	624	861
	624	861
Employee benefit liabilities:		
Current liabilities - part of other payables and accrued expenses -see note 13 d (2)	43,477	28,244
Non-current liabilities	31,910	22,365
	75,387	50,609

b. Post Employment Benefits

(1) Defined benefit plan

Plans for Severance pay obligations

Labor laws and the severance pay law in Israel and abroad require companies in the Group to pay severance benefits to employees who are dismissed, resign or retire from their employment under different specific circumstances. Liabilities for employee severance benefits are calculated pursuant to the employment agreement in effect at the time of their employment and based on the employee s wages which, in management s opinion, creates entitlement to the severance benefits, taking into consideration the number of years of employment.

The Company and its subsidiaries have an approval from the Ministry of Labor and Welfare in accordance with Section 14 of the Severance Pay Law, 1963, pursuant to which its regular deposits with pension funds and/or insurance policies, exempt it from any further obligation to employees, in respect of whom the aforementioned deposits were made. The Group deposits 8.33%-11.33% of the monthly wages of its employees in different benefit plans. The Groups has no legal or implied obligation to make additional payments if the plan will not have sufficient assets to pay the entire employee benefits relating to the employee s service during current and past periods. The total amount of the expenses recognized in the statement of income in respect of defined benefit plans in the year that ended on December 31, 2008 is NIS 15,889 thousands (2007 NIS 15,249 thousands).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 EMPLOYEE BENEFITS: (cont.)

b. Post Employment Benefits (cont.)

(2) Plans for defined deposit

(1) General

Labor laws and the severance pay law in Israel and abroad require companies in the Group to pay severance benefits to employees who are dismissed, resign or retire from their employment under different specific circumstances. Liabilities for employee severance benefits are calculated pursuant to the employment agreement in effect at the time of their employment and based on the employee s wages which, in management s opinion, creates entitlement to the severance benefits, taking into consideration the number of years of employment.

The defined benefit liability was measured using actuarial assessments. The present value of the defined benefit liability and the related costs of current service and past service were measured using the projected unit credit method.

Assumptions regarding future mortality rates are based on statistic data and mortality tables published by the Commissioner of the Capital Market in the Ministry of Finance in Pension Circular 2007-3-6, which are adjusted as of December 31, 2001. The average life expectancy for men that retired at the age of 67 is 17.4 while the average life expectancy for women that retired at the age of 62-64 is 22.5-24.3.

The projected rate of return on plan assets is based on a nominal rate of return that varies according to the type of fund.

(2) Changes in the current value of the liability in respect of a defined benefit plan

	For the year ended December 31	
	2008	**2007**
	NIS in thousand	
Open Balance	2,440	1,982
Current service cost	505	224
Interest rate cost	318	80
Actuarial losses	260	336
Paid-up benefits	(1,148)	(182)
Liabilities assumed in business combinations	19,646	-
Other	(28)	-
Closing balance	21,993	2,440

(3) Changes in the fair value of plan assets

	2008	**2007**

	2008	2007
	NIS in thousand	
Opening balance	2,440	1,473
Projected return on plan assets	231	60
Actuarial profits (losses)	(1,478)	604
Deposits by the employer	799	429
Paid-up benefits	(851)	(126)
Assets acquired in business combinations	16,950	-
Other	(282)	-
Closing balance	17,809	2,440

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 EMPLOYEE BENEFITS: (cont.)

c. Other long-term employee benefits

(1) General

Other long-term employee benefits are benefits which are expected to be utilized or which are payable during a period greater than 12 months from the end of the period in which the entitling service was provided.

Other employee benefits in the Company include liabilities in respect of vacation pay. These benefits are included in the statement of income in accordance with the Projected Unit Credit Method, while using actuarial assessments at each balance sheet date. The current value of the Company s liability for vacation pay is determined by discounting the projected future cash flows from the plan based on market yields of government bonds, which are stated in the currency in which vacation pay benefits will be paid, whose terms to maturity are identical to the projected vacation payment dates.

Profits and losses are carried to the income statement as incurred. Past service cost is immediately recognized in the Company s financial statements.

(2) Changes in the current value of the liability in respect of other long-term employee benefits

	2008	2007
	NIS in thousand	
Opening balance	19,720	18,913
Current service cost	(183)	1,038
Interest rate cost	1,159	1,034
Actuarial profits	(613)	-
Paid-up benefits	(1,484)	(1,265)
Liabilities assumed in business combinations	5,393	-
Closing balance	23,992	19,720

	2008	2007

d. **Main actuarial assumptions as of the balance sheet date of post employment benefits and other long term benefits**

	As of December 31	
	2008	2007
	%	%
Discount rate	6.07%	3.6%
Projected rates of return regarding asset plan	4.1%-6.2%	3.9%-5.95%
Projected rates of salary increases	4.25%	4.25%
Churn and departure rates	2%-36%	4.5%-25%

e. **Severance pay benefits**

The benefits include liability in respect of retirement grant to the company s CEO (see note 12c) and include early retirement liability.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 EMPLOYEE BENEFITS: (cont.)

f. **Amounts recognized in the statement of income in respect of employee benefit plans (in respect of post employment benefits and other long term benefits)**

	For the year ended December 31	
	2008	2007
	NIS in thousand	
Current service cost	406	1,089
Interest rate cost	1,494	1,114
Projected yield on the plan's assets	(232)	(63)
Effect of any reduction or settlement	(1,935)	(1,289)
	(267)	851

The expense was included in the following items:

Cost of sales	(1,425)	187
Selling expenses	97	(79)
Administrative and general expenses	(299)	(196)

	For the year ended December 31	
Financing expenses	1,263	1,051
Capitalized amounts	97	(112)
	(267)	851

NOTE 10 SHAREHOLDERS EQUITY:

a. Share capital

Composed of ordinary registered shares of NIS 0.01 par value, as follows:

		December 31	
		2008	2007
	Authorized	Issued and paid	
Number of shares of NIS 0.01	20,000,000	5,060,774	5,060,774
Amount in NIS	200,000	50,608	50,608

The shares are traded on stock exchanges in Tel-Aviv and in the U.S. (AMEX). The quoted prices per share, as of December 31, 2008 are NIS 109.1 and $ 28.5 (NIS 108.4), respectively.

As part of the Company s arrangement for the financing of the acquisition of the new machine for the manufacture of packaging paper in November 2007, the Company performed a private allotment of 1,012,585 ordinary shares of NIS 0.01 par value of the Company, which, as of the date of allotment, accounted for 20% of the issued share capital of the Company against an investment in the total sum of NIS 213 million (hereinafter in this section: the raised amount). About 60% of the shares (607,551 shares) were allotted to the shareholders in the Company, Clal Industries and Investments and Discount Investments (hereinafter: the special offerees), in accordance with the pro-rata holdings in the Company, and 40% of the shares (405,034 shares) were offered by way of a tender to institutional entities and private entities. The price per share for institutional entities and private entities as determined in the tender was NIS 210. Accordingly, the price per share for Clal Industries and Investments and Discount Investments considering the amount of shares offered to Clal Industries and Investments and Discount Investments, was set at NIS 211.05 (the price per share in the tender plus a rate of 0.5%).

NOTE 10 SHAREHOLDERS EQUITY: (cont.)

a. Share capital (cont.)

The company paid the distributors a rate of 1.2% of the total consideration received from institutional entities and private entities, that is, a sum of NIS 1,021 thousands.

The share capital was increased as a result from this issuance in amounts of NIS 10 thousands and the capital surplus that divided from the issuance in deduction of cost issuance as mentioned above amounts of NIS 211,635 thousands.

b. Employee stock option plans:

1) The 2001 plan for senior officers in the Group

On April 2, 2001, the Company s board of directors approved a stock option plan for senior officers in the Group (hereafter the 2001 plan for senior officers). Under this plan, 194,300 options were allotted on July 5, 2001 without consideration. Each option can be exercised to purchase one ordinary share of NIS 0.01 par value of the Company. The options are exercisable in four equal annual batches. The blocking period of the first batch is two years, commencing on the date of grant; the blocking period of the second batch is three years from the date of grant, and so forth. Each batch is exercisable within two years from the end of the blocking period.

The exercise price of the options granted as above was set at NIS 217.00, linked to the CPI, on the basis of the known CPI on April 2, 2001. The exercise price for each batch is determined as the lesser of the aforementioned exercise price or the average price of the Company s shares as quoted on the Tel-Aviv Stock Exchange (hereafter - the Stock Exchange) during the thirty trading days preceding to the effective date of each batch, less 10%. The 2001 plan for senior officers expired during July 2007.

In 2007, 35,425 options, were exercised under the 2001 plan for senior officers, and 15,466 shares of NIS 0.01, were issued following the exercise of the options, as above.

This plan is designed to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Inter alia, these terms provide that the Company is allowed to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plan.

The amount allowed as an expense for tax purposes, at the time the employee utilizes such benefit, is limited to the amount of the benefit that is liable to tax as labor income, in the hands of the employee; all being subject to the restrictions specified in Section 102 of the Income Tax Ordinance.

Since the Company did not recognize the expense in its books (as part of selecting the relief allowed by IFRS 1, under which the provisions of IFRS 2, regarding options which were granted before November 7, 2002 and which vested prior to the transition date, shall not be implemented retroactively see note 2a(2)), the Company credited the tax saving derived from the exercise of benefits by employees in the 2007 to capital surplus.

2) The 2008 plan for senior officers in the Group

In January 2008, the Board of Directors of the Company approved a program for the allotment, for no consideration, of non marketable options to the CEO of the company, to employees and officers of the company and investees. In the context of the program, an allotment of 285,750 options was approved, of which 40,250 options were to the CEO of the company, 135,500 to management of the subsidiaries and 74,750 to management of the affiliates.

NOTE 10 SHAREHOLDERS EQUITY: (cont.)

b. Employee stock option plans: (cont.)

2) The 2008 plan for senior officers in the Group (cont.)

The granting date of the options was determined to January-March 2008, pursuant to the restrictions of Section 102 (equity track) of the Income Tax Ordinance.

On May 11, 2008, the board of directors of the company approved the allotment to a trustee of the balance of the options that had not been allotted through that date, in the amount of 35,250 options as a pool for the future grant to officers and employees of associated companies, subject to the approval of the board of directors.

On January 9, 2009, 34,000 options have been allotted from the allotted options of the trustee to associated company's officers. On December, 31, 2008, there are 1,250 options existing at the trustee.

Each option is exercisable into one ordinary share of the company with NIS 0.01 par value against the payment of an exercise increment in the amount of NIS 223.965. The options will vest in installments as follows: 25% of the total options will be exercisable from January 14, 2009; 25% of the total options will be exercisable from January 14, 2010; 25% of the total options will be exercisable from January 14, 2011; and 25% of the total options will be exercisable from January 14, 2012. The vested options are exercisable through January 14, 2012, 2013, 2014 for the first and second, third and fourth portions, respectively.

The cost of the benefit embedded in the allotted options as above, on the basis of the fair value as of the date they are granted, was approximated to be the amount of approximately NIS 13.5 million. This amount was charged to the statement of operations over the vesting period. The debt for the grant to officers of the affiliates will be paid in cash.

The fair value of the options granted as aforementioned was estimated by applying the Black and Scholes model. In this context, the effect of the terms of vesting will not taken into account by the company, other than the market condition of fair value of the capital instruments granted.

The parameters which were used for implementation of the model are as follows:

Share price (NIS)	245.20-217.10
Exercise price (NIS)	223.965
Anticipated volatility (*)	27.04%
Length of life of the options (years)	3-5
Non risk interest rate	5.25%

(*) The anticipated volatility is determined on the basis of historical fluctuations of the share price of the company. The average length of life of the option was determined in accordance with management s forecast as to the holding period by the employees of options granted to them, in consideration of their functions in the company and past experience of the company with employees leaving.

3) Additional details of options granted to employees

	2008		2007	
	No. Of options	**Weighted average the of exercise price**	**No. Of options**	**Weighted average of the exercise price**
Options granted to employees which:				
Outstanding at the start of the period	-		35,425	127.35
Granted	250,500	223.96	-	
Forfeited	(4,250)	223.96	-	
Exercised	-		(35,425)	119.76
Expired	-		-	
Outstanding at the end of the period	246,250	223.96	-	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 SHAREHOLDERS EQUITY: (cont.)

	Share capital	Premium on shares	Capital reserves resulting from tax benefit on exercise of employee options	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Minority Interests	Total
	NIS in thousands								
Year ended December 31, 2007									
Balance - January 1, 2007	**125,257**	**90,060**	**2,414**	**-**	**-**	**204,902**	**422,633**	**-**	**422,633**
Issuance of shares (deduction of cost issuance in the amount of NIS 1,581 thousands)	10	211,635	-	-	-	-	211,645	-	211,645
Exchange differences arising on translation of foreign operations	-	-	-	-	3,810	-	3,810	-	3,810
Cash flow hedges	-	-	-	(635)	-	-	(635)	-	(635)
Exercise of employee options into shares	-	-	983	-	-	-	983	-	983
Profit for the year	-	-	-	-	-	31,535	31,535	-	31,535
Balance - December 31, 2007	**125,267**	**301,695**	**3,397**	**(635)**	**3,810**	**236,437**	**669,971**	**-**	**669,971**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 SHAREHOLDERS EQUITY: (cont.)

Share capital	Premium on shares	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Minority Interests	Total

	Share capital	Premium on shares	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Minority Interests	Total
	NIS in thousands										
Year ended December 31, 2008											
Balance - January 1, 2008	**125,267**	**301,695**	**-**	**3,397**	**-**	**(635)**	**3,810**	**236,437**	**669,971**	**-**	**669,971**
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(25,996)	-	(25,996)	-	(25,996)
Cash flow hedges	-	-	-	-	-	(4,457)	-	-	(4,457)	360	(4,097)
First-time transition into consolidation		-		-	17,288	-	-	-	17,288	28,084	45,372
Amortization of the revaluation fund on account of step acquisitionto retained earnings	-	-	-	-	(1,380)	-	-	1,380	-	-	-
Actuarial profits and losses carried to retained earnings	-	-	-	-	-	-	-	(1,430)	(1,430)	(378)	(1,808)
Share based payment	-	-	6,227	-	-	-	-	-	6,227	-	6,227
Profit for the year	-	-	-	-	-	-	-	69,710	69,710	(1,750)	67,960
Balance - December 31, 2008	**125,267**	**301,695**	**6,227**	**3,397**	**15,908**	**(5,092)**	**(22,186)**	**306,097**	**731,313**	**26,316**	**757,629**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 INCOME TAX CHARGE

a. Deferred income taxes

The composition of the deferred taxes assets (liabilities) at balance sheet dates, and the changes therein during the years 2008 and 2007, are as follows:

	Balance at January 1, 2007	Recognized in profit and loss	Balance at December 31, 2007	Recognized in profit and loss	Recognized in equity	Initial Consolidation	Balance at December 31, 2008
	NIS in thousands						

	Balance at January 1, 2007	Recognized in profit and loss	Balance at December 31, 2007	Recognized in profit and loss	Recognized in equity	Initial Consolidation	Balance at December 31, 2008
Temporary differences							
Hedging cash flow	-	-	-	-	(1,240)	1,040	(200)
Intangible assets	-	-	-	1,075	-	(8,106)	(7,031)
Fixed assets	(41,613)	1,098	(40,515)	(686)	-	(28,209)	(69,410)
Employee benefits provisions	4,882	808	5,690	396	700	1,495	8,281
Doubtful debts	5,575	(382)	5,193	(178)	-	915	5,930
Spare parts inventory	(1,147)	875	(272)	374	-	(271)	(169)
Other	-	-	-	-	171	41	212
	(32,303)	**2,399**	**(29,904)**	**981**	**(369)**	**(33,095)**	**(62,387)**
unutilized losses and tax benefits							
losses for tax purposes	**9,413**	**598**	**10,011**	**3,182**	**-**	**2,401**	**15,594**
Total	**(22,890)**	**2,997**	**(19,893)**	**4,163**	**(369)**	**(30,694)**	**(46,793)**

Deferred taxes are presented in the balance sheets as follows:

	December 31	
	2008	2007
	NIS in thousands	
Among non-current assets - Deferred tax assets	29,848	20,622
Among non-current liabilities - Deferred tax liabilities	(76,641)	(40,515)
Total	(46,793)	(19,893)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 INCOME TAX CHARGE (cont.)

a. Deferred income taxes (cont.)

