AMERICAN FINANCIAL GROUP INC
Form SC 13D/A
April 25, 2019
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT
TO 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO 13d-2(a)

Amendment No. 9

American Financial Group, Inc.
(Name of Issuer)

Common Stock, no par value
(Title of Class of Securities)

025932 10 4
(CUSIP Number)

Karl J. Grafe, Esq.
301 East Fourth Street
Cincinnati, Ohio 45202
(513) 579-2540
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

April 23, 2019
(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(b)(3) or (4), check the following box [ ]

CUSIP No. 025932 10 4

1	NAME OF REPORTING PERSONS I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY) S. Craig Lindner		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*	(a) (b)	
3	SEC USE ONLY		
4	SOURCE OF FUNDS* N/A		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)		
6	CITIZENSHIP OR PLACE OF ORGANIZATION U.S. Citizen		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 3,389,367	
	8	SHARED VOTING POWER 678,986	
	9	SOLE DISPOSITIVE POWER 3,389,367	
	10	SHARED DISPOSITIVE POWER	

	678,986
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 4,068,353 – See Item 5
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES*
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 4.53%
14	TYPE OF REPORTING PERSON* IN

Page 2 of 4

This Amendment No. 9 (this "Amendment") amends and supplements the Schedule 13D filed on May 11, 2004, as amended by Amendment No. 1 filed on September 18, 2006, Amendment No. 2 filed on August 4, 2008, Amendment No. 3 filed on August 7, 2009, Amendment No. 4 filed on July 16, 2010, Amendment No. 5 filed on December 14, 2010, Amendment No. 6 filed on October 27, 2011, Amendment No. 7 filed on June 11, 2013 and Amendment No. 8 filed on April 16, 2014 (as so amended, the "Original Schedule 13D"), relating to the Common Stock, no par value per share ("Common Stock") issued by American Financial Group, Inc. ("AFG" or the "Company"). Capitalized terms used and not defined in this Amendment No. 9 have the meanings set forth in the Original Schedule 13D.

Item 4. Purpose of Transaction.

Item 4 of the Original 13D is amended and restated as follows:

The Reporting Person is the Co-Chief Executive Officer and Co-President of AFG and also serves on the Board of Directors. In these capacities, Mr. Lindner has responsibility for AFG's management and strategic direction. Additionally, in his capacity as a shareholder of the Company, Mr. Lindner reviews his investment in the Company on a continuous basis. Mr. Lindner may from time to time acquire additional shares of Common Stock of the Company or dispose of a portion of the shares of Common Stock that he beneficially owns. Any transactions that Mr. Lindner may pursue may be made at any time and from time to time without prior notice and will depend upon a variety of factors, including, without limitation, other investment and business opportunities available to Mr. Lindner, tax and estate planning considerations and other factors.

Other than as described above in this Item 4, Mr. Lindner has no present plan or proposal relating to or that would result in any of the transactions or changes listed in Items 4(a) through 4(j) of Schedule 13D.

Item 5. Interest in Securities of the Issuer.

Items 5(a) and 5(b) of the Original 13D are amended and restated as follows:

As of April 23, 2019, the Reporting Person beneficially owned 4,068,353 shares (or approximately 4.53% of the outstanding shares) of Common Stock, which amount includes 3,164,927 shares held in a trust for which he holds voting and dispositive power; 34,440 shares held through the Company's 401(k) retirement plan; 113,229 shares held by a trust over which his spouse has voting and dispositive power; 351,798 shares held by a charitable foundation over which he shares voting and dispositive power; 213,959 shares held in a charitable foundation over which he shares voting and dispositive power with his spouse; and 190,000 shares issuable upon exercise of employee stock options within 60 days of the date of filing.

Item 5(c) of the Original 13D is amended by adding the following:

Within the 60-day period preceding the date of filing of this Amendment, the Reporting Person has engaged in the following transactions.

Date	Transaction	Number of Shares	Price
2/23/2019	Disposition[1]	(3,879)	n/a
2/26/2019	Acquisition[2]	15,110	n/a
3/27/2019	Gift	(6,437)	n/a
4/16/2019	Gift	(5,056)	n/a
4/23/2019	(3)	(3)	n/a

(1) Represents shares withheld by AFG to satisfy taxes payable in connection with the vesting of previously-awarded shares of restricted stock.

(2) Represents a grant of restricted stock pursuant to AFG's stock incentive plan. All shares cliff-vest four years after date of grant.

(3) On April 23, 2019, a limited liability company, over which the Reporting Person shared voting and dispositive power, distributed all 2,324,600 Common Stock held to its members. The Reporting Person received a proportionate number of 767,118 shares of Common Stock in the distribution.

Item 5(e) of the Original 13D is amended by adding the following:
As a result of the distribution discussed in footnote (3) above, the aggregate ownership of Common Stock by the Reporting Person has decreased to a level below five percent (5%) of all issued and outstanding shares of Common Stock, and, as a result thereof, the Reporting Person is filing this statement to report a change in beneficial ownership that terminates the Reporting Person's obligation to report on Schedule 13D under the Securities and Exchange Act of 1934, as amended, subject to any future reporting obligations that may arise.
After reasonable inquiry and to the best knowledge and belief of the undersigned, it is hereby certified that the information set forth in this statement is true, complete and correct.

Dated: April 25, 2019

/s/ Karl J. Grafe
Karl J. Grafe, as Attorney-in-Fact for
S. Craig Lindner

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J. Financial assets (cont.)

(2) Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

(3) Loans and receivables

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

(4) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date.

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

For all other financial assets, an objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

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

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

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Financial assets (Cont.)

(4) Impairment of financial assets (Cont.)

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

K. Borrowings

Borrowings are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

L. Derivative financial instruments

(1) General

The Group entered into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk and commodity price risk.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently 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 commodity price risk (cash flow hedges).

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

(2) Hedge accounting

The Group designates certain hedging instruments, as cash flow hedges.

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

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MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Derivative financial instruments (cont.)

(2) Hedge accounting (cont.)

The effective part of the changes in the value of financial instruments designated for cash flow hedging is immediately recognized in shareholders' equity and the non-effective part is immediately recognized in the statement of income.

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

As of 31.12.09 there are no outstanding cash flow hedge contracts.

M. 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.

N. Leasing

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(1) Current tax

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

(2) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

(3) Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

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MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. Employee benefits

(1) Post-Employment Benefits

The Group's post-employment benefits include: benefits to retirees and liabilities for severance benefits. The Group's post-employment benefits are classified as either defined contribution plans or defined benefit plans. Most of the Group's employees are covered by Article 14 to the Severance Law and therefore the Group's companies makes regular deposits (contributions) in the name of their employees and do not have an obligation to pay further contributions. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

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

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

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

(2) Other long term employee benefits

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

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. Employee benefits (cont.)

(2) Other long term employee benefits (Cont.)

Other employee benefits of the Group include liabilities for early retirement. These liabilities are recorded to statement of operations in accordance with the projected unit credit method. The present value of the Group's obligation for early retirement was determined by means of the capitalization of anticipated future cash flows from the program at market yields of government bonds, denominated in the currency in which the benefits for early retirement will be paid.

(3) Short term employee benefits

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

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

Q. Exchange Rates and Linkage Basis

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

As of:	Representative exchange rate of the Euro (NIS per €1)	Representative exchange rate of the dollar (NIS per $1)	CPI "in respect of" (in points)
December 31, 2009	5.4417	3.775	114.88
December 31, 2008	5.2973	3.802	110.55
December 31, 2007	5.6592	3.846	106.40
Increase (decrease) during the:	%	%	%
Year ended December 31, 2009	2.72	(0.71)	3.9
Year ended December 31, 2008	(6.4)	(1.14)	3.8
Year ended December 31, 2007	1.71	(8.97)	3.39

R. Reclassification

Comparative figures relating to the years 2007 and 2008 were reclassified in these financial statements as follows: NIS 5,054 thousands in 2007 and NIS 4,857 thousand in 2008 were reclassified from employees' benefits in non current liabilities to employees' benefits in current liabilities.

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. Adoption of new and revised Standards and interpretations

A. Standards and Interpretations Affecting Amounts Reported in the Current Period (and/ or prior periods)

1. Standards Affecting Presentation and Disclosure

IAS 1 (revised 2007) Presentation of Financial Statements

The revised Standard has introduced a number of terminology changes (including revised titles for the financial statements) and has resulted in a number of changes in presentation and disclosure. According to the requirements of the standard the statement of comprehensive income is presented separated from the income statement.

However, the revised Standard has had no impact on the reported results of financial position of the Group.

Amendment to IFRS 7 "Financial Instruments Disclosure"

The amendments require enhanced disclosures about fair value measurements and liquidity risk, by establishing a three level hierarchy for making fair value measurements.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2009, with earlier application permitted.

At this stage, the management of the Group estimated that the implementation of the amendment is not expected to have any influence on the financial statements of the Group.

2. Standards and Interpretations Affecting the Reported Results or Financial Position

Annual improvements issued by the IASB

The definitions of short-term and other long-term employee benefits, as Defined in IAS 19 "Employee Benefits" were amended as part of the May 2009 annual improvements issued by the IASB.

According to the amendment, the unused compensated absences should be classified as a short-term benefit in accordance with IAS 19 and will be presented as a current liability in the statement of financial position.

Effective from 1 January 2009, the company measures the expected unused vacation costs as the amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

B. Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IFRS 3 (as revised In 2008) Business Combinations

IFRS 3(2008) has not been adopted in the current year in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July, 2009.

In accordance with the relevant transitional provisions, IFRS 3(2008) need to be applied prospectively to business for which the acquisitions date is on or after 1 January 2009. The adoption of IFRS 3(2008) Business Combinations is not predicted to have a material affect on the group's accounting.

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MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. Adoption of new and revised Standards and interpretations (Cont.)

B. Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IAS 17 – leases

As part of improvement to IFRSs (2009) issued in April 2009, the International Accounting Standards Board amended the requirements of IAS 17 Leases regarding the classification of leases of land. Following the amendments, leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on 1 January 2010 (i.e. the date of adoption of the amendments) and the Group will recognise assets and liabilities related to land leases newly classified as finance leases at their fair values on that date, any difference between those fair values will be recognised in retained earrings.

IFRS 9 Financial Instruments introduces a new classification and measurement regime for financial assets within its scope.