The Group anticipates the existence of taxable income in future periods apart from profits that will arise from the reversal of taxable temporary differences. The Group also recognized losses for tax purposes, which are expected to be utilized in the next few years against capital gains. As a result of the aforesaid, deferred tax assets were created.

b. Amounts in respect of which deferred tax assets were not recognized

	December 31	
	2008	**2007**
	NIS in thousands	
Real losses from securities	11,786	11,786
Capital losses for tax purposes	4,986	13,482
Total	**16,772**	**25,268**

Expiration dates: in accordance with the tax laws in effect, there is no expiration date for the utilization of losses for tax purposes. The Company does not anticipate any profits in the foreseeable future that will allow it to utilize these losses and has therefore not created deferred tax assets in respect thereof.

c. Taxes on income recognized in the Capital and reserves:

	December 31	
	2008	**2007**
	NIS in thousands	
Deferred taxes		
Revaluations of financial instruments treated with cash flow hedge accounting	73	(265)
Actuarial profits and losses carried directly to shareholders' equity	(648)	-
	(575)	(265)
Transfers to profit and loss:		
Transfers to profit and loss in respect of hedge accounting.		
	570	7
Total taxes on income recognized in the capital and reserves	**(5)**	**(258)**

d. Tax expense (income) on income recognized in profit and loss

1) As follows:

	December 31	
	2008	**2007**
	NIS in thousands	
For the reported year:		
Current	7,826	20,408
Previous years	-	850
Deferred taxes in respect of the reporting period	(4,163)	(2,997)

	December 31	
	3,663	**18,261**

Current taxes in 2008 were computed at an average tax rate of 27%, 2007 - 29% and 2006- 31%, see (2) below.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 INCOME TAX CHARGE (cont.)

d. Tax expense (income) on income recognized in profit and loss: (cont.)

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular rate applicable to companies in Israel, as stated in d. above, and the actual tax expense:

	2008		**2007**	
	%	**NIS in thousands**	**%**	**NIS in thousands**
Income before taxes on income, as reported in the statements of income	100.0	20,308	100.0	48,940
Theoretical tax on the above amount	27.0	5,483	29.0	14,192
Tax increments (savings) due to:				
Adjustments due to tax rate changes	(3.9)	(803)	(1.7)	(859)
Losses for tax purposes on whose account deferred tax assets were not recognized in the past, yet for whom deferred taxes were recognized during the reported period	(10.4)	(2,103)	-	-
Differences at equity and non financial assets definition for the purpose of tax	-	-	4.9	2,400
Non-taxable income	(19.5)	(3,958)	-	-
Non-deductible expenses	22.8	4,629	1.0	486
Other differences, net	2.0	415	2.4	1,192
	(9.0)	(1,820)	6.6	3,219
Adjustments performed during the year in respect of prior years current taxes	-	-	1.7	850
Taxes on income as presented in profit and loss	**18.0**	**3,663**	**37.3**	**18,261**

e. Tax assessments

The Company and most of its subsidiaries have received final tax assessments through the year ended December 31, 2005.

f. **Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985** (hereafter the inflationary adjustments law)

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law (Inflation Adjustments) (Amendment 20) (Limitation of Term of Validity) 2008 (hereinafter: The Amendment), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention it is to prevent distortions in tax calculations.

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement.

Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

NOTE 11 INCOME TAX CHARGE (cont.)

g. **The Law for the Encouragement of Industry (Taxation), 1969**

The Company and certain consolidated subsidiaries are industrial companies as defined by this law. These companies claimed depreciation at accelerated rates on equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments law.

The Company also files consolidated tax returns with certain consolidated subsidiaries as permitted under this law.

h. **Tax rates applicable to income not derived from approved enterprises**

In accordance with Amendment No. 147 of the Income Tax Ordinance, 2005, a tax rate of 34% which is applicable to companies will be 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 2008, 2008 and 2009 is 29%, 27% and 26%, respectively).

NOTE 12 COMMITMENTS, CONTINGENT LIABILITIES:

a. Subsidiaries provided guarantees to various entities, in connection with tenders, in the aggregate amount of approximately NIS 9,294 thousands.

b. In accordance with the Companies Law, 1999, the Company issued new letters of indemnity to its officers in 2004, pursuant to which the Company undertakes to indemnify the officers for any liability or expense, for which indemnification may be paid under the law, that may be incurred by the officers in connection with actions performed by them as part of their duties as officers in the Company, which are directly or indirectly related to the events specified in the addendum to the letters of indemnity, provided that the total amount of indemnification payable to the officers, shall not exceed 25% of the Company s shareholders equity as per its latest financial statements published prior to the actual indemnification. The liability of officers in connection with the performance of their duties, as above, is partly covered by an insurance policy.

c. On May 13, 2007, the Company s Audit Committee and Board of Directors approved an employment contract with the Company s General Manager. The employment contract is not time-limited and consists of the following principal terms of employment: Monthly wages of NIS 95,000, linked to the Consumer Price Index (CPI) starting in 2007, an annual bonus equal to 6-9 monthly paychecks, to be determined at the discretion of the Company s Board of Directors. Retirement conditions In addition to the liberation of the funds accrued in the Managers Insurance, upon leaving his position, the general manager will receive a retirement

bonus equal to his last monthly paycheck prior to leaving his position multiplied by the number of years during which he was employed by the Company (starting August 1998), including advanced notice of 6 months in the event of termination or resignation and additional auxiliary conditions. It has to be noted that the amounts transferred tomanagerial insurance policies in respect of severance pay ,will include currentcompletion on basis of last monthly salary for each year of work in theGroup**.**

It should be noted that in proximity to the appointment of the General Manager, who entered his position in January 2005, a brief memorandum was drafted regarding the said employment, with terms similar to those mentioned above. This memorandum was not approved by the Company s Board of Directors and the Company s management, based on the opinion of legal counsel, is doubtful whether it is legally binding. The impact of the agreement was expressed in 2007 results and amount to NIS 1.6 million (net, after taxes) on account of the retirement terms.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 COMMITMENTS, CONTINGENT LIABILITIES: (cont.)

d. The Company converted during October 2007 its energy-generation plant in Hadera to using natural gas, instead of fuel oil.

In this capacity, the Company signed an agreement in London on July 29, 2005, with the Thetis Sea Group, 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 generation plants using cogeneration at the Hadera plant, when it will be converted for the use of natural gas, instead of the current use of fuel oil.The overall financial scope of the transaction totals $ 35 million over the term of the agreement (5 years from the initial supply of gas, but no later than July 1, 2011).

In this capacity the Company also contracted with Alstom Power Boiler Service gmbh, a manufacturer of equipment in the energy industry, in an agreement worth approximately 1.74 million, for the purchase of the systems needed for the conversion and assistance with their installation at the plant in Hadera. Up to December 31, 2008 the remainder of the agreement was worth approximately 0.2 million.

e. In the beginning of 2008, the Company has engaged in a contract with the main equipment suppliers for the new manufacturing facility of packaging papers (machine no. 8), for the total sum of 55.4 million. Some of the equipment supplied during 2008 and the rest will be supplied in the beginning of 2009.

f. In the last quarter of 2007, the Company signed an agreement with a gas company for the transmission of gas for a period of 6 years with a two-year extension option. The total financial value of the transaction is NIS 13.8 million.

g. In November 3, 2008, the general meeting of the company approved the validity of a lease agreement signed on September 8, 2008 between the Company and Gev-Yam Lands Ltd (hereinafter the lessor), a public company indirectly controlled by the controlling shareholder in the Company, pursuant to which the Company will rent a plot in Modiin, with a space of 74,500 square meters, and buildings that the lessor plans to build for the Company, covering a total space of 21,300 square meters, which will be used as a center for the purposes of logistics, industry and office (hereinafter the logistic center) for subsidiaries and associated companies of the Company and in part will substitute existing lease agreements. The term of the lease will be 15 years from the date of delivery of possession in the leased property in addition to which the Company will have an option to extend the lease by a further 9 years and 11 months. The cost of annual lease amounts to NIS 13.6 million linked to the Consumer Price Index for July 2008.

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

i. In September 2008 the Municipality of Hadera submitted a request for a land betterment levy in the amount of 1.4 million in respect of a change in the use of land which is designated for the construction of a new manufacturing line for packaging papers.

The Company contested the amount of the levy with a counter assessment in the amount of NIS 28,000. The Company created a provision in the amount of NIS 28,000 in respect of this request in its financial statements.

J. During 2008, a consolidated company decided to sue one of its suppliers in the amount of NIS 1,750 thousands for refund payments compensation as a result of his failure in supplying ERP system to the consolidated company.

On the other hand, the supplier requires the completion of the outstanding value carrier.

K. A consolidated company received from the Municipality of Netanya and from the renter 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 enterprise in Netanya. The consolidated company submitted an appeal on 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. The financial statements include a provision which, according to management s opinion based on estimates of its legal consultant s, is sufficient in these circumstances.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

a. Receivables:

	December 31	
	2008	**2007**
	NIS in thousands	
1) Trade:		
Open accounts	282,279	163,814
Checks collectible	36,647	14,739
	318,926	178,553
The item is:		
Net of allowance for doubtful accounts	24,893	19,631
Includes associated companies	14,642	37,255
Aging of customers debts:		
Are not in delay	268,750	153,049
Delay till 6 months	47,079	25,438
Delay from 6 months to 12 months	4,442	921
Delay from 12 months to 24 months	1,992	1,329
Delay more then 24 months	21,556	17,447
Total	343,819	198,184
Deduction of allowance for doubtful accounts	24,893	19,631

	December 31	
	318,926	178,553
Movement in provision for doubtful debts during the year:		
Balance at beginning of the year	19,631	19,250
Impairment losses recognized on receivables	(1,052)	(402)
Amounts written off as uncollectible	36	(363)
Amounts recovered during the year	232	139
Reversal of impairment losses in respect of accounts receivable	945	1,007
Initial consolidation	5,101	-
Balance at the end of the year	24,893	19,631

2) Other:		
Employees and employee institutions	2,331	2,218
Customs and VAT authorities	4,841	-
Associated companies - current debt	71,734	80,054
Prepaid expenses	3,847	2,719
Advances to suppliers	3,907	2,303
Accounts Receivable	3,618	4,953
Others	10,610	2,168
	100,888	94,415

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

b. Inventories:

	December 31	
	2008	2007
	NIS in thousands	
For industrial activities:		
Products in process	3,133	-
Finished goods	51,380	19,824
Raw materials and supplies	73,968	7,630
Total for industrial activities	128,481	27,454
For commercial activities - purchased products	22,759	19,280
	151,240	46,734
Maintenance and spare parts *	17,515	22,873

	December 31	
	168,755	69,607

* Including inventories for the use of associated companies.

Additional information the amount of inventory recognized during the period under cost of sale amounted to NIS 11,879 thousand in 2008 (2007 NIS 2,826 thousand).

c. Credit from banks:

	Weighted average Interest rate on December 31, 2008	December 31	
		2008	**2007**
		NIS in thousands	
Unlinked	3.8%	77,655	143,015
See note 8b above			

d. Trade payable and accruals - other:

	December 31	
	2008	**2007**
	NIS in thousands	
1) Trade payables:		
Open accounts	190,002	104,301
Checks payable	5,018	4,108
	195,020	108,409
2) Other:		
Payroll and related expenses	43,477	28,244
Institutions in respect of employees	19,362	21,973
Customs and value added tax authorities	-	322
Accrued interest	17,234	1,679
Accrued expenses	18,712	17,697
Others	7,277	670
	106,062	70,585

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

Statements of income:

e. Sales - net (1)

	2008	2007
	NIS in thousands	
Industrial operations (2)	542,244	462,634
Commercial operations	131,240	121,016
	673,484	583,650
(1) Including sales to associated companies	132,375	159,627
(2) Including sales to export	55,757	48,669

f. Cost of sales:

	2008	2007
	NIS in thousands	
Industrial operations:		
Materials consumed	143,392	93,260
Expenditure on the basis of benefits to employees (please see h below)	149,212	115,014
Depreciation and amortization	53,144	31,550
Other manufacturing costs	115,027	114,400
Decrease (increase) in inventory of finished goods	(11,879)	(2,826)
	448,896	351,398
Commercial operations - cost of products sold	93,491	89,341
	542,387	440,739
Including purchases from associated companies	20,893	31,220

g. Selling, marketing, administrative and general expenses:

2008	2007
NIS in thousands	

	2008	2007
Selling and marketing:		
Expenditure on the basis of benefits to employees (please see h below)	18,568	13,431
Packaging, transport and shipping	15,670	9,712
Commissions	2,684	1,869
Depreciation and amortization	1,246	1,403
Other	7,506	4,929
	45,674	31,344
Administrative and general:		
Expenditure on the basis of benefits to employees (please see h below)	55,735	45,458
Office supplies, rent and maintenance	2,222	1,214
Professional fees	3,210	1,789
Depreciation and amortization	5,097	3,159
Doubtful accounts and bad debts	233	738
Other	15,006	9,997
	81,503	62,355
Less - rent and participation from associated companies	26,533	26,364
	54,970	35,991

NOTE 13 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION: (cont.)

h. Expenses in respect of employee benefits

	Year ended December 31	
	2008	2007
	NIS in thousands	
Composition:		
Payroll	193,023	157,781
Other long term employee benefits	657	401
Expenses in respect of a defined deposit plan	15,889	15,249
Expenses in respect of a defined benefit plan	477	224
Changes in central compensation fund	225	(184)
Share-based payment transactions	5,922	-
Severance benefits	1,358	826
Benefits in respect of profit-sharing and bonuses	7,951	1,774
	225,502	176,071
Net of capitalized amounts (see note 5e).	(1,987)	(2,168)

	Year ended December 31	
	223,515	173,903

i. Depreciation and amortization

	Year ended December 31	
	2008	**2007**
	NIS in thousands	
Composition:		
Depreciation of fixed assets (see note 5)	53,391	34,749
Depreciation of leased land	1,178	644
Impairment of intangible assets (see note 7b)	5,215	705
	59,784	36,098

j. Finance income **

	Year ended December 31	
	2008	**2007**
	NIS in thousands	
a) interest income		
Interest income from short-term bank deposits	108	113
Interest income from short-term balances	3,912	2,945
Interest income from short-term loans	96	-
Interest income from long-term loans	592	547
Interest income from long-term bank deposits	-	3,352
Interest income from operational revaluation - net	1,204	-
Total interest income	5,912	6,957
b) other		
other	286	3,691
Total Finance income	**6,198**	**10,648**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (cont.)

j. Finance income ** (cont.)

c) Profit (loss) from finance assets

	Year ended December 31	
	2008	2007
	NIS in thousands	
Finance assets at fair value through profit and loss	5,871	-
	12,069	10,648
** include financial income of loans to associated companies	4,790	2,655

k. Finance expenses

	Year ended December 31	
	2008	2007
	NIS in thousands	
a) interest expenses		
Interest expenses from short-term bank loans	224	-
Interest expenses from short-term loans	3,618	10,159
Interest expenses from long-term loans	4,927	1,907
Interest expenses on account of non-convertible bonds net of related hedges	34,469	15,642
Interest expenses from operating monetary balance-net	-	2,228
Other	8,077	1,560
	51,315	31,496
Less:		
Amounts capitalized to cost of fixed assets (see note 5)	(26,064)	-
Total interest expenses	25,251	31,496
b) other		
Bank commissions	501	270
Interest costs from employee benefits	1,360	1,051
Total finance expenses	27,112	32,817

k. Other income

	2008	2007
	NIS in thousands	
Profit from written off a negative cost surplus	14,664	-
Capital gain from sale of fixed assets and spare parts inventory	237	(2,150)
Loss from revaluation PUT option to associated company	(10,003)	(2,289)
Capital loss from sale of associated company	-	(28)
	4,898	(4,467)

In respect of the acquisition of Carmel, the Company recognized a profit of NIS 14,664 thousands because of negative goodwill which was measured as the difference between the fair value of the assets, liabilities and contingent liabilities of Carmel on the date of acquisition and the cost of acquisition.