In summary, IFRS 9 proposes that:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value id optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value" through other comprehensive income with only dividends being recognized in profit or loss.
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss.
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.
    - Unquoted equity instruments can no longer be measured at cost less impairment (must be at fair value)

The Standard in effective commencing January 1, 2013, early adoption is possible

IAS 27 (as revised in 2008) Consolidated and Separate Statements

IAS 27(2008) has not been adopted in advance of its effective date (annual periods beginning on or after 1 July 2009). The revisions to IAS 27 principally affect the accounting for transactions or events that result in a change in the Group's interests in its subsidiaries. The adoption of the revised Standard is not predicted to have an affect on the accounting of the Group.

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MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - SIGNIFICANT ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A. General

In the application of the Group's accounting policies, which are described in Note 2, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

B. Significant judgments in applying accounting policies

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

- Useful lives of property, plant and equipment - As described at 2F above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.
- Impairment of goodwill - Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was NIS 3,177 thousand.

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

C. Key sources of estimation uncertainty

- In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Included in the allowance for doubtful debts are individually impaired trade receivables. The impairment recognised represents the difference between the carrying amount of these trade receivable and the present value of the expected proceeds. The Group does not hold any collateral over these balances.

NOTE 4 - CASH AND CASH EQUIVALANTS

	As of December 31,	
	2009	2008

Cash in bank – NIS	4,697	221
Cash in bank - foreign currency	12,379	13,094
	17,076	13,315

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MONDI HADERA PAPER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - TRADE RECEIVABLES

	As of December 31,	
	2009	2008
Domestic		
Open accounts	145,914	136,510
Checks receivable	21,621	23,260
	167,535	159,770
Foreign		
Open accounts	20,676	13,301
	188,211	173,071
Less - allowance for doubtful accounts	(3,796)	(4,160)
	184,415	168,911

The average credit period on sales of goods is 96 days. Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before accepting any new customer, the Group asses the potential customer's credit quality and defines credit limits by customer.

Of the trade receivables balance at the end of the year, NIS 14.9 million (2008: NIS 17.1 million) is due from Company A, the Group's largest customer and NIS 9.4 million (2008: NIS 5.5 million) from Company B. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of NIS 11.9 million which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aging of past due but not impaired

	31/12/09
60-90 days	8.3
90-120 days	3.6
Total	11.9

Movement in the allowance for doubtful debts

	Year ended December 31,	
	2009	2008
Balance at beginning of the year	4,160	2,992
Impairment losses recognized on receivables	2,599	1,334
Amounts written off as uncollectable	(2,963)	(166)
Balance at end of the year	3,796	4,160

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MONDI HADERA PAPER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 6 - OTHER RECEIVABLES

	As of December 31, 2009	2008
Prepaid expenses	1,369	117
Advances to suppliers	285	512
Others	364	750
	2,018	1,379

NOTE 7 - INVENTORIES

	As of December 31, 2009	2008
Raw and auxiliary materials	42,235	42,241
Finished products and goods in process	65,967	97,761
	108,202	140,002
Includes products in transit	18,563	22,187
The inventories are presented net of impairment provision	3,218	1,158

NOTE 8 - INVESTMENTS IN SUBSIDIARIES

	As of December 31, 2009	2008
A. Goodwill, Net	3,177	3,177

Impairment tests for goodwill are discussed in note 2E.

B. Consolidated Subsidiaries

The consolidated financial statements as of December 31, 2009, include the financial statements of the following Subsidiaries:

	Ownership and control As of December 31, 2009
	%

Mondi Hadera Paper Marketing Ltd.	100.00
Grafinir Paper Marketing Ltd.	100.00
Yavnir (1999) Ltd.	100.00
Miterani Paper Marketing 2000 (1998) Ltd.	100.00

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MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 9 - FINANCIAL ASSETS

The carrying amounts of the group's financial assets are presented as follows:

	As of December 31, 2009	As of December 31, 2008
Trade and other receivables	184,946	170,016
Cash and cash equivalents	17,076	13,315
Derivative assets (1)	-	2,382
	202,022	185,713

Notes:

1. Derivative financial instruments are held at fair value.

   Appropriate valuation methodologies are employed to measure the fair value of derivative instruments.

   As of 31.12.09 the derivative are presented in other financial liabilities. See also note 24E.

NOTE 10 - ROPERTY PLANT AND EQUIPMENT

	Leasehold improvements	Machinery and equipment	Motor vehicles	Office Furniture, Computers and equipment	Total
Consolidated					
Cost:					
Balance - January 1, 2008	(*) 4,104	(*) 204,933	(*) 4,774	(*) 3,158	216,969
Changes during 2008					
Additions	299	8,492	392	472	9,655
Dispositions	-	(1,959)	-	-	(1,959)
Increase spare parts stock	-	813	-	-	813
Balance - December 31, 2008	4,403	212,279	5,166	3,630	225,478
Changes during 2009:					
Additions	628	3,454	-	301	4,383
Dispositions	-	(1,206)	(380)	-	(1,586)
Increase spare parts stock	-	235	-	-	235
Balance - December 31, 2009	5,031	214,762	4,786	3,931	228,510
Accumulated depreciation					
Balance - January 1, 2008	(*) 2,144	(*) 54,341	(*) 2,113	(*) 1,878	60,476
Changes during 2008	429	9,886	773	561	11,649

Additions					
Dispositions	-	(1,088)	-	-	(1,088)
Balance - December 31, 2008	2,573	63,139	2,886	2,439	71,037
Changes during 2009:	517	10,189	756	566	12,028
Additions					
Dispositions	-	(1,007)	(279)	-	(1,286)
Balance - December 31, 2009	3,090	72,321	3,363	3,005	81,779
Net book value:					
December 31, 2009	1,941	142,441	1,423	926	146,731
December 31, 2008	1,830	149,140	2,280	1,191	154,441

(*) Reclassified

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MONDI HADERA PAPER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(NIS in thousands)

NOTE 11 - TRADE PAYABLES

	As of December 31, 2009	2008
In Israeli currency	29,355	26,341
In foreign currency or linked thereto (1)	76,269	70,952
	105,624	97,293

	As of December 31, 2009	2008
(1)		
USD	55,588	53,064
EUR	20,681	17,888
	76,269	70,952

(*) Average days of credit for trade payables are 104 days.

NOTE 12 - OTHER PAYABLES AND ACCRUED EXPENSES

	As of December 31, 2009	2008	2007
		(*)	(*)
Accrued payroll and related expenses	14,048	13,954	14,375
Value Added Tax	4,238	640	777
Advances from customers	314	1,284	941
Neusiedler Holding – Accrual for license fee	165	-	34
Interest payable	265	502	1,493
Other	2,049	2,006	2,220
	21,079	18,386	19,840

(*) Reclassified

NOTE 13 - BORROWINGS

	Interest rate %(*)	As of December 31, 2009	2008
A. Secured			
In NIS – Short term Bank loans	2.3%-2.7 %	69,440	105,388
In NIS – not linked	2.5%-6 %	19,966	26,568
In NIS indexed to the CPI	5%-6.55 %	3,652	12,684
		93,058	144,640

(*) Average interest rate as of December 31, 2009.

MONDI HADERA PAPER LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 13 - BORROWINGS (Cont.)

	As of December 31, 2 0 0 9
B. Maturities of long term loans	
First year - 2010	10,599
Second year - 2011	3,662
Third year - 2012	2,563
Fourth year - 2013	2,649
Fifth year - 2014	4,145
Onward	23,618

C. According to the loan agreements with the banks, as amended in the second half of 2005, the Company has to achieve, inter alia, financial ratio at the end of each audited fiscal year of total shareholders equity (which includes capital notes to shareholders) to total assets to be no less than 22%. In case the Company fails to fulfill these covenants, the banks are entitled to demand early repayment of the loans, in whole or in part.

As of December 31, 2009, the Company was in full compliance with the covenants stipulated in the bank agreements and this financial ratio amounted to 33.6%.

D. As to a "negative pledge agreement" signed by the Company, see Note 16B.

E. The Company and its Subsidiaries have been granted a total bank credit facility, pursuant to which the Company and its Subsidiaries may, from time to time, borrow an aggregate principal amount of up to adjusted NIS 314,000 thousand. As of the balance sheet date, the Group utilized NIS 90,859 thousand of the credit facility as long & short term borrowings and as bank guarantees granted to third parties.

NOTE 14 - OTHER FINANCIAL LIABILITIES

	As of December 31,	
	2 0 0 9	2 0 0 8
Derivatives that are designated and effective as hedging instruments carried at fair value		
Commodity forward contracts	-	5,512
See also note 24F.		
Derivatives carried at fair value through profit or loss	432	-
See also note 9, note 24E		

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MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 15 - EMPLOYEE BENEFITS

A. Composition

	As of December 31,		
	2 0 0 9	2 0 0 8	2 0 0 7
Post Employment Benefits:			
		(*)	(*)
Benefits to retirees	2,079	1,364	1,399
Accrued severance pay	206	214	46
Short term employee benefits:			
		(*)	(*)
Accrued payroll and related expenses	8,121	8,791	9,321
Liability for vacation pay	5,927	5,163	5,054
	16,333	15,532	15,820

(*) Reclassified

B. Defined contribution plan

Most of the Group's employees are covered by Article 14 to the Severance Law and therefore the Group's companies makes regular deposits (contributions) in the name of their employees and do not have an obligation to pay further contributions. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

The total expense recognized in the income statement of NIS 6,683 thousand represents contributions to these plans by the group.

C. Actuarial assumptions

The groups defined benefit plans has been calculated by estimating the present value of the future probable obligation used actual valuation methods. The discounted rate is based on field on government bonds at a fixed interest rate which have an average lifetime equal to that of the gross liability. The actuarial assumptions used in the plan are detailed bellow.

D. Defined benefit plans

The groups defined benefit plans include benefits to retirees – holiday gifts and paper distribution.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at		
	2009	2008	2007

Discount rate	5.54%-6	%	5.9	%	3.62	%
Expected rate of inflation	2.6%-2.7	%	2.1	%	1.9	%
Expected rate of leaving	3%-14	%	3%-11	%	5	%

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 15 - EMPLOYEE BENEFITS (Cont.)