NOTE 14 NET INCOME PER SHARE

Following are data relating to the net income and the number of shares (including adjustments to such data) used for the purpose of computing the basic and fully diluted net income per ordinary share.

	Net income Year ended December 31	
	2008	2007
	NIS in thousands	
Net income for the period, as reported in the income statements, used in computation of basic net income per share	69,710	31,535
Total net income for the purpose of computing diluted income per share	69,710	31,535

	Number of shares Year ended December 31	
	2008	2007
Weighted average number of shares used for computing the basic income per share	5,060,774	4,132,728
Adjustment in respect of incremental shares of warrants	-	6,805

	Number of shares Year ended December 31	
Weighted average number of shares used for computing the diluted income per share	5,060,774	4,139,533

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 ACQUISITION OF SUBSIDIARIES

a. Acquisition of Subsidiaries and Associated Companies

On July 10, 2008 the Company has signed an agreement for the acquisition of shares of Carmel Container Systems Ltd. (Carmel , an affiliated company) from the principal shareholder of Carmel, Mr. Robert Kraft and a number of additional shareholders in Carmel, on an as is basis, for the total consideration of approximately $20.77 million, paid from the company s own resources in one payment upon the business transaction.

The completion of the acquisition was approved by law, including the approval of the Israeli Antitrust Authority during August 2008.

Due to the completion of the acquisition of Carmel, the Company holds approximately 89.3% of Carmel shares (held before the acquisition 36.2% of Carmel shares) and holds 52.72% indirectly in Frenkel C.D. (held before the acquisition 37.93% of Frenkel C.D. shares).

Since September 1 ,2008, the Company consolidates the financial statements of Carmel and Frenkel C.D. Ltd. (an affiliated company of the Company and Carmel), at the financial statements of the company.

The cost of purchasing companies Carmel and Frenkel C.D. was in sum of NIS 70,695 thousands and NIS 4,000 thousands, respectively, and paid in cash as follows:

	Main Activity	Acquisition Date	Rate of regular shares purchased	Acquisition cost
				NIS thousands
2008				
Carmel Container Systems	packaging material and carton	31. 8.2008	53.07%	70,695
Frenkel C.D.	Printing on carton production	31.8.2008	14.79%	4,000
				74,695

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 ACQUISITION OF SUBSIDIARIES (Cont.)

b. Analysis of the assets and liabilities were acquired

	Carmel Container Systems			Frenkel C.D.			Total fair value in acquisition of consolidated companies
	Book Value	Adjustments to fair value	Fair value at acquisition	Book Value	Adjustments to fair value	Fair value at acquisition	
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Current Assets							
Cash and cash equivalents	4,028	-	4,028	100	-	100	4,128
Trade receivables	164,106	-	164,106	41,406	-	41,406	205,512
Other receivables	3,512	-	3,512	4,785	-	4,785	8,297
Inventories	54,078	743	54,821	24,201	258	24,459	79,280
Non-Current Assets							
Fixed assets	64,627	38,862	103,489	45,405	3,697	49,102	152,591
Intangibles assets	-	31,917	31,917	9,194	(8,482)	712	32,629
Other assets	1,755	-	1,755	-	-	-	1,755
Employee benefit assets	14,610	-	14,610	879	-	879	15,489
Current Liabilities							
Credit from banks and others	(14,771)	-	(14,771)	(31,313)	-	(31,313)	(46,084)
Current maturities to long term loans	(21,347)	-	(21,347)	(4,154)	-	(4,154)	(25,501)
Trade payables	(59,082)	-	(59,082)	(30,993)	-	(30,993)	(90,075)
Other payables and accrued expenses	(14,287)	-	(14,287)	(8,566)	-	(8,566)	(22,853)
Non-Current Liabilities							
Long-term liabilities from banks	(56,214)	-	(56,214)	(16,338)	-	(16,338)	(72,552)
Deferred tax assets	(8,204)	(17,953)	(26,157)	(3,473)	(1,064)	(4,537)	(30,694)
Employee benefit liabilities	(25,418)	-	(25,418)	(2,534)	-	(2,534)	(27,952)
	107,393	53,569	160,962	28,599	(5,591)	23,008	183,970
Minority interests in acquisition	(11,474)	(5,732)	(17,206)	(13,521)	2,643	(10,878)	(28,084)
Capital reserve from reevaluation from step Acquisition	-	(19,408)	(19,408)	-	2,120	2,120	(17,288)
Negative goodwill carried to the income statement	-	(14,664)	(14,664)	-	-	-	(14,664)
Goodwill created at acquisition		-	-	-	599	599	599
Investment at affiliated companies before acquisition of control	-	(41,755)	(41,755)	-	(8,083)	(8,083)	(49,838)
Cost of acquisition	95,919	(27,990)	67,929	15,078	(8,312)	6,766	74,695

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 ACQUISITION OF SUBSIDIARIES (Cont.)

c. **Net cash flow upon acquisition**

	For the period ended August 31
	2008
	NIS in thousands
Total cost of acquisition	74,695
Net of non-cash consideration for Carmel (*)	(400)
Consideration paid in cash	74,295
Net of cash and cash equivalents acquired	(4,128)
	70,167

(*) commission was paid after the financial statements period and till December 31, 2008.

d. **Goodwill in the acquisition of subsidiaries**

Upon increasing the percentage of holding in Frenkel CD and the consolidation thereof, the Company recognized goodwill in the amount of NIS 599 thousands after allocating the excess cost to tangible and intangible assets, as specified in section b. above.

e. **The impact of the acquisition on the Group s results**

The profit for the year included a loss of NIS 5,398 thousands, which is attributed to Carmel and Frenkel CD from the date of acquisition, since August 31, 2008.

If the business combination of company would have taken place on January 1, 2008 the Group s revenue would have been NIS 979,930 thousands and the Group s profit for the reported period would have been NIS 63,757 thousands.

For the purpose of determining the pro forma revenue and profit (loss), the following assumptions were made:

The amortization of excess cost was included at fair value of the excess cost as it was estimated on the date of the business combination.

f. **The excess fair value of the assets, liabilities and contingent liabilities of the acquired company over the cost of acquisition**

In respect of the acquisition of Carmel, the Company recognized a profit of NIS 10,572 thousands. The components of the profit are as follow: NIS 14,664 because of negative goodwill which was measured as the difference between the fair value of the assets, liabilities and contingent liabilities of Carmel on the date of acquisition and the cost of acquisition. This profit was presented in the statement of income under other expenses (income)". The amortization of excess cost from the date of acquisition as of the reporting date in the amount of NIS 5,502 thousands in respect of the order backlog and excess cost of fixed assets, were recorded in the cost of sale and a sum of NIS 970 in respect of customers portfolio was included in selling and marketing expenses. Record of income deferred taxes in the amount of NIS 1,700 thousands and minority interests at the depreciations in the amount of NIS 683 thousands.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 ACTIVITIES NOT INVOLVING CASH FLOWS:

(a) As of December 31, 2008 the acquisition of fixed assets with suppliers credit amounted to NIS 17,261 thousand.

(b) As of December 31, 2007 the acquisition of fixed assets with suppliers credit amounted to NIS 6,634 thousands.

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

a. The purpose of financial risk management

The finance division of the Group supplies services to the business operation, provides access to domestic and international financial markets, monitors and manages the financial risks associated with the Group s activities through internal reports that analyze the level of exposure to risks according to their degree and intensity. These risks include market risks (currency risk, fair value risk in respect of interest rates, price risk and cash flow risk in respect of interest rates), credit risks and liquidity risk.

The Group mitigates the effect of these risks by using derivative financial instruments in order to hedge the exposure to risks. The use of derivative financial instruments is made in accordance with the Group s policy that was approved by the board of directors, which stipulates principles regarding: currency risk management, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity. Compliance with the policy and levels of exposure is reviewed by the internal auditors of the Company on an ongoing basis and examined from time to time by external advisors that specialize in this area.

The financial management division of the Group makes quarterly reports to the Group s management committee, about the risks and the implementation of the policy which be assimilated in order to reduce the risks exposures.

b. Market risk

The Group s activity exposes it primarily to financial risks of changes in foreign currency exchange rates (see section f below). The Group holds a range of derivative financial instruments in order to manage its exposure to market risks, including:

Foreign currency swap contracts to hedge EURO currency risks arising from EURO payments, result of imports of equipment for Machine 8 from the EU nations.

Foreign currency swap contracts to hedge currency risks arising from the purchase of raw materials in dollars according to the company s policy.

During the reporting period there was a change in exposure to market risks, primarily as a result of the volatility of global currency markets and due to the global crisis. The Group manages and measures the risks on a current basis in accordance with its business and cash flow operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

c. **Derivative financial instruments**

The Company has limited involvement with derivative financial instruments. The Company uses these instruments as hedges. The Company utilizes derivatives, mainly forward exchange contracts, to protect its expected cash flows in respect of existing assets and liabilities denominated in currencies other than the functional currency of the Company or that are linked to the CPI. As the counter-parties to these derivatives are Israeli banks, the Company considers the inherent credit risks remote.

(1) Forward transactions against increase in the CPI

The Company is exposed to the CPI as a result of CPI-linked bonds that were issued (series 1, 2 and 3). In accordance with the risk management policy, the Company wishes to minimize the CPI risk inherent in this obligation.

In January 2008, the Company entered into forward transactions for a period of one year, in order to hedge an amount of NIS 90 million against increases in the CPI, following the termination of the aforementioned transaction.

In February 2008, the Company entered into additional forward transactions for a period of one year, in order to hedge an amount of NIS 50 million against increases in the CPI, following the termination of the aforementioned transaction.

In Augost 2008, the Company entered into additional forward transactions for a period of 5 months, in order to hedge an amount of NIS 187.5 million against increases in the CPI, in respect of raising notes series no. 3 which finished.

In December 2008, the Company entered into additional forward transactions for a period of one year, in order to hedge an amount of NIS 150 million against increases in the CPI, following the termination of the aforementioned transaction.

In January 2009, the Company entered into additional forward transactions for a period of one year, in order to hedge an amount of NIS 100 million against increases in the CPI, following the termination of the aforementioned transaction.

(2) Foreign currency swap contracts

The Group s policy is to enter into foreign currency swap contracts in order to cover specific foreign currency payables and receivables to reduce the created exposure. In addition, the Group enters into foreign currency swap contracts to manage the risk arising from anticipated selling and buying transactions in a period of up to six months. As for the accounting policy of the Group concerning cash flow hedges of firm commitments see note 2.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

c. Derivative financial instruments (cont.)

(2) Foreign currency swap contracts (cont.)

The following table specifies the existing foreign currency swap agreements as of the reporting date:

	Average foreign exchange rate		Foreign currency				Contract value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	NIS		Euro in thousands		Dollar in thousands		NIS in thousands			
Hedging cash flow										
Purchase EURO till 6 months	5.31	5.74	26,150	20,000	-	-	138,794	114,800	1,597	2,254
Sell EURO till 6 months	5.45	5.46	5,000	20,000	-	-	27,250	109,200	(836)	(1,260)
Purchase Dollar till 6 months	3.66	-	-	-	3,000	-	10,994	-	500	-
Sell Dollar till 6 months	3.52	-	-	-	(1,500)	-	(5,281)	-	(20)	-
EURO deposit	5.30	5.66	23,956	27,117	-	-	126,902	153,461	-	-

d. Credit risks

Credit risks relate to the risk that the counter party will not fulfill its contractual obligations for payment and cause the Group financial losses. The Group has a policy of entering transactions with parties that have a credit rating and obtaining sufficient collateral, when appropriate, as a means of reducing the risk for financial losses as a result of failures. When this information is not available, the Group draws on available public financial information and its commercial experience in order to grade its main customers. The Group s exposure and the credit ratings of counter parties are examined on a regular basis.

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

See note 13a details of the aging of customers' debts as of December 31, 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont):

e. Foreign currency risks

Approximately half of the Company s sales are nominated in US dollars, while a substantial part of its expenditures and its liabilities are in NIS, and as a result, the Company has an exposure to the changes in the rate of exchange of the NIS against the US dollar and the EURO. This exposure includes an economic exposure (resulting from the excess of receipts over payments, in foreign currency or linked to it) and reporting exposure (relating to the excess of dollar linked assets over liabilities).

	December 31, 2008				December 31, 2007			
	In, or linked to, foreign currency (mainly dollar)	In Euro	Linked to the Israeli CPI	Unlinked	In, or linked to, foreign currency (mainly dollar)	In Euro	Linked to the Israeli CPI	Unlinked
	NIS in thousands				NIS in thousands			
Assets:								
Current assets:								
Cash and cash equivalents and designated deposits	2,325	128,427	-	131,975	7,352	157,837	-	2,556
Receivables	15,816	3,206	910	396,035	10,904	1,816	439	259,808
Investments in associated companies - long-term loans and capital notes	-	-	-	52,969	2,421	-	-	52,233
	18,141	131,633	910	580,979	20,677	159,653	439	314,597
Liabilities:								
Current liabilities:								
Short-term credit from banks	-		-	77,655	-	-	-	143,015
Accounts payables and accruals	36,814	23,969	-	240,299	11,662	2,602	-	164,730
Financial liabilities at fair value through profit and loss	13,904	-	-	-	3,901	-	-	-
Long-term liabilities (including current maturities):								
Long -term loans	-	-	35,271	123,974		-		33,511
Notes	-	-	354,658	238,600	-	-	195,525	
Other liability	-	-	-	32,770	-	-	-	31,210
	50,718	23,969	389,929	713,298	15,663	2,602	195,525	372,466

As to exposures relating to fluctuations in foreign currency exchange rates and the use of derivatives for hedging purposes see a above.

As to sensitivity analyze of foreign currency see g below

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

e. Foreign currency risks (cont.)

Liquidity risk management

The Group manages liquidity risks by maintaining suitable funds, banking and loans, ongoing monitoring of actual and anticipated cash flows and adjusting the vesting of financial assets and liabilities.

Interest rate and liquidity risk tables

1. Financial liabilities that do not constitute derivative financial instruments

The following tables specify the remaining contractual repayment dates of the Group in respect of financial liabilities, which do not constitute a derivative financial instrument. These tables were prepared based on the non-discounted cash flows of financial liabilities, based on the earliest date in which the Group may be required to repay them. The tables include cash flows in respect of the interest and the principal.

	Average effective interest rate	Till 1 month	1-3 months	From 3 months to 1 year	From 1 year to 5 years	Above 5 years	Total
	%	NIS in thousands					
2008							
Short-term credit	3.9%	76,175	1,506	-	-	-	77,681
Loans from banks	5.0%	4,530	7,483	33,591	129,009	7,532	182,145
Index linked notes carrying permanent interest	5.1%	-	-	57,111	259,004	120,631	436,746
Notes carrying permanent interest	7.5%	8,606	-	8,702	209,717	87,293	314,318
		89,311	8,989	99,404	597,730	215,456	1,010,890
2007							
Short-term credit	5.0%	143,015	-	-	-	-	143,015
Loans from banks	5.43%	1,804	-	5,375	29,170	3,341	39,690
Notes carrying permanent interest	5.5%	-	-	48,161	184,792	-	232,953
		144,819	-	53,536	213,962	3,341	415,658

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

e. Foreign currency risks (cont.)

Interest rate and liquidity risk tables (cont.)

2. Derivative financial instruments

The following table specifies the Group s liquidity analysis with respect to its derivative financial instruments. The table was prepared based on cash payments/ receivables for derivative instruments settled in net and the gross non-discounted cash payments/receivables for these derivatives that require net settlement. When the amount payable or receivable is not fixed, the disclosed amount is determined based on the projected interest rates as described by the interest yield curve as the balance sheet date.

	Till 1 month	1-3 months	From 3 months to 1 year	From 1 year to 5 years
	NIS in thousands			
2008				
Foreign currency swap contracts	15,994	24,121	66,554	-
Forward contracts on the CPI	1,633	(861)	(474)	(1,358)
Option warrants	26,546	147	-	-
	44,173	23,407	66,080	(1,358)

3. In respect of analyze sensitivity of interest rate see g below

f. Fair value of financial instruments

The fair value of financial assets and liabilities were determined as follows:

The fair value of financial assets and liabilities with customary terms that are traded in active markets is determined based on quoted market prices.

The fair value of other financial assets and liabilities (except for derivative instruments) is determined through accepted pricing techniques based on the analysis of discounted cash flows, using observed current market prices and traders quotes for similar instruments.

The fair value of derivative financial instruments is calculated based on quoted prices. When such prices are not available, a discounted cash flow analysis is utilized, using the appropriate yield curve for the duration of the instruments for derivatives that are not options while for derivatives which are options option pricing models are used.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

f. Fair value of financial instruments (cont.)

The following table specifies the carrying amount and fair value of financial instrument groups that are not presented in the financial statements at their value:

	Carrying Amount	Fair Value
	December 31, 2008 NIS in thousands	
Financial Assets		
Long term loans and capital note	52,969	49,355
Financial Liabilities		
Notes - series 1*	7,422	7,537
Notes - series 2*	158,559	155,637
Notes - series 3*	190,541	195,959
Notes - series 4*	235,557	269,078
Other liability*	32,770	31,359
	624,849	659,570

(1) The fair value is based on quoted prices in an active market at the balance sheet date.

(2) The fair values of long-term loans that were extended is based on the calculation of the current value of cash flows at an interest rate of 4.5%, which is acceptable for similar loans with similar characteristics.

(3) The fair value of long-term loans bearing a fixed interest rate is based on the calculation of the current value of cash flows at an interest rate of 4.5%, which is acceptable for similar loans with similar characteristics.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

g. Tables of analyze sensitivity of sensitive instruments according to cahnges in market factors

(1) Sensitive analyze to interest rates as of 31.12.2008

Sensitive instruments	Profit (loss) before tax from changes		Profit (loss) before tax from changes	
	10% rate increase	5% rate increase	5% rate decrease	10% rate decrease
	NIS in thousands			
Notes - series 1	(16)	(8)	8	16
Notes - series 2	(1,866)	(937)	947	1,903
Notes - series 3	(3,979)	(2,005)	2,037	4,105
Notes - series 4	(3,956)	(1,990)	2,013	4,050
Other liability	(134)	(57)	68	136
Long term loans and capital notes - given	212	106	(106)	(213)

(2) Sensitive analyze to foreign currency changes as of 31.12.2008

	Sensitivity to EURO rate changes			
Sensitive instruments	Profit (loss) before tax from changes		Profit (loss) before tax from changes	
	10% euro increase	5% euro increase	5% euro decrease	10% euro decrease
	NIS in thousands			
Cash and cash equivalents	268	134	(134)	(268)
Designated deposits	12,575	6,287	(6,287)	(12,575)
Trade receivables	321	160	(160)	(321)
Rest of the liability to supplier-ALSTOM	(92)	(46)	46	92
Trade payables and other payables	(2,397)	(1,198)	1,198	2,397
PUT option	-	-	(2,088)	(3,412)
Forward transaction NIS-EURO	12,293	6,996	(3,599)	(8,896)

	Sensitivity to Dollar rate changes			
Sensitive instruments	Profit (loss) before tax from changes		Profit (loss) before tax from changes	
	10% dollar increase	5% dollar increase	5% dollar decrease	10% dollar decrease
	NIS in thousands			
Cash and cash equivalents	233	116	(116)	(233)

	Sensitivity to Dollar rate changes			
Trade receivables	1,472	736	(736)	(1,472)
Trade payables and other payables	(3,246)	(1,623)	1,623	3,246

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (cont.)

g. Tables of analyze sensitivity of sensitive instruments according to changes in market factors (cont.)

(3) Sensitive analyze to interest rates as of 31.12.2007

Sensitive instruments	Profit (loss) before tax from changes		Profit (loss) before tax from changes	
	10% rate increase	5% rate increase	5% rate decrease	10% rate decrease
	NIS in thousands			
Notes - series 1	(54)	(27)	27	54
Notes - series 2	(2,370)	(1,191)	1,203	2,417
Other liability	(121)	(60)	61	122
Long term loans and capital notes - given	186	93	(188)	(94)

(4) Sensitive analyze to foreign currency changes as of 31.12.2007

	Sensitivity to EURO rate changes			
Sensitive instruments	Profit (loss) before tax from changes		Profit (loss) before tax from changes	
	10% euro increase	5% euro increase	5% euro decrease	10% euro decrease
	NIS in thousands			
Forward transaction NIS-EURO	(6,038)	(4,028)	3,741	8,439

	Sensitivity to Dollar rate changes			
Sensitive instruments	Profit (loss) before tax from changes		Profit (loss) before tax from changes	
	10% dollar increase	5% dollar increase	5% dollar decrease	10% dollar decrease
	NIS in thousands			
Trade receivables	1,272	636	(636)	(1,272)
Capital note	242	121	(121)	(242)
Trade payables and other payables	(1,036)	(518)	518	1,036

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES:

a. General

The main groups of interested parties in the Company are, among others, IDB Holdings, IDB Development Ltd, Discount Investments Ltd, Clal Industries and Investments Ltd, Clal Insurance Business Holdings Ltd, Ganden Holdings Ltd, Ganden Investments IDB Ltd., Manor Investments IDB Ltd., Taavura Holdings Group Ltd., Property and Buildings Ltd., The Bronfman Fischer Group and other companies, part of which are controlled, *inter alia*, by directors of the Company.

b. Transactions with interested parties

The Company and its subsidiaries perform transactions at market terms with interested parties during their ordinary course of business.

Negligible transactions:

On March 8, 2009, the board of directors of the Company determined, that in the absence of unique quality considerations that arise from the circumstances of the matter, an interested party transaction shall be considered negligible if the relevant criterion for the transaction (one or more) is less than 1%.

At every interested party transaction examined classified as a negligible transaction, one or more of the criterions relevant to the specific transaction will be calculated based on the recent annual consolidated financial statements of the Company: (a) Sales ratio   total sales covered by the interested party transaction divided by total annual sales; (b) Sales cost ration   cost of the interested party transaction divided by the total cost of annual sales; (c) Earnings ratio   the actual or projected profit or losses attributed to the interested party transaction divided by the average annual profit or loss in the last three years, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements were published; (d) Assets ratio   the amount of assets covered by the interested party transaction divided by total assets; (e) Liabilities ratio   the liability covered by the interested party transaction divided by total liabilities; (f) Operating expenses ratio   the amount of expenses covered by the interested party transaction divided by the total annual operating expenses.

In cases in which the above criteria are not relevant, a transaction shall be considered negligible based on a more relevant criterion established by the Company, provided the criterion calculated for said transaction is less than 1%.

Classified and characterized transactions, as follows:

1. Transactions for purchase of services from interested parties and related parties: communication services, tourism services, services of operating the Company s logistic center, investment consulting services and other financial services.

2. Transactions for the purchase and/or rent of goods from interested parties and related parties: trucks and hauling equipment, vehicles, insurance products.

3. Transactions in connection with marketing campaigns, advertising and discounts with interested parties and related parties or related to the products of interested parties and related parties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES: (cont.)

b. Transactions with interested parties (cont.)

4. Transactions for rent buildings/structures and real-estate assets.

5. Transactions with interested parties and related parties in connection with the purchase of gift coupons of interested parties and related parties

6. Sale of paper products, office equipment and other products to companies in the IDB Group.

The negligibility of the transaction is examined on an annual basis for the purposes of this report, by adding all transactions of the same type that the Company made with the interested party and other corporations controlled thereby.

Below is a general description of transactions made with interested parties in the Company, while except for the transactions specified in sections b(1)(b) below, should be viewed as negligible transactions based on the tests specified above:

1) Income (expenses)

	Year ended December 31,	
	2008	**2007**
	NIS in thousands	
Sales (1)	33,286	54,803
Financing expenses in respect of non-marketable bonds	1,584	2,128
Related parties:		
Sales (1)	95,448	125,044
Cost of sales (2)	13,607	21,780
General & administrative expenses (3)	24,243	23,630

(1) Sales

The Company deals with many companies from IDB group in the sale of paper products, office equipment and other products, in a very large number of transactions, each at a negligible amount. The transactions are made with numerous companies from the IDB Group. The prices and are established through negotiations and during the ordinary course of business.

a. The Company sold during the year to interested parties from the IDB Group and Clal Industries packaging paper. Total transactions with interested parties in the years 2008 and 2007 amounted to NIS 33.3 million and NIS 54.8 million, respectively.

b. The Company sold during the year to associated companies, which are related parties, packaging paper, office supplies and products and white paper waste. Total transactions with interested parties in the years 2008 and 2007 amounted to NIS 95.4 million and NIS 125.0 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES: (cont.)

b. Transactions with interested parties (cont.)

1) Income (expenses)

(2) Cost of sales

During the year the Company performed a large number of transactions with suppliers that are interested parties and related parties from the IDB Group, Clal Industries and Discount Investments. The transactions included the acquisition of foodstuffs and other items for Group companies. The prices and credit terms are established with all the suppliers through negotiations and during the ordinary course of business.

The Company purchased during the year from associated companies, which are related parties, white paper and cleaning and toiletry products which are sold by the company. Total transactions with interested parties in the years 2008 and 2007 amounted to NIS 13.6 million and NIS 21.8 million, respectively.

(3) Selling, marketing, general and administrative expenses

The Company has transactions with associated companies, which are related parties, of revenue from rental buildings and computerization services. Total transactions in the years 2008 and 2007 amounted to NIS 24.2 million and NIS 23.6 million, respectively.

The amounts of the aforementioned transactions relate to transactions that the Company makes during the ordinary course of business with interested parties (by virtue of being companies held by the company) at similar conditions and prices to those used by the Company for other customers and suppliers.

(4) Benefits to key executives (including directors)

The senior managers in the Group are entitled, in addition to wages, to non-cash benefits (such as vehicles etc). The Group makes deposits in their name in a defined benefit plan after the completion of the transaction. Senior managers also participate in the stock option plan of the Company (see note 10 on Share-based Payments).

2) Remuneration of key executives:

	For the year ended December 31	
	2008	**2007**
	NIS in thousand	
Short-term benefits	8,091	8,124
Benefits after the completion of the transaction	7	42
Other long-term benefits	843	1,014
Severance benefits	2,205	1,953
Share-based payment	2,047	-
	13,193	11,133

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 INTERESTED AND RELATED PARTIES-TRANSACTIONS AND BALANCES: (cont.)

b. Transactions with interested parties (cont.)

3) Benefits to interested parties:

	2008	2007
Payroll to interested parties employed by the Company - NIS in thousands *	2,503	2,643
Number of people to whom the benefits relate	1	1
Remuneration of directors who are not employed by the Company - NIS in thousands	793	601
Number of people to whom the benefits relate	12	11

* Because of the payroll of CEO.

4) The company granted to an interested party employed by the Company (the CEO) during 2008, 40,250 options, as part of the 2008 plan for senior officers in the Group. During 2007, the CEO exercised 1,975 options under the 2001 plan for senior employees in the group (see note 10b(1)). As of December 31, 2007 all his options from 2001 plan were exercised.

b. Related parties and interested parties balance:**

	As of December 31,	
	2008	2007
	NIS in thousands	
Accounts receivable - commercial operations*	18,942	20,710
Accounts payables and accruals	1,907	1,589

* There were no significant changes in the balance during the year.

** See note 13 in respect of associated companies balance

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 SEGMENT INFORMATION:

a. Activities of the Company and its subsidiaries:

1) Manufacturing and marketing of packaging paper, including collection and recycling of paper waste. The manufacturing of paper relies mainly on paper waste as raw material.

2) Marketing of office supplies and paper, mainly to institutions.
Most of the sales are on the local (Israeli) market and most of the assets are located in Israel.

b. Business segment data:

	Paper and recycling		Marketing of office supplies		Adjustments to consolidation		Total	
	2007	2008	2007	2008	2007	2008	2007	2008
	NIS in thousands							
Sales - net[1]	543,058	465,265	131,114	118,997	(688)	(612)	673,484	583,650
Income from ordinary operations	32,118	70,405	3,233	704			35,351	71,109
Financial income							12,069	10,648
Financial expenses							27,112	32,817
Income before taxes on income							20,308	48,940
Taxes on income							3,663	18,261
Income from operations of the Company and its subsidiaries							16,645	30,679
Share in profits of associated companies - net							51,315	856
Net income							67,960	31,535
Segment assets (at end of year)	1,218,945	630,217	72,624	63,509			1,291,569	693,726
Unallocated corporate assets (at end of year) [2]							752,525	626,189
Consolidated total assets (at end of year)							2,044,094	1,319,915
Segment liabilities (at end of year)	159,762	79,116	35,258	29,293			195,020	108,409
Unallocated corporate liabilities (at end of year)							1,091,445	541,535
Consolidated total liabilities (at end of year)							1,286,465	649,944

	Paper and recycling		Marketing of office supplies		Adjustments to consolidation	T o t a l	
Depreciation and amortization	51,946	33,911	1,445	1,598		53,391	35,509
Acquisition cost of long-term assets	304,533	80,431	1,694	1,653		306,227	82,084

(1) Represents sales to external customers.