D. Defined benefit plans (cont.)

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

	Year ended December 31, 2009	2008	2007
Current service cost	20	17	74
Interest on obligations	61	66	66
Actuarial losses (gains) recognized in the year	44	(382)	-
Benefit paid during the year	(49)	(42)	(38)
	76	(341)	102

The amount included in the balance sheet arising from the entity's obligation in respect of its defined benefit plans is as follows:

	As of December 31, 2009	2008	2 0 0 7
Present value of funded defined benefit obligation	1,134	1,058	1,399

Movements in the present value of the defined benefit obligation in the current period were as follows:

	As of December 31, 2009	2008	2007
Opening defined benefit obligation	1,058	1,399	1,297
Current service cost	20	17	74
Interest cost	61	66	66
Actuarial losses (gains)	44	(382)	-
Benefits paid	(49)	(42)	(38)
Closing defined benefit obligation	1,134	1,058	1,399

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 15 - EMPLOYEE BENEFITS (Cont.)

D. Other long term employee benefits

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

Other employee benefits of the Group include liabilities for early retirement.

The obligation in respect of early retirement includes an obligation for pension of the period starting the date of the early retirement up to reaching the legal retirement age.

The amount included in the balance sheet arising from the entity's obligation in respect of early retirement is as follows:

	Year ended December 31,		
	2009	2008	2007
	NIS in thousands		
Present value of funded defined benefit obligation	945	306	-

Movements in the present value of early retirement in the current period were as follows:

	Year ended December 31,		
	2009	2008	2007
	NIS in thousands		
Opening defined benefit obligation	306	-	-
Interest cost	54	-	-
Current service cost	759	306	-
Benefits paid	(174)	-	-
Closing defined benefit obligation	945	306	-

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 16 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Commitments:

The Company and its Subsidiaries lease certain of their facilities under operating leases for varying periods with renewal options primarily from Hadera Paper Group. At the balance sheet date, the group had outstanding commitments under non cancellable operating leases, which fall due as follows:

	Consolidated
Within 1 Year	4,654
Between 1 to 2 Years	6,494
Between 2 to 5 Years	9,600
	20,748

Negotiations between the company & its two shareholders are currently being held regarding the transfer of logistic activities from the Hadera, Holon & Haifa sites of the company to a central logistic site which is in process of being built. The minority shareholder of the company has signed an operational lease agreement on 18/9/2008 under which it has undertaken to lease the site for two of its subsidiaries & for the company. The total monthly rental fee according to this agreement is 1,135k NIS (linked to the Israeli CPI) & the company's part of the site is planned to be 36%. The company has signed a guarantee for its future part of the site agreement.

B. Liens

To secure long-term bank loans and short-term bank credits (the balance of which as of December, 31 2009 is NIS 93,058 thousand), the Company entered into a “negative pledge agreement” under which the Company is committed not to pledge any of its assets, excluding fixed pledges relating to assets financed by others, prior to the consent of the banks.

C. Guarantees

The Company from time to time and in the course of its ongoing operations provides guarantees.

NOTE 17 - SHAREHOLDERS' EQUITY

A. As of December 31, 2009, 2008 and 2007, share capital is composed of ordinary shares of NIS 1.00 par value each. Authorized - 38,000 shares; issued and paid up - 1,000 shares.

B. Holders of ordinary shares are entitled to participate equally in the payment of cash dividends and bonus share (stock dividend) distributions and, in the event of the liquidation of the Company, in the distribution of assets after satisfaction of liabilities to creditors (See also Note 1A).

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 18 - REVENUE

	Year ended December 31,		
	2009	2008	2007
Industrial operations	531,453	569,772	580,202
Commercial operations	137,769	162,575	189,830
	669,222	732,347	770,032

NOTE 19 - COST OF SALES

	Year ended December 31,		
	2009	2008	2007
Purchases (*)	117,080	141,478	175,507
Materials consumed	292,083	373,131	383,002
Salaries and related expenses	44,018	42,760	40,756
Subcontracting	3,075	4,494	5,260
Energy costs	47,535	49,240	57,700
Depreciation	11,903	11,487	10,432
Other manufacturing costs and expenses (including rent)	31,114	34,796	28,133
	546,808	657,386	700,790
Change in finished goods , goods in process, and products in transit (**)	31,729	(7,746)	(12,790)
	578,537	649,640	688,000

(*) The purchases of the Group are related principally to commercial operations.
(**) Change in raw and auxiliary materials are included in materials consumed.

NOTE 20 - SELLING EXPENSES

	Year ended December 31,		
	2009	2008	2007
Salaries and related expenses	20,029	19,780	19,340
Packaging and shipping to customers	8,095	6,512	6,065
Maintenance and rent	7,961	8,408	8,438
Vehicles	1,755	1,855	1,953
Advertising	250	126	450

License fees to a shareholder	166	-	26
Depreciation	77	124	212
Others	1,361	1,488	1,405
	39,694	38,293	37,889

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MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 21 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2009	2008	2007
Salaries and related expenses	4,356	4,025	4,221
Office maintenance	234	147	174
Professional and management fees	1,549	1,413	1,998
Depreciation	48	57	57
Bad and doubtful debts	2,599	1,334	156
Other	2,040	2,764	3,926
	10,826	9,740	10,532

NOTE 22 - FINANCE COSTS

	Year ended December 31, 2009	2008	2007
A. Financing income:			
Interest income	104	415	393
Foreign currency gains (see note C)	-	5,474	5,390
Total financing income	104	5,889	5,783
B. Financing costs:			
Interest expenses			
Interest on bank loans	8,329	13,134	13,857
Interest on defined benefit arrangements (see note 15)	61	362	340
Foreign currency losses (see note C)	2,973	-	-
Total interest expenses	11,363	13,496	14,197
Net finance cost	11,259	7,607	8,414
C. Foreign Exchange			
The amounts credited to the consolidated income statement are presented below:			
Included in net financing costs			
Foreign currency gains (losses)	(159)	3,092	5,390
Fair value gains (losses) on forward foreign exchange contracts (see note 24)	(2,814)	2,382	-
Net foreign currency (losses) gains	(2,973)	5,474	5,390

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 23 - INCOME TAXES

A. The Company and its Subsidiaries are taxed according to the provisions of The Income Tax Ordinance and the Income Tax Law (Inflationary Adjustments), 1985. The Company is an industrial company in conformity with the Law for the Encouragement of Industry (Taxes), 1969. The major benefit the Company is entitled to under this law is accelerated depreciation rates.

B. Composition

	Year ended December 31,		
	2009	2008	2007
Current taxes	3,614	97	140
Taxes in respect of prior years	-	-	74
Deferred taxes (D. below)	(3,003)	7,030	7,006
	611	7,127	7,220

C. Reconciliation of the statutory tax rate to the effective tax rate

	Year ended December 31,		
	2009	2008	2007
Income before income taxes	29,282	26,483	25,510
Statutory tax rate	26 %	27 %	29 %
Tax computed by statutory tax rate	7,613	7,150	7,398
Tax increments (savings) due to:			
Non-deductible expenses	-	75	-
Loss on disposal not recognized as deferred tax asset	-	158	-
Utilization of tax losses not previously recognized	(483)	-	-
Change in tax rate	(6,379)	-	-
Differences arising from basis of measurement	(140)	(256)	(252)
Prior years income taxes	-	-	74
	611	7,127	7,220

D. Deferred Taxes

	Year ended December 31,		
	2009	2008	2007
Balance as of beginning of year	(24,274)	(18,677)	(11,671)
Charged to the consolidated income statements	3,003	(7,030)	(7,006)
Charged directly to equity	(1,433)	1,433	-
Balance as of end of year	(22,704)	(24,274)	(18,677)

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 23 - INCOME TAXES (Cont.)

E. Deferred Taxes (cont.)

	As of December 31,		
	2 0 0 9	2 0 0 8	2 0 0 7
Deferred taxes arise from the following:			
Allowance for doubtful accounts	949	744	570
Vacation and recreation pay	1,709	1,586	1,743
Carry forward tax losses	-	2,533	8,933
Depreciable fixed assets	(25,412)	(30,624)	(29,934)
Accrued severance pay, net	50	54	11
Cash flow hedges	-	1,433	-
	(22,704)	(24,274)	(18,677)

For 2009 - Deferred taxes were computed at rates between 25%-20%, primarily - 25%.

Deferred taxes are not recognized in respect of all losses of subsidiaries amounted to NIS 1,853 thousands as of December 31, 2009.

F. Reduction of Corporate Tax Rates

In July 2005, the Israeli Knesset passed the Law for Amending the Income Tax Ordinance (No. 147), 2005, according to which commencing in 2006 the corporate income-tax rate would be gradually reduced, for which a 31% tax rate was established, through 2010, in respect of which a 25% tax rate was established.

G. On July 14, 2009 the Knesset (The legislative branch of the Israeli government), passed the Economic Efficiency Law (legislative amendments to implement the economic plan for the years 2009 and 20010) – 2009, which stipulates, inter allia, and additional gradual reduction in the rate of companies tax to 18% in the 2016. tax year and thereafter. According to these amendments, the rate of Group tax applying to the 2009 tax year and thereafter are as follows: 2009 tax year – 26%, 2010 tax year – 25%, 2011 tax year – 24%, 2012 tax year – 23%, 2013 texture – 22%, 2014 tax year – 21%, 2015 tax year – 20%, and in the 2016 tax year and thereafter there will be companies tax rate of 18%. The change in the tax rates have decreased the deferred taxes liability as of December 31, 2009 in the amount of NIS 6,379 thousand.

H. The Company and its Subsidiaries have tax assessments that are final through the 2004 tax year.

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 24 - FINANCIAL INSTRUMENTS

A. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

B. Categories of financial instruments

	As of December 31,	
	2009	2008
Financial assets		
Derivative instruments	-	2,382
Loans and receivables (including cash and cash equivalents)	202,022	183,330
Financial liabilities		
Derivative instruments	432	-
Derivative instruments in designated hedge accounting relationships	-	5,512
Amortized cost	263,669	319,168

C. Credit risk

The Group's cash and cash equivalents as of December 31, 2009 and 2008 are deposited mainly with major banks. The group considers the credit risks in respect of these balances to be remote.

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

The group uses a credit insurance policy to manage its exposure to the risk of customers defaulting on sales invoices raised.

Total amount of trade receivables insured against credit insurance is NIS 50,632 thousands as of December 31, 2009. (2008: NIS 103,427 thousands).

The carrying amount of financial assets recorded in the financial statements, net of insured amount, represents the group's exposure to credit risk.

D. Liquidity risk

Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash-generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate.