(2) Including investments in associated companies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 SUBSEQUENT EVENTS

a. On January 8, 2009 the board of directors of the Company, subsequent to an allocation approved in 2008, approved a plan pursuant to which up to 34,000 options, each exercisable into an ordinary share of the Company, would be granted to directors in an associated company out of a total of 35,250 options allocated to the trustee on May 11, 2008. As of the date of signing the report, 1,250 options have been allocated to the trustee.

The amount of estimated expense in respect of granting the options to the managers of an associated company is NIS 0.3 million.

b. 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 (hereinafter: the Supervisor) concerning import and dumping 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. According to the Company announcement, there is no certainty that its complaint would be accepted, and the Company is currently unable to estimate the impact of such acceptance on its business results. On February 26, 2009, the Company announced that as a 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 (hereinafter: the Supervisor) concerning import and dumping of packaging paper from several European countries to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. According to the Company announcement, there is no certainty that its complaint would be accepted, and the Company is currently unable to estimate the impact of such acceptance on its business results.

c. 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.

d. On February 26, 2009, an associated company decided to distribute a special dividend to the Company in respect of preferred shares allocated thereto in the amount of NIS 32.77 million.

e. On February 26, 2009 an associated company announced the distribution of a dividend in the amount of Dollar 10 million to its shareholders. As of the date of signing the financial statements a distribution date has not been determined.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS

A. General

Following the publication of Accounting Standard No. 29, the Adoption of International Financial Reporting Standards (IFRS) in July 2006, the Company adopted IFRS starting January 1, 2008.

Pursuant to the provisions of IFRS1, which deals with the first-time adoption of IFRS, and considering the date in which the Company elected to adopt these standards for the first time, the financial statements which the Company must draw up in accordance with IFRS rules, are the consolidated financial statement as of December 31, 2008, and for the year ended on that date. The date of transition of the Company to reporting under IFRS, as it is defined in IFRS 1, is January 1, 2007 (hereinafter: the transition date), with an opening balance sheet as of January 1, 2007 (hereinafter: Opening Balance). The Company s interim financial statements for 2008 will also be drawn up in accordance with IFRS, and shall include comparative figures for the year.

Under the opening balance sheet, the Company performed the following reconciliations:

Recognition of all assets and liabilities whose recognition is required by IFRS.
De-recognition of assets and liabilities if IFRS do not permit such recognition.
Classification of assets, liabilities and components of equity according to IFRS.
Application of IFRS in the measurement of all recognized assets and liabilities.

IFRS 1 states that all IFRS shall be adopted retroactively for the opening balance sheet. At the same time, IFRS 1 includes 14 reliefs, in respect of which the mandatory retroactive implementation does not apply. As to the reliefs implemented by the Company, see section F below.

Changes in the accounting policy which the Company implemented retroactively in the opening balance sheet under IFRS, compared to the accounting policy in accordance with Generally Accepted Accounting Principles in Israel, were recognized directly under Retained Earnings or another item of Shareholders Equity, as the case may be.

This note is formulated on the basis of International Financial Reporting Standards and the notes thereto as they stand today, that have been published and shall enter into force or that may be adopted earlier as at the Group s first annual reporting date according to IFRS, December 31, 2008

Listed below are the Company s consolidated balance sheets as of January 1, 2007, and December 31, 2007, the consolidated statement of income and the shareholders equity for the year ended on December 31, 2007 prepared in accordance with International Accounting Standards. In addition, the table presents the material reconciliations required for the transition from reporting under Israeli GAAP to reporting under IFRS.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

B. Reconciliation of balance sheets from Israeli GAAP to IFRS:

January 1, 2007

		January 1, 2007		
		Israeli GAAP	Effect of Transition to IFRS	IFRS
	Note	NIS in thousands		
Current Assets				
Cash and cash equivalents		13,621	-	13,621
Trade receivables		168,050	(218)	167,832
Other current assets	F1	146,684	(10,065)	136,619
Inventories		62,109	-	62,109
Total Current Assets		**390,464**	**(10,283)**	**380,181**
Non-Current Assets				
Fixed assets	F2	400,823	(34,880)	365,943
Investment in associated companies	F8	375,510	(1,962)	373,548
Deferred tax assets	F1	6,490	12,233	18,723
Lease receivables	F2	-	30,089	30,089
Other intangible assets		-	2,209	2,209
Employee benefit assets		-	631	631
Total Non-Current Assets		**782,823**	**8,320**	**791,143**
Total Assets		**1,173,287**	**(1,963)**	**1,171,324**
Current Liabilities				
Credit from banks and others		203,003	-	203,003
Current maturities to long term notes and long term notes		41,567	-	41,567
Trade payables		96,273	-	96,273
Other payables and accrued expenses	F4, F3	103,699	(37,452)	66,247
Financial liabilities at fair value through Profit and loss	F4	-	1,612	1,612
Current tax liabilities	F7	-	19,824	19,824
Total Current Liabilities		**444,542**	**(16,016)**	**428,526**
Non-Current Liabilities				
Loans from banks and others		33,515	-	33,515
Notes		190,005	-	190,005
Other non-current liabilities		32,770	(1,560)	31,210
Deferred tax liabilities	F1	41,613	-	41,613
Employee benefit liabilities	F3	-	23,822	23,822
Total Non-Current Liabilities		**297,903**	**22,262**	**320,165**
Capital and reserves		**430,842**	**(8,209)**	**422,633**
		1,173,287	**(1,963)**	**1,171,324**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

B. Reconciliation of balance sheets from Israeli GAAP to IFRS (Cont.)

	Note	December 31, 2007		
		Israeli GAAP	Effect of Transition to IFRS	IFRS
		NIS in thousands		
Current Assets				
Cash and cash equivalents		167,745	-	167,745
Trade receivables		178,771	(218)	178,553
Other current assets	F1	105,109	(10,694)	94,415
Inventories		69,607	-	69,607
Total Current Assets		**521,232**	**(10,912)**	**510,320**
Non-Current Assets				
Property, plant and equipment	F2	445,566	(40,335)	405,231
Investment in associated companies	F8	346,186	217	346,403
Deferred tax assets	F1	6,083	14,539	20,622
Lease receivables	F2	-	34,900	34,900
Other assets		-	1,578	1,578
Employee benefit assets		-	861	861
Total Non-Current Assets		**797,835**	**11,760**	**809,595**
Total Assets		**1,319,067**	**848**	**1,319,915**
Current Liabilities				
Credit from banks and others		143,015	-	143,015
Current maturities to long term notes and term loans		42,775	-	42,775
Trade payables		108,409	-	108,409
Other payables and accrued expenses	F4, F3	87,235	(16,650)	70,585
Financial liabilities at fair value through Profit and loss	F4	-	3,901	3,901
Current tax liabilities		-	908	908
Total Current Liabilities		**381,434**	**(11,841)**	**369,593**
Non-Current Liabilities				
Loans from banks and others		28,127	-	28,127
Notes		158,134	-	158,134
Other non-current liabilities		32,770	(1,560)	31,210
Deferred tax liabilities	F1	40,515	-	40,515

		December 31, 2007		
Employee benefit liabilities	F3	-	22,365	22,365
Total Non-Current Liabilities		**259,546**	**20,805**	**280,351**
Capital and reserves		**678,087**	**(8,116)**	**669,971**
		1,319,067	**848**	**1,319,915**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

C. Reconciliation of Income Statements from Israeli GAAP to IFRS

		Year ended December 31, 2007		
	Note	Israeli GAAP	Effect of Transition to IFRS	IFRS
		NIS in thousands		
Revenue		583,650	-	583,650
Cost of sales		440,854	(115)	440,739
Gross profit		**142,796**	**115**	**142,911**
Selling expenses		31,367	(23)	31,344
General and administrative expenses		36,060	(69)	35,991
Other expenses	F6	2,178	2,289	4,467
Operating profit		**73,191**	**(2,082)**	**71,109**
Finance income	F5	10,648	-	10,648
Finance expenses	F5	30,206	2,611	32,817
Finance expenses, net		19,558	2,611	22,169
Profit after financial expenses		**53,633**	**(4,693)**	**48,940**
Share of profit (loss) of associated companies-net	F8	(2,884)	3,740	856

	Year ended December 31, 2007		
Profit before tax	**50,749**	**(953)**	**49,796**
Taxes on income	19,307	(1,046)	18,261
Profit for the year	**31,442**	**93**	**31,535**

	Year ended December 31, 2007		
	Israeli GAAP	Effect of Transition to IFRS	IFRS
	NIS in thousands		
	(Audited)		
Earnings per share:			
Primary	7.61	0.02	7.63
Fully diluted	7.60	0.02	7.62
Number of share used to compute the primary earnings per share	4,132,728	4,132,728	4,132,728
Number of shares used to compute the fully diluted earnings per share	4,139,533	4,139,533	4,139,533

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

D. Capital and Reserves Reconciliation

	Share Capital	Premium on shares	Capital surplus Share-based payment (in respect of options of employee options)	Capital surplus from translation differences	Retained Earnings	Total
	NIS thousands					

	Share Capital	Premium on shares	Capital surplus Share-based payment (in respect of options of employee options)	Capital surplus from translation differences	Retained Earnings	Total
As of January 1, 2007						
Israeli GAAP	**125,257**	**90,060**	**2,414**	**(8,341)**	**221,452**	**430,842**
Adjustments of investment in associated companies by the equity method	-	-	-	-	377	377
Classification of adjustments deriving from translations of financial statements of foreign operations	-	-	-	8,341	(8,341)	-
Employee benefits net of tax effects	-	-	-	-	(4,172)	(4,172)
Amortization of pre-paid expenses in respect of lease of land	-	-	-	-	(1,868)	(1,868)
Financial expenses on capital note from affiliated Company	-	-	-	-	(779)	(779)
Put option on affiliated Company	-	-	-	-	(1,612)	(1,612)
Effect of classifying a doubtful debt provision as specific after being classified as general	-	-	-		(155)	(155)
Under IFRS rules	**125,257**	**90,060**	**2,414**	**-**	**204,902**	**422,633**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

D. Capital and Reserves Reconciliation (cont.)

	Share Capital	Premium on shares	Capital surplus Share-based payment (in respect of options to employees)	Hedging reserves	Capital surplus from translation differences	Retained Earnings	Total
	NIS thousands						
As of December 31, 2007							
Israeli GAAP	**125,267**	**301,695**	**3,397**	**-**	**(5,166)**	**252,894**	**678,087**
Adjustments of investment in associated companies by the equity method	-	-	-	-	-	3,338	3,338
Classification of adjustments deriving from							

	Share Capital	Premium on shares	Capital surplus Share-based payment (in respect of options to employees)	Hedging reserves	Capital surplus from translation differences	Retained Earnings	Total
translations of financial statements of foreign operations	-	-	-	-	8,341	(8,341)	-
Cash flow hedges	-	-	-	(635)	635	-	-
Amortization of pre-paid expenses in respect of lease of land	-	-	-	-	-	(1,508)	(1,508)
Benefits to employees net of tax effects	-	-	-	-	-	(4,326)	(4,326)
Put option on affiliated Company	-	-	-	-	-	(3,901)	(3,901)
Financial expenses on capital note from affiliated Company	-	-	-	-	-	(1,560)	(1,560)
Effect of classifying a doubtful debt provision as specific after being classified as general	-	-	-	-	-	(159)	(159)
Under IFRS rules	**125,267**	**301,695**	**3,397**	**(635)**	**3,810**	**236,437**	**669,971**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

E. Material adjustments to the consolidated statements of cash flows

(1) Classification of interest income

In accordance with Generally Accepted Accounting Principles in Israel, interest income and dividend received, were presented under cash flows from operating activity.

Pursuant to international standards, dividends and interest income are classified as cash flows that derive from investment activity or operating activity.

Consequently, for the year ended on December 31, 2007, interest income in the amount of NIS 1,716 thousands was reclassified from operating activity to investment activity.

(2) Classification of interest payments

In accordance with Generally Accepted Accounting Principles in Israel, interest payments, were presented under cash flows used in operating activity and financing activity, respectively.

Pursuant to international standards, interest payments are classified as cash flows used in financing activity.

Consequently, for the year ended on December 31, 2007, interest payments in the amount of NIS 24,994 thousands were reclassified from operating activity to financing activity.

(3) Translation differences on foreign currency cash balances

In accordance with Generally Accepted Accounting Principles in Israel, the effect of changes in exchange rates on cash and cash equivalents that are held or repayable in foreign currency are presented as cash flows used in or derived from operating activity, and the effect of changes in exchange rates on cash balances in autonomous investee companies are presented in a separate item in the statement of cash flows.

Pursuant to international standards, the effect of changes in exchange rates on cash and cash equivalents held or repayable in foreign currency are presented in a separate line as a reconciliation between the opening balance of cash and cash equivalents and the closing balance of cash and cash equivalents.

Consequently, for the year ended on December 31, 2007, an amount of NIS 959 thousands was reclassified from operating activity to the item effect of changes in exchange rates on cash balances held in foreign currency.

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

F. Additional information

(1) Deferred Taxes

In accordance with generally accepted accounting principles in Israel, deferred tax assets or liabilities were classified as current assets or liabilities depending on the classification of the assets in respect of which they were created.

Pursuant to IAS 1, deferred tax assets or liabilities are classified as non-current assets or liabilities, respectively.

Consequently, amounts of NIS 7,856 thousands and NIS 9,116 thousands which were previously presented under accounts receivable were reclassified to deferred taxes under non-current taxes as of January 1, 2007, and December 31, 2007 respectively.

(2) Land leased from the Israel Land Administration

In accordance with generally accepted accounting principles in Israel, land leased from the Israel Land Administration, was classified as property, plant and equipment and included in the amount of the capitalized leasing fees that were paid. The amount paid was not depreciated.

Pursuant to IAS 17, Lease , land lease arrangements, whereunder at the end of the leasing period, the land is not transferred to the lessor, are classified as operating lease arrangements. As a result, the Company s lands in Hadera and in Naharia which were leased from the Israel Land Administration, shall be presented in the Company s balance sheet as lease receivables in respect of lease, and amortized over the remaining period of the lease.

The company has lease rights in land from the Tel Aviv Municipality conforming to the definition of investment real estate, that have been classified as operating leases and not as investment real estate pursuant to IAS 40.

As a result, as of January 1, 2007, the balance of prepaid expenses with respect to the operating lease grew by the amount of approximately NIS 30,023 thousands and the balance of fixed assets declined by the amount of approximately NIS 34,814 thousands. The change was recorded in part to retained earnings, the amount of approximately NIS 1,867 thousands, and, in part, against deferred taxes in the amount of approximately NIS 2,923 thousands.

As of December 31, 2007, the balance of prepaid expenses with respect to the operating lease grew by the amount of approximately NIS 34,900 thousands and the balance of fixed assets declined by the amount of approximately NIS 40,335

thousands. The change was recorded in part to retained earnings, the amount of approximately NIS 1,508 thousands, and, in part, against deferred taxes in the amount of approximately NIS 3,927 thousands.

The amortization of the lease fees is reflected in the increase of general and administrative expenses in the amount of approximately NIS 644 thousands for the year ended December 31, 2007 .In addition, tax expenses decreased in the amount of approximately NIS 1,004 thousands for the year ended December 31, 2007.

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

F. Additional information (cont.)

(3) Employee Benefits

In accordance with generally accepted accounting principles in Israel, the Company s liability for severance pay is calculated based on the recent salary of the employee multiplied by the number of years of employment.

Pursuant to IAS 19, the provision for severance pay is calculated according to an actuarial basis taking into account the anticipated duration of employment, the value of time, the expected salary increases until retirement and the possible retirement under conditions not entitling severance pay.

In addition, under Israeli GAAP, deposits made with regular policies or directors insurance policies which are not in the employee s name, but in the name of the employer, were also deducted from the company s liability.

Under IFRS, regular policies or directors insurance policies as aforesaid, which do not meet the definition of plan assets under IAS 19, will be presented in the balance sheet under a separate item and will not be deducted from the employer s liability.

Most of the Group s employees are covered according to Section 14 of the Compensation Law. Employee deposits are not reflected in the Company s financial statements and accordingly, no provision is necessary in the books.

However, the Company is required to pay employees differences from entitlement to severance pay and unutilized vacation pay. These liabilities are computed in accordance with the actuary s assessment based on an estimate of their utilization and redemption.

In addition, net liabilities in respect of benefits to employees after retirement, which relate to defined benefit plans, are measured based on actuarial estimates and discounted amounts.

According to the international standards, a policy or executive insurance as above, which does not conform to the definition of plan assets as per IAS 19, will be presented separately in the balance sheet and not offset from the liabilities of the employer.

According to the policy adopted by the Company, actuarial profits are recorded to retained earnings but, due to lack of materiality, they have been recorded in full to operations.

As a result, as of January 1, 2007, an increase in the net liabilities for employees benefit plans in the amount of NIS 5,563 thousands was created, and in addition, an increase in the deferred tax asset was created in the amount of NIS 1,391 thousands.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

F. Additional information (Cont.)

(3) Employee Benefits (cont.)

As of December 31, 2007, an increase in the net liabilities for employees benefit plans in the amount of NIS 5,762 thousands was created, and in addition, an increase in the deferred tax asset was created in the amount of NIS 1,436 thousands.

Payroll expenses increased by the amount of approximately 199 thousands for the year ended December 31, 2007. In addition, tax expenses decreased by the amount of approximately 46 thousands for the year ended December 31, 2007.

Moreover, assets with regard to employee benefits were classified from other current liabilities to non current assets. The amount of approximately NIS 1,132 thousands, and NIS 1,179 thousands as of January 1, 2007 and December 31, 2007.

(4) Put option for investee

As part of an agreement dated November 21, 1999 with Mondi Business Paper (hereafter MBP, formerly Neusiedler AG), Mondi Hadera purchased the operations of the Group in the area of writing and typing paper and issued 50.1% of its shares to MBP.

As part of this agreement, MBP was granted an option to sell its holdings in Mondi Hadera to the company, at a price 20% lower than its value (as defined in the agreement) or $ 20 million less 20%, whichever is higher. According to oral understandings between persons in the company and persons in MBP, which were formulated in proximity to signing the agreement, MBP will exercise the option only in extremely extraordinary circumstances, such as those which obstruct manufacturing activities in Israel over a long period.

In view of the extended period which has passed since the date of such understandings and due to changes in the management of MBP, occurring recently, 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. Under accounting principles generally accepted in Israel, it was not required to give a value to the PUT option. According to the international standards, the value of the option was computed and recognized as a liability, measured according to fair value, with changes in fair value being recorded to operations in accordance with IAS 39.

As of January 1, 2007, a liability with respect to the option for sale of the shares of the investee in the amount of approximately NIS 1,612 thousands was presented.

As of December 31, 2007, a liability with respect to the option for sale of the shares of the subsidiary in the amount of approximately NIS 3,901 thousands was presented.

Other expenses increased by the amount of approximately NIS 2,289 thousands for the year ended December 31, 2007.

HADERA PAPER LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

F. Additional information (Cont.)

(5) Financial Income and Expenses

In accordance with generally accepted accounting principles in Israel, financing income and expenses are presented under the statement of income in one amount.

Pursuant to IAS 1, financing income and expenses should be presented separately.

Consequently, financing expenses in the amount of NIS 32,817 thousands and financing income in the amount of NIS 10,648 thousands were presented in the income statements for the year ended December 31, 2007.

(6) Other Income and Expenses

In accordance with generally accepted accounting principles in Israel, other income and expenses are presented in the income statements after the Operating profit.

Pursuant to IAS 1, other income and expenses should be presented as a part of Gross profit or / and as a part of Operating costs and expenses.

Consequently, other expenses in the amounts of NIS 2,178 thousands were classified at the profit from ordinary operations in the income statements for the year ended December 31, 2007.

(7) Current Taxes

In accordance with generally accepted accounting principles in Israel, current tax assets or liabilities were classified as other current assets or liabilities.

Pursuant to IAS 1, current tax assets or liabilities are classified as separate balance in the balance sheet.

Consequently, amounts of NIS 19,824 thousands, and NIS 908 thousands which were previously presented under other current assets were reclassified to current tax assets as of January 1, 2007, and December 31, 2007 respectively.

(8) Investment in Associated Companies

In the course of the second quarter, of 2007 Carmel, an associated company, made a repurchase of its own shares, held by some of its minority shareholders.As a result of this repurchase, the Company s holdings in Carmel rose from 26.25% to reach 36.21%.This increase in the holding rate led to a negative cost surplus of NIS 4,923 thousands for the Company. According to Standard 20 (amended), this was allocated to non-monetary items and will be realized in accordance with the realization rate of these items.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

F. Additional information (Cont.)

(8) Investment in Associated Companies (cont.)

The Company included a sum of NIS 2,439 thousands in earnings from associated companies for the year ended at December 31, 2007, as a result of the realization of these items. According to the directives of IAS 28 regarding the equity method of accounting, the balance of the negative cost surplus in the amount of NIS 4,923 thousands will be allocated to the Company s share in earnings of associated companies, thereby increasing the Company s earnings for the year ended on December 31, 2007 by a sum of NIS 2,484 thousands.The Investments in Associated Companies item in the balance sheet will also grow by the said sum.

(9) Provision for doubtful debts

Under generally accepted accounting principles in Israel, the provision for doubtful debts is calculated both by means of a general provision on the basis of approximations and past experience, ascertained by the company in accordance with the structure and nature of the customers in the various companies, and also on the basis of a specific provision for customers where the likelihood of collection was low in reliance on indicators in the hand of the company and was made in a specific manner.

According to international standards, the provision for doubtful debts is calculated solely on the basis of a specific provision.

As a result, the amount of the provision for doubtful debts increased as of January 1, 2007 by the amount of NIS 218 thousands and deferred taxes decreased by NIS 63 thousands.

The amount of the provision for doubtful debts increased as of December 31, 2007 by the amount of NIS 218 thousands and deferred taxes decreased by NIS 59 thousands.

(10) Capital note issued to an investee

The company s balance sheet includes a capital note that was issued to an investee. Due to the fact that no repayment date was set for the capital note, and in view of the fact that the company is not a controlling interest in the investee, the capital note was presented under Israeli standards at its nominal value, and financial expenses in respect of same were not recorded in the statement of operations.

In accordance with the directives of the international standards, the capital note was classified as a financial liability under IAS 39. Therefore, the capital note will be measured at unamortized cost, while using the effective interest method.

In accordance with understandings reached between the company and the investee, that the capital note will not be repayable prior to January 1, 2009, the unamortized cost of the capital note in the financial statements of the company prepared according to the directives of the international standards will be considered as if it were repayable on such date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

G. Reliefs with respect to the retroactive implementation of IFRS adopted by the Company

IFRS 1 includes several reliefs, in respect of which the mandatory retroactive implementation does not apply. The Company elected to adopt in its opening balance sheet under IFRS as of January 1, 2007 (hereinafter: the opening balance sheet) the reliefs with regards to:

(1) Share-Based Payment

The provisions of IFRS 2, which deals with share-based payments, have not been retroactively implemented with respect to equity instruments granted before November 7, 2002 and which have vested prior to the transition date.

(2) Translation Differences

The Company chose not to retroactively implement the provisions of IAS 21 regarding translation differences accumulated as of January 1, 2007, with respect to overseas operations. Consequently, the opening balance sheet does not include cumulative translation differences in respect of overseas operations.

(3) Deemed Cost For Items Of Fixed Assets

IFRS 1 allows to measure fixed assets, as of the transition date, or before it, based on revaluation that was carried out in accordance to prior accounting principles, as deemed cost, on the time of the revaluation, if the revaluation was comparable in general, to the cost or to the cost net of accumulated depreciation according to the IFRS standards, adjusted to changes such as changes in the CPI.

Until December 31, 2003 the Company adjusted its financial statements to the changes in foreign rate of the U.S dollar, in accordance with opinion No. 36 of the institute of Certified Accountancy in Israel.

For the purpose of adapting the IFRS standards, the Company chose to implement the above said relief allowed under IFRS 1, and to measure fixed assets items that were purchased or established up to December 31, 2003 according to the affective cost for that date, based on their adjusted value to the foreign exchange rate of the U.S dollar up to that date.

NOTE 22 SUMMARY DATA FROM SEPARATE FINANCIAL STATEMENTS OF THE COMPANY

a. Accounting policy for separate financial statements of the Company

The accounting policy applied in the separate financial statements of the Company is identical to that specified in Note 2 of the consolidated financial statements, except as stated below:

(1) The Company elected for an early adoption of the amendment to IFRS 1 (hereinafter IFRS 1) which permits an entity, for presentation in the separate financial statements, to measure the company s investments in subsidiaries and in associated companies at deemed cost as of January 1, 2007. Pursuant to the amendment, a deemed cost is determined as the carrying amount of these investments, which are accounted for using the equity method, as of January 1, 2007, under which these investments were presented in accordance with Israeli GAAP.

Investments in investee companies which are presented under the equity method as deemed cost* :

	As of January 1 2007
	NIS in thousands

	As of January 1 2007
Associated companies	371,420
Subsidiaries	484,059
	855,479

* include loans and capital notes given to associated companies and subsidiaries in amount of NIS 104,399 thousands as of January 1, 2007.

(2) SHARE-BASED PAYMENTS TO EMPLOYEES OF INVESTEE COMPANIES

The fair value of share-based payments that are settled in the equity instruments of the Company, which were granted to employees of investee companies, is recognized as the remaining outstanding debt of the investee company, throughout the vesting period of share-based payment arrangements. This amount is decreased by the amount of payments transferred by the investee company to the Company in respect of these arrangements.

(3) DIVIDENDS FROM INVESTEE COMPANIES

Income from dividends declared by investee companies are recognized on the date the Company s entitlement to these dividends is created.

(4) LOANS TO INVESTEE COMPANIES

Loans granted by the Company to investee companies, without a defined repayment date, are presented as current or non-current assets, as the case may be, based on the date in which the Company anticipates the repayment thereof.

NOTE 22 SUMMARY DATA FROM SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (cont.)

b. balance sheets

	December 31,	
	2008	2007
	NIS in thousands	
Current Assets		
Cash and cash equivalents	410	157,085
Designated deposits	249,599	-
Trade receivables	11,410	33,274
Affiliated companies, net	187,976	6,648

	December 31,	
Total Current Assets	**449,395**	**197,007**
Non-Current Assets		
Investment and loans to associated companies	295,870	341,561
Investments and loans to subsidiaries	598,569	484,059
Fixed assets	92,528	87,550
Prepaid leasing expenses	35,613	34,117
Deferred tax assets	14,318	6,065
Total Non-Current Assets	**1,036,898**	**953,352**
Total Assets	**1,486,293**	**1,150,359**
Current Liabilities		
Credit from banks	42,668	143,480
Current maturities of long-term notes and long term loans	51,702	42,775
Trade payables	4,859	5,186
Other payables and accrued expenses	66,541	51,152
Other financial liabilities	32,770	-
Financial liabilities at fair value through profit and loss	13,904	3,901
		-
Total Current Liabilities	**212,444**	**246,494**
Non-Current Liabilities		
Loans from banks and others	45,309	28,127
Notes	554,124	158,134
Other financial liabilities	-	31,210
Employee benefit liabilities	7,537	7,270
Total Non-Current Liabilities	**606,970**	**224,741**
Capital and reserves	**666,879**	**679,124**
	1,486,293	**1,150,359**

HADERA PAPER LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 SUMMARY DATA FROM SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (cont.)

c. Income statements

Year ended December 31

	2008	2007
	NIS in thousands	
Income		
Finance income	11,406	3,353
Income from investments	-	70,000
Participation in expenses - net	(8,352)	2,461
	3,054	75,814
Cost and expenses		
Other expenses	(10,000)	(2,316)
Finance expenses	(22,959)	(35,326)
	(32,959)	(37,642)
Profit (loss) before taxes on income	(29,905)	38,172
Tax income on the income	(13,548)	(1,876)
Net profit (loss) for the year	**(16,357)**	**40,048**

d. Statement of recognized income and expenses

	Year ended December 31,	
	2008	2007
Actuarial loss in respect of a defined benefit plan, net	(131)	-
Total expenses recognized directly in capital and reserves	**(131)**	**-**
Profit (loss) taken from income statement	(16,357)	40,048
Total income and expenses recognized on the year	**(16,488)**	**40,048**

HADERA PAPER LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 SUMMARY DATA FROM SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (cont.)

e. cash flow statements

	Year ended December 31	
	2008	**2007**
	NIS in thousands	
Cash flows - operating activities		
Profit (loss) for the year	(16,357)	40,048
Tax income recognized in profit and loss	(13,548)	(1,876)
Financial expenses recognized in profit and loss	11,553	31,973
Capital loss on sell of Fixed assets	-	62
Capital loss on sale of investment in associated company	-	28
Depreciation and amortization	4,791	4,234
Share based payments expenses	2,755	-
	(10,806)	**74,469**
Changes in assets and liabilities:		
Increase in trade and other receivables	(113,872)	(41,498)
Increase (decrease) in trade and other payables	(5,918)	401
Increase in financial liabilities at fair value through profit and loss	10,003	2,289
Increase (decrease) in employee benefits and provisions	398	(2,904)
Cash used in operating activities	**(109,389)**	**(41,712)**
Tax Payments, net	3,685	(11,600)
Net cash generated by (used in) operating activities	**(116,510)**	**21,157**

HADERA PAPER LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 SUMMARY DATA FROM SEPARATE FINANCIAL STATEMENTS OF THE COMPANY (cont.)

e. cash flow statements (cont.)