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

D. Liquidity risk (cont.)

Forecast liquidity represents the Group's expected cash inflows, principally generated from sales made to customers, less the Group's contractually – determined cash outflows, principally related to supplier payments and the repayment of borrowings, plus the payment of any interest accruing thereon. The matching of these cash inflows and outflows rests on the expected ageing profiles of the underlying assets and liabilities. Short-term financial assets and financial liabilities are represented primarily by the Group's trade receivables and trade payables respectively. The matching of the cash flows that result from trade receivables and trade payables takes place typically over a period of three to four months from recognition in the balance sheet and is managed to ensure the ongoing operating liquidity of the Group. Financing cash outflows may be longer-term in nature. The Group does not hold long-term financial assets to match against these commitments, but is significantly invested in long-term non-financial assets, which generate the sustainable future cash inflows, net of future capital expenditure requirements, needed to service and repay the Group's borrowings.

The following table presents the Group's outstanding contractual maturity profile for its non-derivative financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the Group's financial liabilities, including any interest that will accrue. Non-interest bearing financial liabilities which are due to be settled in less than 12 months from maturity equal their carrying values, since the impact of the time value of money is immaterial over such a short duration.

Maturity profile of outstanding financial liabilities'

	1 year	1-2 years	2-5 years	Total
2009				
Supplier payables	170,346	-	-	170,346
Borrowings'	81,027	4,318	10,419	95,764
Total	251,373	4,318	10,419	266,110
2008				
Supplier Payables	174,026	-	-	174,026
Borrowings'	123,002	11,510	14,741	149,253
Total	297,028	11,510	14,741	323,279

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

E. Exchange rate risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at reporting date are as follows:

	Liabilities		Assets	
	2009	2008	2009	2008
	NIS	NIS	NIS	NIS
USD	56,020	53,064	37,692	30,239
EUR	20,681	23,400	1,079	4,945

The Group is mainly exposed to USD and EUR.

The following table details the Group's sensitivity to a 10% increase and decrease in the NIS against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the NIS strengthens 10% against the relevant currency. For a 10% weakening of the NIS against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	USD Impact	EUR Impact
	2009	2009
	NIS	NIS
Profit or loss (1)	282	1,962

(1) This is mainly attributable to the exposure outstanding on receivables, cash and payables at year end in the Group, and forward foreign exchange contracts.

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions, which are treated as non hedging instruments. The resulting gain or loss is recognized in profit or loss immediately.

The following table details the forward foreign currency (FC) contracts outstanding as at reporting date:

Outstanding contracts

	Buy Currency	Sell Currency	Net Fair value NIS
Less than 3 months	USD	NIS	432

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MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

F. Commodity price risk

The group has entered into cash flaw hedge contracts in December, 2008 in order to reduce its exposure to change in raw materials price.

During 2009 the group recognized a loss of NIS 5,404 thousands in statements of operation as a result of the hedge.

As of 31.12.09 there are no outstanding cash flow hedge contracts.

G. Fair value of financial instruments

The financial instruments of the Group consist of derivative and non derivative assets and liabilities. Non-derivative assets include cash and cash equivalents, receivables and other current assets. Non-derivative liabilities include short-term bank credit, trade payables, other current liabilities and long-term loans from banks. Derivative liabilities include foreign exchange forward contracts. Due to the nature of these financial instruments, their fair value, generally, is identical or close to the value at which they are presented in the financial statements, unless stated otherwise.

The fair value of the long-term loans approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 24 - FINANCIAL INSTRUMENTS (Cont.)

F. Linkage Terms of Financial Instruments

	December 31, 2009		December 31, 2008			
	In, or linked to, foreign currency (mainly dollar)	Linked to the Israeli CPI	In, or linked to, foreign currency (mainly dollar)	Linked to the Israeli CPI	Unlinked	Unlinked
	NIS in thousands			NIS in thousands		
Assets:						
Cash and cash equivalents	12,379	-	4,697	13,094	-	221
Financial assets carried at fair value through profit or loss	-	-	-	2,382	-	-
Trade and other receivables	26,392	-	158,554	19,709	-	150,307
	38,771	-	163,251	35,185	-	150,528
Liabilities:						
Short-term credit from banks	-	-	69,440	-	-	105,388
Trade and other payables	76,269	-	94,342	70,952	-	103,576
Other financial liabilities	432	-	-	5,512	-	-
Long term loans (including current maturities)	-	3,653	19,965	-	12,684	26,568
	76,701	3,653	183,747	76,464	12,684	235,532

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 25 - RELATED PARTIES

The Group is owned by Neusiedler Holding (The "Parent Company") (50.1%) and Hadera Paper Ltd. (49.9%).

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below:

A. Transactions with Related Parties

	Hadera Paper and its subsidiaries		Neusiedler Holding and its subsidiaries	
	Year ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Sales to related parties	23,453	14,882	-	-
Purchases of goods	-	-	6,225	2,895
Cost of sales	85,709	88,775	1,818	2,660
Selling expenses, net (Participation in selling expenses, net)	-	-	166	-
General and administrative expenses	3,020	2,743	-	-
Financing expenses ,net	3,349	3,703	-	232

B. Balances with Related Parties

	Hadera Paper and its subsidiaries		Neusiedler Holding and its subsidiaries	
	As of December 31,		As of December 31,	
	2009	2008	2009	2008
Other receivables	-	-	-	370
Trade payables	57,595	69,614	2,752	221

Other payables and accrued expenses	-	-	166	-

C. (1) The Group leases its premises from Hadera Paper and receives services (including energy, water, maintenance and professional services) under agreements, which are renewed based on shareholders agreements. See also Note 16A above.

(2) The Group is obligated to pay commissions to Mondi Neusiedler GmbH.

MONDI HADERA PAPER LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(NIS in thousands)

NOTE 25 - RELATED PARTIES (Cont.)

D. Compensation of key management personnel

Total remuneration of key management during the year was as follows:

	Year ended December 31, 2009	2008
Short term benefits	5,175	5,085
Share options	648	635
	5,823	5,720

The Company's senior management was rewarded by allotment of Mondi Plc's and Hadera Paper's share options. The cost of the benefit was determined as the fair value on the grant day and this amount is being charged to the income statement over the vesting period. The company's debt resulting from the grant will be paid in cash to both shareholders.

The fair value of the options granted as aforementioned was estimated by applying the economic models.

HOGLA-KIMBERLY LTD.
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009

HOGLA-KIMBERLY LTD.
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
Hogla-Kimberly Ltd.

We have audited the accompanying consolidated statements of financial position of Hogla-Kimberly Ltd. ("the Company") as of December 31, 2009, 2008 and 2007, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated changes in shareholders' equity and consolidated statements of cash flows of the Company for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the statements of financial position of the Company and its subsidiaries as of December 31, 2009, 2008 and 2007, and the consolidated income statements, consolidated statements of comprehensive income, consolidated changes in shareholders' equity and the consolidated statements of cash flows of the Company, for each of the three years then ended, in conformity with international financial reporting standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Israel
February 18, 2010

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT
OF FINANCIAL POSITION
(NIS in thousands)

		As of December 31,		
	Note	2009	2008	2007
Current Assets				
Cash and cash equivalents	4	106,996	23,219	23,082
Trade receivables	5	289,680	264,918	263,879
Inventories	6	180,631	234,841	184,424
Current tax assets	22	-	137	12,219
Capital note of shareholder	7	-	32,770	-
Other current assets	8	5,757	6,340	8,019
		583,064	562,225	491,623
Non-Current Assets				
Capital note of shareholder	7	-	-	31,210
VAT Receivable		47,171	41,423	43,317
Property plant and equipment	9A	334,604	317,174	310,368
Goodwill	10	18,650	18,708	24,495
Employee benefit assets	11	517	343	-
Deferred tax assets	22	4,899	4,389	11,245
Prepaid expenses for operating lease	9B	1,765	1,894	2,022
		407,606	383,931	422,657
		990,670	946,156	914,280
Current Liabilities				
Borrowings	12	25,977	52,718	155,302
Trade payables	13	296,359	286,835	262,304
			(*)	(*)
Employee benefit obligations	11	12,855	11,241	10,396
Current tax liabilities	22	26,631	5,413	2,260
Dividend payables		40,000	-	-
Other payables and accrued expenses	14	57,873	44,023	36,909
		459,695	400,230	467,171
Non-Current Liabilities				
Borrowings	12	33,736	59,044	-
Employee benefit obligations	11	7,515	(*) 7,879	(*) 6,443
Deferred tax liabilities	22	33,631	38,014	39,730
		74,882	104,937	46,173
Commitments and Contingent Liabilities	15			
Capital and reserves	16			
Issued capital		265,246	265,246	265,246
Reserves		(60,156)	(57,680)	(8,106)
Retained earnings		251,003	233,423	143,796
		456,093	440,989	400,936
		990,670	946,156	914,280

(*) Reclassified.

G .Calvo Paz	O. Lux	A. Melamud
Chairman of the Board of Directors	Chief Financial Officer	Chief Executive Officer

Approval date of the financial statements: 18 February, 2010.