	Year ended December 31	
	2008	2007
	NIS in thousands	
Cash flows - investing activities		
Acquisition of fixed assets	(7,834)	(11,568)
Acquisition of subsidiaries	(74,942)	-
Proceeds from fixed assetst	-	30,547
Investment in designated deposits, net	(255,244)	-
Interest received	5,193	1,716
Prepaid leasing expenses	(2,651)	(2,596)
Collection of loans of associated companies	3,085	2,429
Proceeds from sale of investment of associated companies	-	27,277
Net cash generated (used in) investing activities	**(332,393)**	**47,805**
Cash flows - financing activities		
Proceeds from private share allocating	-	211,645
Proceeds from issuing notes	424,617	-
Short-term bank credit - net	(100,812)	(57,684)
Borrowings received from banks	35,000	-
Repayment of borrowings from banks	(10,634)	(5,213)
Interest Paid	(16,718)	(24,993)
Redemption of notes	(38,904)	(37,167)
Net cash generated by financing activities	**292,549**	**86,588**
Increase (Decrease) in cash and cash equivalents	**(156,354)**	**155,550**
Cash and cash equivalents - beginning of period	157,085	576
Net foreign exchange difference	(321)	959
Cash and cash equivalents - end of period	**410**	**157,085**

Exhibit 4

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Part	Subject
A.	Corporate Business Description
B.	Management Discussion
C.	Financial Statements as at December 31, 2008
D.	Additional Details Regarding the Corporation

Part A

Corporate Business Description

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Chapter A Description of the General Development of the Corporation s Business

1. Introduction

The Board of Directors of Hadera Paper Ltd. is honored to hereby present the description of the corporation s business as at December 31, 2008 a review of the corporate description and development of its business in 2008 (**the reported period**). The report was formulated in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

1.1. Legend

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

"Amnir" -	Amnir Recycling Industries Ltd.;
"Amnir Environment" -	Amnir Industries and Environmental Services Ltd.;
"Graffiti"	Graffiti Office Supplies & Paper Marketing Ltd.;
"DIC" -	Discount Investment Corporation Ltd.;
"TASE" -	The Tel Aviv Stock Exchange Ltd.;
"The Company" or "Hadera Paper" -	Hadera Paper Ltd. (formerly: "American Israeli Paper Mills Ltd.");
"The Group"	The Company, its subsidiaries and associated companies, as defined below;
"Subsidiaries" -	Companies directly and/or indirectly controlled by the Company[1]: Graffiti Office Supplies & Paper Marketing Ltd.; Hadera Paper Industries Ltd. (formerly: "AIPM Paper Industry (1995) Ltd."), Amnir Recycling Industries Ltd., Attar Office Supplies Marketing Ltd., Carmel Container Systems Ltd. (starting on September 1, 2008), Frenkel-CD Ltd. (starting on September 1, 2008) and other inactive companies as set forth in section 2.5 below;

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

"Associated Companies" -	Hogla-Kimberly Ltd., Mondi Hadera Paper Ltd., KCTR (Turkey) and Cycle-Tec Ltd.;
"Hogla Kimberly" -	Hogla-Kimberly Ltd.;
"The Companies Law" -	The Companies Law, 1999;
"The Securities Act" -	The Securities Act, 1968;
"Carmel" -	Carmel Container Systems Ltd.;
"CII" -	Clal Industries and Investments Ltd.;
"Mondi" -	Mondi Paper Hadera Ltd.;
"Report date" -	December 31, 2008;

"Hadera Paper Industries" -	Hadera Paper Industries Ltd. (formerly: "AIPM Paper Industries (1995) Ltd.");
"Cycle-Tec" -	Cycle-Tec Recycling Technology Ltd.;
"Attar" -	Attar Office Supplies Marketing Ltd.;
"Frenkel" -	Frenkel-CD Ltd.;
"NYSE"-	New York Stock Exchange (formerly American Stock Exchange - AMEX);
"KCTR"-	Kimberly-Clark Tuketim Mallari Sanayi Ve Ticare A.S.

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

1.3. Holding stakes in shares of investee companies are rounded to the nearest percentage point, and are current in proximity to the date of this report, unless otherwise indicated. Holding stakes in shares of an investee company are calculated out of total actual issued share capital of said investee, not accounting for potential dilution due to exercise of options and other convertible securities issued by the company, unless otherwise indicated.

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

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

2. <u>Corporate operations and description of development of its business</u>

2.1. The Company was incorporated in Israel as a private company in 1951. In 1959 the Company held its initial public offering of its securities, and Company shares have been listed since then for trading on the TASE and on the NYSE. On July 1, 2008, pursuant to approval by the Registrar of Companies, the Company changed its name from American Israeli Paper Mills Ltd. to Hadera Paper Ltd. Current controlling shareholders in the Company are CII and DIC, which hold, as of soon prior to the publication date of this report, 37.98% and 21.45% of the Company s issued capital and voting rights, respectively.

To the best of the Company s knowledge, CII and DIC have entered into a shareholders agreement with regard to their holdings in the Company, dated February 1980. The aforementioned shareholders agreement is valid for a 10-year term, and is automatically renewed for a further 10-year term, unless any party informs the counter-party of its intent to terminate the agreement, 6 months prior to term expiration. As of the report date, the aforementioned agreement is effective through February 2010. According to the shareholders agreement, Clal Industries and Discount Investment Corporation shall cooperate in votes concerning appointment of members to the Company Board of Directors, of equal number to each party; should a material difference emerge in the parties holding shares of the Company, the number of Board members shall be determined by negotiation in order to provide appropriate representation to each party according to their holding share. The agreement further stipulates that Clal Industries and Discount Investment Corporation shall cooperate with regard to appointment of members of major committees of the Company Board of Directors and with regard to approval of dividend distribution. Furthermore, to the best of the Company s knowledge, the aforementioned agreement also includes commitments by the parties thereto to provide first right of refusal to each other in case of sale of shares by the other party (other than with regard to non-material sales on the stock exchange). For details of holders of 5% or more of the Company s issued and paid-up share capital, see section 2.4 below.

2.2. The Company deals in the manufacture and sale of packaging paper, corrugated board containers and packaging for consumer goods, in the collection and recycling of paper waste and in the marketing of office supplies through its subsidiaries. The

Company also holds several associated companies that deal in the manufacture and marketing of fine paper, in the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products.

2.3. The Company has two sectors of operation which are also reported as accounting sectors in its consolidated financial statements the paper, recycling and cardboard sector, and the office supplies marketing sector. Group companies engaged in the paper, recycling and cardboard sector include Hadera Paper Industries, Amnir, Carmel and Frenkel since Sept-1-08 (subsidiary companies some of which are wholly-owned by the company and some under its control), as well as group companies engaged in the office supplies marketing sector, which include Graffiti and Attar (wholly-owned subsidiaries of the Company). For details regarding these two operating sectors, see section 4, below. Hadera Paper provides various services, including headquarter services, to some of its subsidiaries and associated companies; for details see section 3.1.1.1, below. Note that in addition to Company operations via its subsidiaries in the aforementioned operating sectors, the Company has investments in several associated companies: Hogla-Kimberly, Mondi, KCTR and Cycle-Tec. For details regarding associated company operations, see section 23, below.

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

Shareholder name	Number and percentage of holdings in equity and voting rights	
	Number of shares	Rate (%)
Clal Industries and Investments Ltd.[2] [3]	1,921,861	37.98%
Discount Investment Corporation Ltd.	1,085,761	21.45%
Clal Insurance Holdings Ltd.[4]	347,668	6.87%
Clal Finance[5]	35,109	0.69%
Public		
Total	**5,060,774**	**100%**

[2] CII is a public company. As of the date of this report, IDB Development Co., Ltd. (hereinafter: **IDB Development**), a public company whose shares are listed for trade on the stock exchange, holds 60.54% of CII s issued capital. To the best of the Company s knowledge, Clal Insurance Business Holding Ltd. (hereinafter: **Clal Holdings**), a public company whose shares are listed for trading on the stock exchange, which is controlled, as of the report date, by IDB Development, holds 5.24% of CII s issued capital. To the best of the Company s knowledge, Clal Holdings is an interested party in CII, since it is controlled by IDB Development, the controlling shareholder of CII.

To the best of the Company s knowledge, IDB Development Ltd. (**IDB Development**) is a public company whose shares are listed for trade on the Tel Aviv Stock Exchange Ltd. (**TASE**) and whose controlling shareholder is IDB Holdings Ltd. (**IDB Holdings**), which holds 86.83% of the capital and 87.16% of the voting rights in IDB Development.

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

Ganden Holdings Ltd. (**Ganden Holdings**), a private company incorporated in Israel, which holds directly and via Ganden Investment IDB Ltd. (**Ganden**), a private company incorporated in Israel wholly owned by it (indirectly), 55.26% of the capital and 55.31% voting rights of IDB Holdings, as follows: Ganden holds 37.73% of the capital and 37.76% of the voting rights of IDB Holdings, and Ganden Holdings directly holds 17.53% of the capital and 17.55% of the voting rights of IDB Holdings. The controlling shareholders of Ganden Holdings are as described below. Furthermore, Shelly Bergman (one of the controlling shareholders in Ganden Holdings) holds, via a private company incorporated in Israel and wholly-owned by her, 4.23% of the capital and voting rights in IDB Holdings and 0.74% of the capital and voting rights in IDB Development.

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, 13.42% of the capital and

13.43% of the voting rights of IDB Holdings, as follows: Manor holds 10.39% of the capital and 10.4% of the voting rights of IDB Holdings, and Manor Holdings directly holds 3.03% of the capital and voting rights of IDB Holdings. The controlling shareholders (and other material shareholders) of Manor Holdings are as described below. In addition, Manor holds 0.34% of the capital and voting rights in IDB Development.

Avraham Livnat Ltd., a private company incorporated in Israel, holds directly and via Avraham Livnat Investments (2002) Ltd. (**Livnat**), a wholly-owned private company incorporated in Israel, 13.43% of the capital and 13.44% of the voting rights of IDB Holdings, as follows: Livnat holds 10.34% of the capital and 10.35% of the voting rights of IDB Holdings, and Avraham Livnat Ltd. directly holds 3.09% of the capital and voting rights of IDB Holdings. The controlling shareholders (and other material shareholders) of Avraham Livnat Ltd. are as described below.

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 (**IDB shareholders agreement**), approximately 51.70% of the issued capital of IDB Holdings, as follows: [a] Ganden 31.02%; [b] Manor 10.34%; and [c] 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 Chairmen on IDB Holdings and its major subsidiaries; non-disclosure of all matters concerning the business of IDB Holdings and its investees; restrictions on transactions in shares of IDB Holdings which form part of the controlling interest; setting up a mechanism for right of first refusal, tag-along right for sale or transfer of IDB Holdings shares and Ganden s right to require Manor and Livnat to sell, concurrently with the former, shares in the controlling stake to a third party, should certain circumstances occur; agreement by Ganden, Manor and Livnat, among themselves, to make their best efforts, subject to all legal provisions, to cause IDB Holdings to distribute to its shareholders, annually, at least one half of the distributable annual income; and for all investees of IDB Holdings (including 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.

It is hereby clarified that the aforementioned additional holdings in IDB Holdings, held by Ganden Holdings (17.53%), by Ganden (6.71%), by Manor Holdings (3.03%), by Manor (0.05%), by Avraham Livnat Ltd. (3.09%) and by Shelly Bergman, via its wholly-owned subsidiary (4.23%) are excluded from the controlling interest as defined in the IDB shareholders agreement.

Furthermore, Clal Finance Ltd. (**Clal Finance**) and mutual funds managed by a company controlled by Clal Finance, which is an indirect subsidiary of IDB Development, together hold 0.11% of the capital and 0.03% of the voting rights in IDB Holdings, and Epsilon Mutual Fund Management (1991) Ltd. (**Epsilon**), a subsidiary of Koor Industries Ltd., a company in which IDB Development holds 76% in total, directly and via Discount Investment Company Ltd., a subsidiary of IDB Development, holds a negligible share of capital and voting rights in IDB Holdings. Furthermore, Clal Finance holds 0.12% of the capital and 0.03% of the voting rights in IDB Development, and Clal Information Technology Ltd., a wholly-owned subsidiary of IDB Development, holds 0.29% of IDB Development s capital. Epsilon holds a negligible share of the capital and voting rights of IDB Development.

IDB Development holds 4,319,091 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, 56.92% of the issued share capital and voting rights in Ganden Holdings, and Shelly Bergman, who holds 12.55% of the issued share capital and voting rights in Ganden Holdings; these controlling shareholders are deemed to jointly hold 69.47% 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. Note also that Nochi Dankner serves as Chairman of the Board of Directors of IDB Holdings and of IDB Development, and as General Business Manager of IDB Holdings.

Hashkaa Mutzlachat Ltd. (**Hashkaa Mutzlachat**), a company wholly owned by Mr. Tzur Dabush, holds 1.69% 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 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:

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 9.99% of the capital and voting rights in Ganden Holdings.

Avi Fisher, in person and via Noga MGA Investments Ltd., a company controlled by him and by his wife, holds, directly and indirectly, 9.23% 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.

[3] To the best of the Company s knowledge, CII and DIC have an agreement, effective through February 2010, relating to their holdings in the Company, whereby they would cooperate on votes regarding appointment of Company board members, appointment of representatives to major committees of the Company Board of Directors and to approval of dividend distribution. Furthermore, to the best of the Company s knowledge, the aforementioned agreement also includes commitments by the parties there to provide first right of refusal to each other in case of sale of shares by the other party. For further details with regard to this agreement, see section 2.1, below.

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

[5] Clal Finance Ltd. (hereinafter: **Clal Finance**), a public company whose shares are listed for trade on the stock exchange, which is controlled, as of the report date, by IDB Development Co. Ltd. (hereinafter: **IDB Development**). To the best of the Company s knowledge, Clal Finance is an interested party in the Company, since it is controlled by IDB Development, the controlling shareholder of CII.

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

Hogla-Kimberly Ltd.[4]

Hadera Paper Industries Ltd.

Carmel Container Systems Ltd.[5]

Graffiti Office Supplies & Paper Marketing Ltd.

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%

100%

Mondi Hadera Paper Ltd.[3]

100%

28.92%

28.92%

KCTR

(Turkey)

100%

Cycle-Tec Ltd.

30.18%

(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. For details of the aforementioned sale of holdings, see section 21.5, below.

(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 PaperMarketing Ltd., Grafinir Paper Marketing Ltd., Yavnir (1999) Ltd., and Mitrani Paper Marketing 2000 (1998) Ltd.

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

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

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2.6. Below is information about the Company s holdings in major Group subsidiaries and associated companies, as well as information about Company representation on the boards of directors of said companies, as of the report date:

Company Name	Sector of Operations	Presentation of the Company in the financial statements of Paper Mills	Hadera Paper representation on the Board	Holding share of capital and voting rights	Fully diluted holding rate of capital and voting
Hadera Paper Industries	**Paper and Recycling Sector**	**Consolidated subsidiary**	**5 representatives out of 5 Board members**	**100**	**100**
Amnir	**Paper and Recycling Sector**	**Consolidated subsidiary**	**4 representatives out of 4 Board members**	**100**	**100**
Graffiti Consolidated (including Attar)	**Office Supplies Marketing**	**Consolidated subsidiary**	**5 representatives out of 5 Board members**	**100**	**100**
Mondi	**Associated**	**Associated**	**3 representatives out of 6 Board members**	**49.9**	**49.9**
Hogla Kimberly	**Associated**	**Associated**	**2 representatives out of 4 Board members**	**49.9**	**49.9**
KCTR	**Associated**	**Associated**	**2 representatives out of 5 Board members[6]**	**49.9**	**49.9**
Carmel	**Paper and Recycling Sector**	**Consolidated subsidiary**	**3 representatives out of 5 Board members**	**89.3**	**89.3**
Cycle-Tec	**Associated**	**Associated**	**2 representatives out of 7 Board members**	**30.18**	**30.18**
Frenkel	**Paper and Recycling Sector**	**Consolidated subsidiary**	**2 representatives out of 8 Board members**	**54.74 of capital[7]**	**54.74 of capital**
				54.69 of voting rights	**54.69 of voting rights**

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[6] **A company wholly-owned by Hogla-Kimberly, which is 49.9% owned by the Company. As of the report date, out of five members on KCTR s board of directors, two other board members serve on behalf of Kimberly-Clark and one other board member on behalf of Hogla-Kimberly.**

[7] **Direct and indirect holdings. The company directly holds 28.92% of the equity of Frenkel and 28.86% in the voting rights. Furthermore, Carmel 89.3% of which is owned by the Company, holds 28.92% of the share capital of Frenkel. As of the report**

date, out of eight members on the Frenkel board of directors, two other board members serve on behalf of Carmel, and four board members on behalf of Frenkel and Sons Ltd.