The accompanying notes are an integral part of the consolidated financial statements.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(NIS in thousands)

		Year ended December 31,		
	Note	2 0 0 9	2 0 0 8	2 0 0 7
Revenue	17	1,726,627	1,608,576	1,375,674
Cost of sales	18	1,164,949	1,097,567	968,594
Gross profit		561,678	511,009	407,080
Operating costs and expenses				
Selling and marketing expenses	19	304,776	308,737	286,042
General and administrative expenses	20	63,097	66,519	59,588
		367,873	375,256	345,630
Operating profit		193,805	135,753	61,450
Finance expenses	21	(3,041)	(12,355)	(29,327)
Finance income	21	4,557	13,702	1,790
Finance income (expenses), net		1,516	1,347	(27,537)
Profit before tax		195,321	137,100	33,913
Income taxes charge	22	(44,226)	(47,473)	(64,545)
Profit (loss) for the year		151,095	89,627	(30,632)

The accompanying notes are an integral part of the consolidated financial statements.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(NIS in thousands)

	Year Ended December, 31		
	2009	2008	2007
Profit for year	151,095	89,627	(30,632)
Exchange differences arising on translation of foreign operations	(1,375)	(52,096)	7,636
Cash flow hedges	766	(572)	(1,841)
Transfer to profit or loss from equity on cash flow hedge	(2,270)	4,081	47
Income tax relating to components of other comprehensive income	403	(987)	521
Other comprehensive income (loss) for the year (net of tax)	(2,476)	(49,574)	6,363
Total comprehensive income for the year	148,619	40,053	(24,269)

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(NIS in thousands)

	Share capital	Capital reserves	Foreign currency translation reserve	Accumulated other comprehensive income	Retained earnings	Total
Year ended December 31, 2009						
Balance - January 1, 2009	29,638	235,608	(58,853)	1,173	233,423	440,989
Total comprehensive income	-	-	(1,375)	(1,101)	151,095	148,619
Dividend	-	-	-	-	(133,515)	(133,515)
Balance - December 31, 2009	29,638	235,608	(60,228)	72	251,003	456,093

	Share capital	Capital reserves	Foreign currency translation reserve	Accumulated other comprehensive income	Retained earnings	Total
Year ended December 31, 2008						
Balance - January 1, 2008	29,638	235,608	(6,757)	(1,349)	143,796	400,936
Total comprehensive income	-	-	(52,096)	2,522	89,627	40,053
Balance - December 31, 2008	29,638	235,608	(58,853)	1,173	233,423	440,989

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(NIS in thousands)

	Share capital	Capital reserves	Foreign currency translation reserve	Accumulated other comprehensive income	Retained earnings	Total
Year ended December 31, 2007						
Balance - January 1, 2007	29,638	230,153	(14,393)	(76)	181,443	426,765
Total comprehensive income	-	-	7,636	(1,273)	(30,632)	(24,269)
Movement in capital note revaluation reserve	-	-	-	-	(1,560)	(1,560)
Capitalization of retained earnings From Approved Enterprise Earnings	-	5,455	-	-	(5,455)	-
Balance - December 31, 2007	29,638	235,608	(6,757)	(1,349)	143,796	400,936

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

	Year ended December 31,		
	2009	2008	2007
Cash flows – operating activities			
Net income (Loss) for the year	151,095	89,627	(30,632)
Adjustments to reconcile operating profit to net cash provided by operating activities (Appendix A)	90,548	12,972	121,853
Net cash generated by operating activities	241,643	102,599	91,221
Cash flows – investing activities			
Acquisition of property plant and equipment	(42,484)	(53,334)	(43,013)
Proceeds from disposal of Property plant and equipment	32	4,851	124
Repayment of capital note by shareholders	32,770	-	-
Interest received	1,495	1,525	720
Net cash used in investing activities	(8,187)	(46,958)	(42,169)
Cash flows – financing activities			
Dividend paid	(93,515)	-	-
Borrowings received	-	82,947	-
Borrowing paid	(23,904)	-	-
Short-term bank credit	(28,139)	(124,286)	(7,368)
Interest paid	(3,381)	(8,353)	(26,470)
Net cash used in financing activities	(148,939)	(49,692)	(33,838)
Net increase in cash and cash equivalents	84,517	5,949	15,214
Cash and cash equivalents – beginning of year	23,219	23,082	7,190
Effects of exchange rate changes on the balance of cash held in foreign currencies	(740)	(5,812)	678
Cash and cash equivalents - end of year	106,996	23,219	23,082

The accompanying notes are an integral part of the consolidated financial statements.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

	Year ended December 31,		
	2009	2008	2007
A. Adjustments to reconcile operating profit to net cash provided by operating activities			
Finance expenses adjustments to profit	4,426	6,828	25,750
Taxes on income recognized in profit and loss	44,226	47,473	64,545
Depreciation and amortization	29,213	24,367	27,871
Capital loss on disposal of property, plant and equipment	948	2,878	658
Effect of exchange rate differences, net	-	-	(1,110)
Effect of discounting capital note to shareholder	-	(1,560)	(1,560)
Changes in assets and liabilities:			
Decrease (Increase) in trade receivables	(19,566)	5,465	25,381
Decrease (Increase) in other current assets	597	3,872	(516)
Decrease (Increase) in inventories	54,144	(66,659)	(7,004)
Increase in trade payables	11,927	18,407	36,894
Net change in balances with related parties	(12,911)	1,339	(5,878)
Increase (Decrease) in other payables and accrued expenses	12,303	(3,195)	9,147
Effect of exchange rate differences on dividend payables	(2,540)	-	-
Decrease in other long term asset	(5,947)	(9,163)	(14,177)
Change in employee benefit obligations, net	1,089	5,414	4,822
	117,909	41,856	164,823
Income taxes received	10,880	7,065	6,030
Income taxes paid	(38,241)	(35,949)	(49,000)
	90,548	12,972	121,853

The accompanying notes are an integral part of the consolidated financial statements.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

A. Description Of Business

Hogla Kimberly Ltd. (“the Company”) and its Subsidiaries are engaged principally in the production and marketing of paper and hygienic products. The Company’s results of operations are affected by transactions with shareholders and affiliated companies.

The Company is owned by Kimberly Clark Corp. (“KC” or the “Parent Company”) (50.1%) Hadera Paper Ltd. (49.9%).

B. Definitions:

The Company	-	Hogla-Kimberly Ltd
The Group	-	the Company and its Subsidiaries
Subsidiaries	-	companies in which the Company control, (as defined by IAS 27) directly or indirectly, and whose financial statements are fully consolidated with those of the Company.
Related Parties	-	as defined by IAS 24.
Interested Parties	-	as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010.
Controlling Shareholder	-	as defined in the 1968 Israeli Securities law and Regulations.
NIS	-	New Israeli Shekel.
CPI	-	the Israeli consumer price index.
Dollar	-	the U.S. dollar.
YTL	-	the Turkish New Lira.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Applying International Accounting Standards (IFRS)

Statement of compliance

The consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) for all reporting periods presented.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Basis of preparation

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the exchange rate of the U.S. dollar. As of December 31, 2003 when the economy ceases to be hyper-inflationary and the Company no longer adjusted its financial statements to the U.S. dollar, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

- Assets and liabilities measured by fair value and derivative financial instruments.
- Inventories are stated at the lower of cost and net realizable value.
- Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.
- Liabilities to employees as described in note 2R.

C. Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in the New Israeli Shekel ("NIS"), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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

Exchange differences are recognised in profit or loss in the period in which they occur except for:

Ÿ Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Ÿ Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Foreign currencies (Cont.)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in NIS using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

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

D. Cash and Cash Equivalents

Cash and cash equivalents include bank deposits, available for immediate withdrawal, as well as unrestricted short-term deposits with maturities of less than three months from the date of deposit.

E. Basis of consolidation

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

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

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

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

F. Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Property, plant and equipment

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

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

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. Amortization of leasehold improvements is computed over the shorter of the term of the lease, including any option period, where the Company intends to exercise such option, or their useful life.

The annual depreciation and amortization rates are:	%
Buildings	2-4
Leasehold improvements	10-25
Machinery and equipment	5-10
Motor vehicles	15-20
Office furniture and equipment	6-33

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

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

H. Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Impairment of tangible and intangible assets excluding goodwill (cont.)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Inventories

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

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

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

Cost determined as follows:

Manufactured finished products Based on standard cost method

Purchased finished goods raw, auxiliary materials and other Based on moving-average basis.

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

J. Financial assets

(1) General

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

Financial assets are classified into Loans and receivables

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Financial assets (Cont.)

(2) Loans and receivables

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

(3) Impairment of financial assets

Financial assets, are assessed for indicators of impairment at each balance sheet date.

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

For all other financial assets, objective evidence of impairment could include

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

L. Provisions

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

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

M. Derivative financial instruments

(1) General

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges),

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

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Derivative financial instruments (Cont.)

(2) Hedge accounting

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

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

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the “finance income” or "finance expenses" lines of the income statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

N. Revenue recognition

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

(1) Sale of goods
Revenue from the sale of goods is recognised when all the following conditions are satisfied:

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

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

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Revenue recognition (Cont.)

(2) Interest revenue

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

O. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(1) Current tax

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

(2) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Taxation (Cont.)

(3) Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

P. prepaid expenses of operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. the Company's lands in Afula which were leased from the Israel Land Administration, shall be presented in the Company's balance sheet as prepaid expenses for operating lease in respect of lease, and amortized over the remaining period of the lease.

Q. Employee benefits

(1) Post-Employment Benefits

The Group's post-employment benefits include: benefits to retirees and liabilities for severance benefits. The Group's post-employment benefits are classified as either defined contribution plans or defined benefit plans. Most of the Group's employees are covered by Article 14 to the Severance Law and therefore the Group's companies makes regular deposits (contributions) in the name of their employees and do not have an obligation to pay further contributions. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

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

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

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. Employee benefits (Cont.)

(1) Post-Employment Benefits (Cont.)

The Group's liability in respect of the Defined Benefit Plan which is presented in the Group's balance sheet, includes the current value of the obligation in respect of the defined benefit, with the addition (net of) actuarial past service cost that was not yet recognized. A net plan, which is created from said calculation, is limited to the amount of the actuarial.

losses and past service cost that were not yet recognized with the addition of the current value of available economic benefits in the shape of returns from the plan or in the shape of reduction in future contributions to the plan.

(2) Other long term employee benefits

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

R. Exchange Rates and Linkage Basis

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

As of:	Turkish Lira exchange rate vis-a-vis the U.S. dollar (TL’000 per $1)	Representative exchange rate of the dollar (NIS per $1)	CPI “in respect of” (in points)
December 31, 2009	1,515	3.775	114.55
December 31, 2008	1,521	3.802	110.55
December 31, 2007	1,176	3.846	106.40
Increase (decrease) during the:	%	%	%
Year ended December 31, 2009	(0.4)	(0.71)	3.7
Year ended December 31, 2008	29.38	(1.14)	3.9
Year ended December 31, 2007	(16.95)	(8.97)	3.8

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. Adoption of new and revised Standards and interpretations

(1) Standards and Interpretations which are effective and have been applied in these financial statements

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period, these are:

IAS 1 (revised 2007) Presentation of Financial Statements

The revised Standard has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. According to the requirements of the standard the company chose to present statement of comprehensive income in separate from the income statement.

However, the revised Standard has had no impact on the reported results of operations and the financial position of the Group.

Amendment to IFRS 7 "Financial Instruments Disclosure"

The amendments require enhanced disclosures about fair value measurements and liquidity risk, by establishing a three level hierarchy for making fair value measurements.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2009, with earlier application permitted.

The management of the Group estimated that the implementation of the amendment does not have any influence on the financial statements of the Group.

Amendment to IAS 19 "employee benefits"

The definitions of short-term and other long-term employee benefits, as Defined in IAS 19 "Employee Benefits" were amended as part of the May 2009 annual improvements issued by the IASB.

According to the amendment, the unused compensated absences should be classified as a short-term benefit in accordance with IAS 19 and will be presented as a current liability in the statement of financial position.

Effective from 1 January 2009, the company measures the expected cost of unused, accumulated compensated absences as the amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

As a result of the amendment NIS 9,433 thousand were reclassified from employee benefit obligations in non-current liabilities to employee benefit obligations in current liabilities as of December 31, 2008.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. Adoption of new and revised Standards and interpretations (Cont.)

S. Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

Amendment IAS 36 "Impairment of Assets"

The amendment determines that allocation of goodwill acquired in a business combination should be to cash generating unit which is not larger tan an operating segment in accordance with IFRS 8 "Operating Segments".

The amendment is effective commencing January 1, 2010.

The Company estimates that the financial statements will not be effected by the amendment

Amendment to IAS 17 "Leases"

The amendment determines that land and building leased will be classified in accordance to general classification instructions to each component, therefore land leases from the Israeli land administration could be classified as finance lease.

The amendment is effective commencing January 1, 2010, early adoption is permitted.

At this stage management is examining the effect of this amendment on the group's financial statements.

IFRS 9

IFRS 9 Financial Instruments introduces a new classification and measurement regime for financial assets within its scope.

In summary, IFRS 9 proposes that:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value id optional in some limited circumstances)

- Investments in equity instruments can be designated as "fair value" through other comprehensive income with only dividends being recognized in profit or loss.

- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss.

- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

- Unquoted equity instruments can no longer be measured at cost less impairment (must be at fair value)

The Standard in effective commencing January 1, 2013, early adoption is possible.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. Adoption of new and revised Standards and interpretations (Cont.)

(2) Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (cont.)

Amendment to IFRS 2 "Share-based Payment"

The amendments clarify the accounting for group Cash Cash-settled Share-based payment transactions. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 scope of IFRS 2 and IFRIC 11 IFRS 2 Group and Treasury share transactions. The amendments are effective for annual reporting periods commencing January 1, 2010.

IAS 27 (as revised in 2008) Consolidated and Separate Statements

IAS 27(2008) has not been adopted in advance of its effective date (annual periods beginning on or after 1 July 2009). The revisions to IAS 27 principally affect the accounting for transactions or events that result in a change in the Group's interests in its subsidiaries. The adoption of the revised Standard is not predicted to have an affect on the accounting of the Group.

IFRS 3 (as revised In 2008) Business Combinations

IFRS 3(2008) has not been adopted in the current year in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July, 2009.

In accordance with the relevant transitional provisions, IFRS 3(2008) need to be applied prospectively to business for which the acquisitions date is on or after 1 January 2009. The adoption of IFRS 3(2008) Business Combinations is not predicted to have a material affect on the group's accounting.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 3 - CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A. General

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

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

B. Critical judgments in applying accounting policies

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

Revenue recognition
In making their judgment, the management considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the management is satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate provision for the rectification costs.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was NIS 18.6 million.

Useful lives of property, plant and equipment
As described at 2G above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

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

C. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Employee retirement benefits

The present value of the employee retirement benefits is based on an actuarial valuation using many assumptions inter alia the capitalization rate. Changes in the assumptions may influence the book value of the liabilities for retirement benefits. The Company determines the capitalization rate once a year based on the basis of the capitalization rate of government bonds. Other key assumptions are based on the current prevailing terms in the market and the past experience of the Company (see also note 11).

NOTE 4 - CASH AND CASH EQUIVALENTS

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Cash in banks	1,788	1,750	7,510
Short term bank deposits	105,208	21,469	15,572
Cash and cash equivalents	106,996	23,219	23,082

NOTE 5 - TRADE RECEIVABLES

Composition

		As of December 31,		
		2009	2008	2007
		NIS in thousands		
Domestic	- Open accounts	179,902	178,421	172,982
	- Checks receivable	38,957	36,444	33,994
	- Related parties	940	948	897
		219,799	215,813	207,873
Foreign	- Open accounts	38,470	27,235	40,596
	- Related parties	34,742	29,335	21,781
		73,212	56,570	62,377

	293,011	272,383	270,250
Less - allowance for doubtful accounts	3,331	7,465	6,371
	289,680	264,918	263,879

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 5 - TRADE RECEIVABLES (Cont.)

The average credit period on sales of goods is 60 days.

For each customer, where possible, the Company checks its credit rating with an external credit rating companies to assess the potential customer's credit quality and help in defining its credit limit. Credit limit for each customer is determined and approved according to the Company's policy taking into account its rating and collaterals.

Of the trade receivables balance at the end of the year, 49.4 million NIS (2008: 40 million) is due from Company A, and 36 million Nis (2008: 29.8 million) is due from customer B which are the Group's largest customers .There are no other customers who represent more than 10% of the total balance of trade receivables.

Hogla Kimberly exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 24.

Included in the Group's trade receivable balance, are debtors with a carrying amount of NIS 8,830 thousands which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group is insured for NIS 164 million of these balances.

Ageing of past due but not impaired

	As of December 31, 2009
30-90 days	7,291
More then 120 days	1,539
	8,830

Movement in provision for doubtful debts during the year

	As of December 31		
	2009	2008	2007
	NIS in thousands		
Balance at beginning of the year	7,465	6,371	26,855
Impairment losses recognized on receivables	315	2,360	783
Amounts written off as uncollectible	(2,943)	-	(14,519)
Amounts recovered during the year	(1,506)	(1,098)	(7,169)
Foreign currency exchange rate differences	-	(168)	421
Balance at end of the year	3,331	7,465	6,371

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 6 - INVENTORIES

Composition

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Raw and auxiliary materials	80,660	113,667	75,071
Finished goods	79,012	100,083	89,886
Spare parts and other	20,959	21,091	19,467
	180,631	234,841	184,424

In 2009 raw materials and changes in finished goods recognized as cost of sales amounted to NIS 597,791 (2008 – NIS 564,455 2007 – NIS 485,152).

As of December 31, 2009 and 2008 allowance for impairment of inventory amounted to NIS 5.7and NIS 5.4 million, respectively.

During 2009 and 2008 a provision that was recorded in cost of sales resulting from impairment of inventory was 289 and 2500 thousand NIS, respectively.

All Finish goods and Raw and auxiliary materials inventories are expected to be recovered in period of no more than twelve months.

NOTE 7 - CAPITAL NOTE OF SHAREHOLDER

On March 19, 2009 Hadera Paper Ltd repaid the capital note to the company in the amount of NIS 32.77 million.

NOTE 8 - OTHER CURRENT ASSETS

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Prepaid expenses	2,976	3,299	5,262
Derivatives assets (*)	-	2,041	-
Loans to employees	473	449	588
Other	2,308	551	2,169
	5,757	6,340	8,019

(*) Derivatives assets see note 23.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 9 - PROPERTY PLANT AND EQUIPMENT

A. Composition and movement

	Buildings	Improvements	Machinery Equipment	Vehicles	Furniture Equipment	Total
			NIS in thousands			
Cost:						
Balance - January 1, 2009	51,090	15,718	482,521	12,343	13,862	575,534
Changes during 2009:						
Additions	2,412	2,431	42,428	-	618	47,889
Dispositions	(130)	-	(8,984)	-	(18)	(9,132)
Foreign currency translation adjustments	(105)	1	(409)	(5)	(22)	(540)
Balance - December 31, 2009	53,267	18,150	515,556	12,338	14,440	613,751
Accumulated depreciation:						
Balance - January 1, 2009	20,208	8,241	209,087	10,663	10,161	258,360
Changes during 2009:						
Additions	1,268	1,293	24,732	567	1,218	29,078
Dispositions	(130)	-	(8,004)	-	(18)	(8,152)
Foreign currency translation adjustments	(23)	4	(108)	(5)	(7)	(139)
Balance - December 31, 2009	21,323	9,538	225,707	11,225	11,354	279,147
Net book value:						
December 31, 2009	31,944	8,612	289,849	1,113	3,086	334,604

	Buildings	Improvements	Machinery Equipment	Vehicles	Furniture Equipment	Total
			NIS in thousands			
Cost:						
Balance - January 1, 2008	56,589	13,558	488,301	14,510	18,481	591,439
Changes during 2008:						
Additions	3,260	3,083	47,118	341	1,125	54,927
Dispositions	(490)	(607)	(39,673)	(2,231)	(4,492)	(47,493)
Foreign currency translation adjustments	(8,269)	(316)	(13,225)	(277)	(1,252)	(23,339)
Balance - December 31, 2008	51,090	15,718	482,521	12,343	13,862	575,534
Accumulated depreciation:						
Balance - January 1, 2008	21,521	7,247	225,389	12,647	14,267	281,071
Changes during 2008:						
Additions	585	1,182	21,073	519	1,008	24,367
Dispositions	(465)	(23)	(32,578)	(2,225)	(4,473)	(39,764)
Foreign currency	(1,433)	(165)	(4,797)	(278)	(641)	(7,314)

translation adjustments						
Balance - December 31, 2008	20,208	8,241	209,087	10,663	10,161	258,360
Net book value:						
December 31, 2008	30,882	7,477	273,434	1,680	3,701	317,174

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 9 - PROPERTY PLANT AND EQUIPMENT (Cont.)

A. Composition and movement (Cont.)

	Buildings	Improvements	Machinery Equipment	Vehicles	Furniture Equipment	Total
			NIS in thousands			
Cost:						
Balance - January 1, 2007						
Changes during 2007:	52,531	12,066	453,748	13,101	16,493	547,939
Additions	1,158	1,406	34,007	1,424	1,580	39,575
Dispositions	-	-	(2,438)	-	-	(2,438)
Foreign currency translation adjustments	2,900	86	2,984	(15)	408	6,363
Balance - December 31, 2007	56,589	13,558	488,301	14,510	18,481	591,439
Accumulated depreciation:						
Balance - January 1, 2007	19,890	6,193	202,421	12,065	12,561	253,130
Changes during 2007:						
Additions	1,157	1,034	23,435	597	1,519	27,742
Dispositions	-	-	(1,654)	-	-	(1,654)
Foreign currency translation adjustments	474	20	1,187	(15)	187	1,853
Balance - December 31, 2007	21,521	7,247	225,389	12,647	14,267	281,071
Net book value:						
December 31, 2007	35,068	6,311	262,912	1,863	4,214	310,368

B. Prepaid expenses for operating lease

Hogla-Kimberly leased land in Afula from the Israel Land Administration on January 1988 at the amount of NIS 4,600 thousand, the end of the leasing period is September 2023.