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3. Changes to the Corporation s Business

3.1. Changes to Group structure

The current Group structure is the result of acquisitions, investments in various companies and business partnerships as described below:

3.1.1. Subsidiaries

3.1.1.1. Hadera Paper Industries Ltd. the Company founded in 1995 its wholly-owned subsidiary, Hadera Paper Industries Ltd., to engage in the production and sale of packaging paper. In 2007, the Company applied to the Income Tax Authority, requesting to spin-off operations of production service provision, described below, which the Company provides to Group companies at the Company site in Hadera (Hadera Paper Industries, Amnir and associated companies Mondi and Hogla-Kimberly), to 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, transportation services, cleaning, security and catering. Note that these services are also provided to the Company s associated companies on Company premises in Hadera, in exchange for cost reimbursement. The objective of this spin-off is to allow for higher efficiency of the aforementioned operations and to allow in future, subject to business opportunities and to Company decisions on this issue to review the introduction of strategic partners into Hadera Paper and Hadera Paper Industry operations. As of the report date, approval by the Income Tax Authority of the Company s spin-off request has yet to be obtained, and the Company has yet to conclude the aforementioned spin-off. For information on this matter, see section 4, below.

3.1.1.2. Amnir Recycling Industries Ltd. In 1969, the Company established Amnir, a wholly-owned subsidiary, engaged in paper waste collection.

3.1.1.3. Graffiti Office Supplies Marketing Ltd. In 1993, the Company established Graffiti, a wholly-owned subsidiary, engaged in office supplies marketing.

3.1.1.4. Attar Marketing Office Supplies Ltd. In 1996, Graffiti established a wholly-owned subsidiary, Attar, engaged in the office supplies sector.

3.1.1.5. Carmel Containers Systems Ltd. In July 1992, the Company acquired 25% of shares of Carmel, a leading company in manufacturing and marketing of paperboard packaging products for industry and agriculture. In Q2 of 2007, Carmel bought back its shares from Ampal Ltd. and from another shareholder, such that Company holdings of voting rights in Carmel grew from 26.25% (prior to said share buy-back) to 36.21%. In August 2008, a transaction was completed for the acquisition of shares of Carmel Container Systems Ltd. (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, the company holds approximately 89.3% of Carmel shares and starting Sept-1-08, the financial statements of Carmel and those of Frenkel-CD Ltd. have been consolidated with the Company s financial statements. For impact of this acquisition on the Company, see Note 15 to the Company s financial statements as of December 31, 2008.

3.1.1.6. Frenkel- CD Ltd. In January 2006, a transaction was completed wherein C.D. Packaging Systems, Ltd. (at that time, 50% directly held by the Company and 50% by Carmel) acquired the operations of Frenkel & Sons, Ltd. in consideration of the allocation of 44.3% of shares of the merged company, Frenkel-CD Ltd. Upon conclusion of the aforementioned transaction, the Company directly holds 27.85% of the issued capital of Frenkel, the merged company. In August 2008, a transaction was concluded whereby the Company increased its holdings in Carmel, thereby increasing its holdings in Frenkel to 28.92% directly and to 25.83% indirectly, via its holdings in Carmel, which holds 28.92% of the issued share capital of Frenkel, and starting on September 1, 2008, the Company holds in total 54.75% of Frenkel, and the financial statements of Carmel and of Frenkel-CD Ltd. were consolidated with those of the Company. To the best of the Company s knowledge, the other shareholder of Frenkel is Frenkel & Sons Ltd., a third party which is not an interested party in the Company (who holds, as of the report date, 42.16% of Frenkel). Frenkel is engaged in design, production and marketing of consumer goods packaging.

3.1.2. Associated Companies

3.1.2.1. Hogla-Kimberly Ltd. Hogla-Kimberly was incorporated in 1963 as a wholly-owned subsidiary of the Company, engaged in the consumer goods sector. In 1996, a foreign corporation, Kimberly Clark Corporation (hereinafter: KC), a third party which is not an interested party in the Company, acquired 49.9% of Hogla-Kimberly shares. On March 31, 2000, KC increased its holding in Hogla-Kimberly to 50.1% of the latter s issued share capital. As a result, Hogla-Kimberly Ltd. is no longer consolidated within the Company s financial statements since the second quarter of 2000, and the Company s share of the Hogla-Kimberly results (49.9%) is included in the company s share of profits of associated companies. Hogla-Kimberly manufactures and markets a wide variety of home paper products, disposable diapers for babies, incontinence products (absorbent products for adults), feminine hygiene products and complementary products for the kitchen and for cleaning. For more details on Hogla-Kimberly s operations, see section 23.2, below.

3.1.2.2. Kimberly-Clark Tuketim Mallari Sanayi Ve Ticare A.S. In 1999, Hogla-Kimberly acquired Turkish company Kimberly-Clark Tuketim Mallari Sanayi Ve Ticare A.S. (formerly: Ovisan), which produces and markets diapers, hygiene products and home paper products in Turkey. As of the report date, Hogla-Kimberly holds 100% of KCTR s issued capital. For details of KCTR s operations, see section 23.3, below.

3.1.2.3. Mondi Hadera Paper Ltd. in February 2000, a transaction was concluded between the Company and Austrian company, Neusiedler AG, a third party which is not an interested party in the Company, whereby the latter, operating under the Mondi Business Paper Group, acquired 50.1% of the Company s operations in the fine paper sector, which was spun-off prior to the transaction and transferred to Mondi, which was incorporated for this purpose (note that at that time, Mondi was named Neusiedler Hadera Paper Ltd.). Upon conclusion of the aforementioned transaction and as of the report date, the Company holds 49.9% of Mondi s issued capital. For details of Mondi s operations, see section 23.1, below.

3.1.2.4. TMM and Amnir Industries and Environmental Services Ltd. In 1998 the Company transferred paper waste collection operations from Amnir to Amnir Industries and Environmental Services Ltd. (hereinafter: Amnir Environment), a wholly-owned subsidiary. In July 1998, the Company entered into an agreement with Compagnie Generale d Enterprises Automobiles Veolia Israel (hereinafter together: CGEA) to sell 51% of Amnir Environment shares. In March 2000, an agreement was signed by the Company and CGEA, on the one hand, and TMM Integrated Recycling Industries Ltd. (hereinafter: TMM) and its controlling shareholders, on the other hand, whereby the Company and CGEA, via a joint company Bartholome Holdings Ltd. (hereinafter: Bartholome), acquired 62.5% of TMM s share capital from its controlling shareholders. Furthermore, pursuant to said agreement, Amnir Environment and TMM were merged by way of allocation of 35.3% of shares of the merged company to shareholders of Amnir Environment. In early 2007, the Company sold to CGEA all its holdings in Bartholome as well as the balance of its holdings in TMM, in conjunction with a complete tender offer. Starting on the aforementioned date, the Company is no longer a shareholder of TMM. For more details, see section 23.4, below.

3.1.2.5. Cycle-Tec Ltd. In 1997 and 1998, Amnir acquired 20% and 10%, respectively, of shares of Cycle-Tec, which is engaged in the development of a process for producing composite materials with a relative advantage of strength from paper waste (mainly newspapers) and recycled plastic. As of Dec-31-08, Amnir holds 30.18% of Cycle-Tec shares. The other shareholders of Cycle-Tec, as of the date of this report and to the best of the Company s knowledge, are third parties which are not interested parties in the Company, as follows: Private investors 19.4%; founders and employees 37.8%; and the startup nursery 12.6%. Cycle-Tec operations are not material for overall Group operations.

3.2. Significant changes in the corporation s business management

None.

4. Sectors of Operation

As mentioned above, the Company, via its subsidiaries, operates in two sectors, which are reported in its financial statements as accounting segments:

Paper, recycling and cardboard Company operations in this operating segment include production and sale of packaging paper, mostly used as raw material in the packaging industry (corrugators) of cardboard products, intended primarily for customers in the industry and agriculture sectors and of cardboard shelf packaging for consumer goods, mostly used in industry, agriculture, food, beverage and cosmetics. This operating sector also includes the paper collection and recycling operation. Paper and board production is partially based on recycled paper waste used as raw material. The majority of production consists of fluting paper (incorporated in corrugated board boxes as a wave between the outer and inner box walls) and cardboard. This paper is produced by Hadera Paper Industries out of recycled paper waste, collected by Amnir from various sources throughout Israel. For its aforementioned paper production operations, the Company manages a range of auxiliary services for the industry. For information concerning the range of auxiliary services and the application to spin-off the operations providing said services to a wholly-owned subsidiary of the Company, see section 3.1.1.1 above. The cardboard produced by Carmel and by Frenkel are mostly made of recycled paper produced by Hadera Paper Industries. The cardboard products are primarily intended for use in industry and agriculture.

In February 1989, Hadera Paper was declared a monopoly in the manufacture and marketing of paper rolls and sheets by the Israel Antitrust Authority. In July 1998, the declaration was partially rescinded with regard to fine paper in rolls and sheets. The declaration has not been rescinded with regard to packaging paper in rolls and sheets for further details see section 9.14.6, below. For further details on this operating sector, see section 9, below.

4.1. Office supplies marketing Company operations in this sector are carried out via Graffiti and Attar (wholly-owned subsidiaries of the Company), including marketing of office and paper supplies, primarily to the institutional and business markets, which include: government offices, banks, HMOs and other businesses. The rate of technological development of Israel s business sector leads to increasing demand for technology-based products, including office automation, printers, hardware, software and consumables such as toners, inkjet cartridges, etc. Office supplies are often delivered along with management of the customer s relevant purchasing budget, thus allowing Graffiti to assist in cost reduction for large enterprises. For further details on this operating sector, see section 10, below.

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

5.1. The Company has adopted two employee stock option plans in 2001 (stock option plan for Group employees and stock option plan for Group senior officers), whereby it granted 275,755 stock options to Group employees. As of the report date, all options granted in conjunction with said plans have been exercised or have expired.

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5.2. In 2006, CII and DIC (interested parties in the corporation) acquired, on several occasions on the stock exchange, 106,780 and 60,324 additional shares, respectively, at an average price per share of NIS 222.34 and NIS 222.46, respectively.

5.3. In November 2007, the Company allocated via private placement 1,012,585 Company ordinary shares of NIS 0.01 par value (hereinafter: ordinary shares) which on the allocation date comprised 20% of the Company s issued share capital (hereinafter in this section: the shares) in exchange for total investment of NIS 213 million (hereinafter in this section: the raised amount). About 60% of the shares (607,551 shares) were allotted to the shareholders in the Company, Clal Industries and Investments and Discount Investments (hereinafter: the special offerees), in accordance with the pro-rata holdings in the Company, and 40% of the shares (405,034 shares) were offered by way of a tender to institutional entities and private entities (whose number did not exceed 35) (hereinafter in this section: the ordinary offerees). The price per share for regular offerees determined by bidding was NIS 210. Accordingly, the share price for special offerees, considering the number of shares offered to special offerees, was set at NIS 211.05 (the auction share price plus 0.5%). The consideration received in respect of the allotment of the shares offered as aforesaid, is used for the partial financing of the acquisition of the new machine for the manufacture of packaging paper, as set forth in section 9.1.4.3, below.

5.4. On December 23, 2007, an agreement was signed (hereinafter in this section: the agreement) with Prisma Capital Markets Ltd. (hereinafter: Market maker) for making a market in Company shares, 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 2-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 market making activities by the market maker, the latter s activities have ceased as of January 21, 2009 and the agreement was terminated. As of the report date, the Company is reviewing optional contracting with a new market maker.

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5.5. On January 14, 2008, the Company s Board of Directors approved, pursuant to approval by the Audit Committee, adoption of a compensation plan for senior employees of the Company and/or its subsidiaries and/or associated companies, whereby up to 285,750 stock options (281,500 stock options as at the date of the report), each of which is exercisable into one ordinary share of the Company with NIS 0.01 par value, would be allocated to senior employees and officers of the Group, including the Company CEO, which at the time of approval of said allocation comprised 5.65% of the Company s issued share capital. In the course of the first quarter of 2008, a sum of 250,500 stock options were granted as aforesaid, and on January 8, 2009, a sum of 34,000 stock options were granted, out of 35,250 stock options that were allocated to the trustee, as a reservoir for future granting. As of the report date, the balance of option warrants held by the trustee is 1,250 option warrants. For details of the aforementioned stock option plan and allocation, see section 12.4.5.1, below.

5.6. Other than options whose granting was decided as set forth in section 5.5, above, as of the report date the Company s capital includes no un-exercised options.

5.7. Subsequent to the shelf prospectus published by the Company on May 26, 2008, the Company concluded on July 16, 2008, the offering of two bond series (Series 3 and 4) amounting in total to NIS 308,060 thousand. Net of issuing expenses, the Company received net proceeds amounting to NIS 306,609 thousand. On August 17, 2008, the Company concluded a further offering, raising a total of NIS 120,000 thousand, in exchange for the allocation of NIS 114,997 thousand par value of bonds (Series 4). Net of issuing expenses, the Company received net proceeds amounting to NIS 119,826 thousand. Total net proceeds received by the Company from these two offerings amounted to a total of NIS 426,435 thousand.

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6. <u>Dividend Distribution</u>

6.1. <u>Dividends announced and distributed by the corporation over the past three years:</u>

The Company did not distribute any dividends to its shareholders during the last two years.

6.2. External restrictions on capacity of the corporation to distribute dividends and dividend distribution policy

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

6.2.2. According to Company bylaws, the Board of Directors may, subject to provisions of the Companies Law on this issue, adopt a resolution with regard to dividend distribution.

Chapter B Other Information

7. Financial Information Regarding the Corporation s Sectors of Operation

7.1. **Below are data regarding financial information about the Company s sectors of operation in 2008 and 2007:**

	Year ended December 31, 2008			
NIS thousands	**Paper recycling & cardboard sector**	**Office Supplies Marketing sector**	**Adjustments to consolidated****	**Consolidated**
1. Revenues*				
a. External sector revenues	543,058	131,114	(688)	673,484
b. Revenues from other operating sectors	-	-	-	-
c. Total	543,058	131,114	(688)	673,484
2. Costs*				
a. Costs which constitute revenues of another sector of the corporation	688	-	-	688
b. Other Costs	510,252	127,881	-	637,445
c. Total	510,940	127,881	(688)	638,133
3. Operating Income	32,118	3,233	-	35,351
4. Total assets as of December 31, 2008	1,218,945	72,624	752,525	2,044,094

* Reflects sales and costs associated with external entities.

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

NIS thousands	Year ended December 31, 2007 Paper & recycling sector	Office Supplies Marketing sector	Adjustments to consolidated**	Consolidated
1. Revenues				
a. External sector revenues	465,265	118,385	(612)	583,038
b. Revenues from other operating sectors	-	612	-	612
c. Total	465,265	118,997	(612)	583,650
2. Costs*				
a. Costs which constitute revenues of another sector of the corporation	612	-	-	612
b. Other Costs	394,248	118,293	(612)	511,929
c. Total	394,860	118,293	(612	