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Prepaid expenses for operating leases as of January, 1988	4,600	4,600	4,600
Accumulated expenses recognized in profit and loss	(2,835)	(2,706)	(2,578)
	1,765	1,894	2,022

NOTE 10 - INVESTMENTS IN SUBSIDIARIES

A. Goodwill

	As of December 31,		
	2 0 0 9	2 0 0 8	2 0 0 7
	NIS in thousands		
Cost	26,009	26,009	26,009
Translation adjustments	(7,359)	(7,301)	(1,514)
	18,650	18,708	24,495

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 10 - INVESTMENTS IN SUBSIDIARIES (Cont.)

B. Annual impairment test

The goodwill is allocated to KCTR's activity, which is the cash generating unit for the purpose of calculating the recoverable amount.

The recoverable amount value is based on the fair value of investment in KCTR less cost to sell, calculated by six (*) years DCF forecast approved by the company's management and based on the following assumptions, determined by KC experience in similar markets. :

1. Long term growth ratio of 0%.
2. Weighted cost of capital of 13%.

C. Investment in Kimberli Clark Tuketim Mallari Sanayi Ve Ticaret A.Ş. ("KCTR")

As of December 31, 2009 and 2008, the Group's investment in KCTR (a Turkish Subsidiary) amounted to NIS 250,813 and NIS 208, 313 thousand respectively (including goodwill – see above). In recent years KCTR incurred significant losses from operations.
The company examined the investment in KCTR for impairment in accordance to its revocable amount.

Based on the said examination, the company's business forecast and estimates made, no impairment is required. (see note 10 B above)

During years 2005 - 2009, the Company provided KCTR NIS 583,758 thousand for the continuation of its on going operations. In addition, the Company has committed to financially support KCTR in 2009. Such finance support may be granted to KCTR either by cash injections, long-term loans, or guaranties if required so by banks according to the financing needs of KCTR.

D. Consolidated Subsidiaries

The consolidated financial statements as of December 31, 2009, include the financial statements of the following Subsidiaries:

	Ownership and control as of December 31, 2009 %
Hogla-Kimberly Marketing Ltd. ("Marketing")	100
Kimberly Clark Tuketim Mallari Sanayi Ve Ticaret A.Ş. ("KCTR")	100
Mollet Marketing Ltd. ("Mollet")	100
H-K Overseas (Holland) B.V. (*)	100

Hogla-Kimberly Holding Anonim Sirketi (*)	100

(*) The company is inactive.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 10 - INVESTMENTS IN SUBSIDIARIES (Cont.)

E. Capital Injections

1. In December, 2007 the capital notes to KCTR were converted to capital injections at the amount of NIS 44,609 thousands
2. In December 2007, Hogla Kimbely made a share premium contribution to it's subsidiary, H-K Overseas (Holland) B.V, in the amount of NIS 18,045 thousands.

NOTE 11 - EMPLOYEE BENEFITS

A. Composition

	As of December 31, 2009	2008	2007
	NIS in thousands		
Post Employment Benefits:			
Severance pay benefits:			
Severance pay liability	4,176	3,341	1,142
Less – Amounts deposited with a general fund	(2,160)	(1,745)	-
Severance pay net	2,016	1,596	1,142
Liability for early retirement	4,237	5,009	4,394
Benefits to retirees	1,910	1,995	1,899
Other short term employee benefits:			
Liability for vacation pay	11,690	10,178	9,404
Stated in the balance sheet as follows:			
Non current Assets	517	343	-
Short-term Liabilities	12,855	11,241	10,396
Long-term Liabilities	7,515	7,879	6,443

B. Defined contribution plan

Most of the Company and its Israeli subsidiaries employees are covered by Article 14 to the Severance Law and therefore the Company and its Israeli subsidiaries makes regular deposits (contributions) in the name of their employees and do not have an obligation to pay further contributions. The Group's deposits under the Defined Contribution Plan are carried to the income statements on the date of the provision of work services, in respect of which the Group is obligated to make the deposit and no additional provision in the financial statements is required.

During the year 2009 a sum of NIS 17,758 thousand was recognized in the income statement due to the defined contribution plan.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 11 - EMPLOYEE BENEFITS (Cont.)

C. Actuarial assumptions

The groups defined benefit plans and other long term employee benefits provisions, has been calculated by estimating the present value of the future probable obligation using actuarial valuation methods. The discounted rate is based on yield on government bonds at a fixed interest rate which have an average lifetime equal to that of the gross liability. The actuarial assumptions used in each plan are detailed bellow.

D. Defined benefit plans

The groups defined benefit plans include benefits to retirees and severance pay

1. The group's Severance pay liability.

Severance pay provisions resulting from the Israeli companies and included in the financial statements of the group are due to increased severance pay which are not covered by deposits made on monthly basis. In respect of this part of the obligation, there is a reserve deposited in the Company's name in a recognized compensation fund.

Under the Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provisions according to current 506 numbered Social Insurance Law’s 6 March 1981 dated, 2422 numbered, 25 August 1999 dated and 4447 numbered with 60th article that has been changed. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002.

The principal assumptions used for the Severance pay liability in Israel actuarial valuations were as follows:

	Valuation at		
	2009	2008	2007
Discount rate	5.47 %	6.07 %	3.62 %
Expected rate of inflation	2.64 %	2.13 %	1.9 %
Expected rate of salary increase	4.25 %	4.25 %	2.31 %

The provisions at the respective balance sheet dates in Turkish subsidiary have been calculated assuming an annual inflation rate of 4.8% and a discount rate of 11%, the anticipated rate of forfeitures is considered.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 11 - EMPLOYEE BENEFITS (Cont.)

D. Defined benefit plans

1. The group's Severance pay liability.(Cont.)

The amounts recognized in profit or loss in respect of Severance pay liability are as follows:

	Year ended December 31,		
	2009	2008	2007
	NIS in thousands		
Current service cost	1,257	2,724	1,762
Interest on obligations	192	135	123
Actuarial losses recognized during the year	143	51	-
Benefit paid during the year	(744)	(440)	(3,373)
Foreign currency translation affect	(13)	(271)	319
	835	2,199	(1,169)

The amount included in the balance sheet arising from the entity's obligation in respect of Severance pay liability is as follows:

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Present value of Severance pay liability	4,176	3,341	1,142

The amount of Severance pay liability of 4,176 consists of: NIS 2,533 thousands (2008 – NIS 1,939 thousands, 2007 – NIS 1,142 thousands) due to severance pay liability for of the Turkish subsidiary employees according to the Turkish law and NIS 1,643 thousand due to liability for increased severance pay for certain employees according to a collective agreement.

Movements in the present value of Severance pay liability in the current period were as follows:

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Opening defined benefit obligation	3,341	1,142	2,311
Current service cost	1,257	2,724	1,762
Interest cost	192	135	123
Actuarial losses	143	51	-
Benefit paid during the year	(744)	(440)	(3,373)

Foreign currency translation affect	(13)	(271)	319
Closing defined benefit obligation	4,176	3,341	1,142

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 11 - EMPLOYEE BENEFITS (Cont.)

D. Defined benefit plans (cont.)

2. Benefits to retirees of holiday vouchers.

The financial statements include liability to benefits given to retirees – holiday gifts.

Employees who are not temporary are entitled to received holiday vouchers, after retirement, until the end of their life. In cases of death, the remaining spouses are entitled to receive the benefits until the end of their life.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at		
	2009	2008	2007
Discount rate	5.54 %	6.07 %	3.62 %
Expected rate of inflation	2.61 %	2.13 %	1.9 %
Expected rate of leaving	2.6%-15.1%	2.6%-15.1%	4.5%-11.5%

The amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

	Year ended December 31,		
	2009	2008	2007
	NIS in thousands		
Current service cost	59	48	-
Interest on obligations	105	92	92
Actuarial losses recognized in the year	68	58	88
Benefit paid during the year	(112)	(104)	(80)
	120	94	100

The amount included in the balance sheet arising from the entity's obligation in respect of its benefits to retirees' plans is as follows:

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Present value of funded defined benefit obligation	1,910	1,995	1,899

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 11 - EMPLOYEE BENEFITS (Cont.)

D. Defined benefit plans (cont.)

2. Benefits to retirees of holiday vouchers.

Movements in the present value of the defined benefit obligation in the current period were as follows:

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Opening defined benefit obligation	1,995	1,899	1,799
Current service cost	31	48	-
Interest cost	100	94	92
Actuarial losses	59	58	88
Benefits paid	(275)	(104)	(80)
Closing defined benefit obligation	1,910	1,995	1,899

E. Other short term employee benefits

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

F. Other long term employee benefits

Early retirement

The obligation in respect of early retirement includes an obligation for pension for the period starting the date of the early retirement up to reaching the legal retirement age.

The amount included in the balance sheet arising from the entity's obligation in respect of early retirement is as follows:

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Present value of funded defined benefit obligation	4,237	5,009	4,394

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 11 - EMPLOYEE BENEFITS (Cont.)

F. Other long term employee benefits (Cont.)

Early retirement (Cont.)

Movements in the present value of early retirement in the current period were as follows:

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Opening defined benefit obligation	5,009	4,394	-
Interest cost	220	233	-
Additions	402	1,383	4,645
Benefits paid	(1,394)	(1,001)	(251)
Closing defined benefit obligation	4,237	5,009	4,394

Stated in balance sheet	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Short term liabilities	1,165	1,063	992
Long term liabilities	3,072	3,946	3,402
	4,237	5,009	4394

NOTE 12 - BORROWINGS

This Note provides information about the contractual terms of the interest-bearing loans and borrowings. For more information about the exposure of the Group to interest rate and foreign currency risks, see Note 23

A. Composition

	December 31, 2009	December 31, 2008	December 31, 2007
	NIS thousands		
Current liabilities to banks			
Short-term borrowings	670	28,815	155,302
Current maturities of long term bank loans (*)	25,307	23,903	-
	25,977	52,718	155,302
Non-current liabilities to banks and others			
Long term bank loans	33,736	59,044	-
	59,713	111,762	155,302

(*) The loans are not linked and bear interest at a variable rate. The principal of the loan and interest are paid quarterly.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 12 - BORROWINGS (Cont.)

B. Terms and debt repayment table

	Currency	Nominal interest rate (*) %	Current Liabilities December 31, 2009	2008	2007	Non-Current liabilities December 31, 2009	2008	2007
			NIS in thousands					
Loans and borrowings from banks:								
Borrowing:								
NIS nominated	NIS	3.8-4.7	-	28,530	59,260	-	-	-
YTL nominated	YTL	20.09	670	285	96,042	-		
Loans:								
NIS nominated	NIS	3.25-2.75	25,307	23,903	-	35,140	59,044	-
			25,977	52,718	155,302	35,140	59,044	-

(*) As of December 31, 2009

Terms and debt repayment table

On January 2008, the Company made an agreement with an Israeli bank for prime linked interest loan in the amount of NIS 100 million which will be repaid during a four years period. As part of the agreement the Company agreed to the following covenants:

1. It's shareholder's equity will not be less than NIS 250 million and not less than 25% of the total consolidated assets.

2. Both the Company's shareholder's Kimberly Clark and Hadera Paper separately or together, will not hold less than 51% of the Company's share capital.

As of December 31, 2009 the Company meets all covenants agreed with banks.

	As of December 31, 2009 NIS in thousands
Maturities of long term loans	
First year - 2010	25,307
Second year - 2011	26,795
Third year - 2012	6,941
	59,043

NOTE 13 - TRADE PAYABLES

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
In Israeli currency:			
Open accounts	143,957	124,924	124,328
Related parties	28,611	24,534	26,119
In foreign currency:			
Open accounts	95,164	97,172	82,877
Related parties	28,626	40,205	28,980
	296,358	286,835	262,304

Regarding exposure to currency risks are disclosed in note 23.

The Trade payables balance include an amount of NIS 15,454 Thousands (2008: NIS 10,049 thousands, 2007: NIS 8,456 thousands) due to fixed assets purchases.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 14 - OTHER PAYABLES AND ACCRUED EXPENSES

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Accrued payroll and related expenses	36,689	33,052	28,015
Value Added Tax	7,955	2,330	577
Advances from customers	278	435	413
Derivatives liabilities (*)	119	-	2,394
Sales Agent fee accrual	6,534	3,946	-
Other	6,298	4,260	5,510
	57,873	44,023	36,909

(*) Derivatives liabilities see note 23.

NOTE 15 - COMMITMENTS CONTINGENT LIABILITIES AND OTHER INFORMATION

A. Commitments

(1) The Group is obligated to pay royalties to a shareholder - see also Note 24B.

(2) The Company and its Subsidiaries lease a number of their facilities under operating leases for varying periods with renewal options. The Company does not have an option to purchase the leased assets at the end of the lease period .In addition the company has a vehicles lease agreement for the period between 2008-2014 Future minimum lease and vehicles leasing rentals as of December 31, 2009 are as follows:

	NIS in thousands
2010	25,893
2011-2014	80,809
2015 and thereafter	92,238
	198,940

B. Guarantees

(1) As part of their normal course of business, the Company and its Subsidiaries provided third parties with bank guarantees for contract performance, the balance of which as of December 31, 2009 amounted to NIS 1,047
(2) thousand.

A Subsidiary has given letter of guarantees to the local banks for a number of contingent liabilities that have arisen as a result of the Company's importing transactions. The amount disclosed of NIS 2,140 thousands represents the aggregate amount of such contingent liabilities for which the Company as an importer is liable.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 15 - COMMITMENTS CONTINGENT LIABILITIES AND OTHER INFORMATION

C. Legal proceedings

1. In July 2005, Clubmarket Marketing Chains Ltd. ("Clubmarket"), a customer of the Company and one of the largest retail groups in Israel, applied for the regional court in Tel-Aviv ("Court") for a staying of procedures by creditors. In December 2005, the Court approved a creditors settlement submitted by the trustees, according to which, amongst other matters, the Company is to receive about 51% of Clubmarket's debt to the Company.

   On September 2007 a compromise was made between the trustees and the company, which was approved by the court, that the total approved debt of clubmarket to the company is NIS 23.9 million. Until December 31, 2009, NIS 11 million was received as part of the creditors' settlement.

   There is not any remaining net balance of Clubmarket's debt as of December 31, 2009, that is in excess of the doubtful accounts provision recorded in the financial statements.

2. On July 12, 2007 a lawsuit was filled against KCTR, a Hogla Kimberly subsidiary, by a former distributor, claiming financial loss caused to him. The amount claimed is approximately YTL 832 thousands (NIS 2,080 thousands).KCTR filed a counter claim for it's damage in the amount of approximately YTL 355 thousands (NIS 888 thousands). Based on the Company's legal counsels, management estimates that the Company has valid arguments to oppose the lawsuit, and it is probable that its arguments will be accepted. Therefore, no provision was recorded in the financial statements relating to this lawsuit.

3. On April 2009, a labor- financial lawsuit filled against the Company, by a former employee that was fired at once without advance notice and severance pay, due to firm evidence of stealing from Company's site. The amount claimed is approximately NIS 128 thousands (Approximately US$ 32 thousands) for advance notice, severance pay etc'. Based on the Company's legal counsels, management estimates that the Company has valid arguments to oppose the lawsuit, and that the Company's chances that its arguments to oppose the lawsuit will be accepted are probable..

4. During 2009, as part of a formal tax inspection of the Turkish Tax Authorities, KCTR's Financial Reports for the years 2004-2008 were examined.

   On February 16, 2010, KCTR received a tax inspection report, following the aforementioned inspection, according to which KCTR is required to an additional tax payment for two matters audited, as detailed below, on the total amount of 135 millions YTL (approximately 89 millions USD) including interest and penalty.

   KCTR has provided a provision at its Financial Reports for December 31, 2009, with regards to one of these two matters (Stamp Tax) of 158 thousands YTL (approximately 104 thousands USD), which KCTR consider to be the required estimated cash outflow for the matter.

   Regarding the second matter, which is the essential part of the tax demand (tax on capital injection from Hogla-Kimberly to KCTR), KCTR, based on its tax consultant opinion, estimates that the likelihood that it will be demanded for the additional tax payment in this matter, is not probable, and therefore it will not provide a provision at its

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 15 - COMMITMENTS CONTINGENT LIABILITIES AND OTHER INFORMATION (Cont.)

C. Legal proceedings (cont.)

Financial Reports for December 31, 2009, with regards to the second matter.

Based on its tax consultant opinion, KCTR opposes the Turkish Tax Authorities demands regarding the second matter, and is about to appeal.

D. Other information

On May 20, 2008 the Company received from the Israeli tax authority compensation in the amount of approximate NIS 4.5 millions. The compensation is due to loss of earnings during a security situation that occurred in July 2006 in northern Israel and caused the Company to partially stop its manufacturing activity in its Naharia plant.

NOTE 16 - SHARE CAPITAL

A. Composition of Share Capital in Nominal NIS as of December 31, 2009, 2008 and 2007:

	Number of Shares (*)	
	Authorized	Issued and fully paid up
Ordinary Shares of NIS 1.00 par value	11,000,000	9,113,473

(*) As of December 31, 2008 the Company has completed the process of registering 600,000 shares by the registrar of companies. The shares were issued to the shareholders of the Company as part of the merger process.

B. Holders of ordinary shares are entitled to participate equally in the payment of cash dividends and bonus share (stock dividend) distributions and, in the event of the liquidation of the Company, in the distribution of assets after satisfaction of liabilities to creditors. Each ordinary share is entitled to one vote on all matters to be voted on by shareholders.

C. According to the decision of the Board of Directors which took place on March 1, 2007, the Company approved the capitalization of NIS 5.455 million of the Company's retained earnings that were derived from Approved Enterprise activities of previous years, by transferring the said amount from retained earnings to capital reserve.

D. The company issued one preference Share to Hadera Paper Ltd, which gives Hadera Paper the right to receive special dividends according to the decision of the Board from time to time.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 17 - REVENUE

		Year ended December 31, 2009	2008	2007
		NIS in thousands		
A.	Sales of the Turkish subsidiary	489,560	404,024	245,025
B.	Sales to major customers (as percentage from total net sales)			
	Customer A	14 %	13.2 %	15.4 %
	Customer B	9.5 %	10.5 %	11.8 %

NOTE 18 - COST OF SALES

	Year ended December 31, 2009	2008	2007
	NIS in thousands		
Material consumed	597,791	564,455	485,152
Purchases (*)	267,842	271,688	234,720
Salaries and related expenses	119,867	110,844	111,447
Manufacturing expenses	133,098	140,991	125,402
Depreciation	27,387	21,883	24,630
	1,145,985	1,109,861	981,351
Change in finished goods inventory	18,964	(12,294)	(12,757)
	1,164,949	1,097,567	968,594

(*) The purchases of the group are related principally to commercial operations.

NOTE 19 - SELLING AND MARKETING EXPENSES

	Year ended December 31, 2009	2008	2007
	NIS in thousands		
Salaries and related expenses	80,930	81,744	78,014
Maintenance and transportation expenses	83,132	82,676	75,025
Advertising and sales promotion	82,936	85,589	78,634
Commissions to distributors	11,941	11,541	7,141
Royalties	31,117	29,584	29,296
Depreciation	1,668	1,695	2,285
Other	13,052	15,908	15,647

	304,776	308,737	286,042

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 20 - GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,		
	2009	2008	2007
	NIS in thousands		
Salaries and related expenses	36,434	35,224	32,097
Administrative and computer services	13,005	12,118	10,862
Services provided by Shareholder	1,373	1,380	1,295
Office maintenance	3,549	4,392	5,412
Depreciation	832	749	956
Provision for doubtful accounts	(1,724)	1,459	(1,962)
Other	9,628	11,197	10,928
	63,097	66,519	59,588

NOTE 21 - FINANCING INCOME AND EXPENSES

A. FINANCING INCOME

	Year ended December 31,		
	2009	2008	2007
	NIS in thousands		
Exchange rate differences	1,024	8,388	-
Interest from long-term and short-term bank deposits	213	612	230
Interest income from tax authorities	1,164	631	-
Application of amortized cost method on Receivables and payables.	1,434	2,379	-
Finance expense from derivative	683		
Due to capital note to related parties	-	1,560	1,560
Other	39	132	-
	4,557	13,702	1,790

B. FINANCING EXPENSES

	Year ended December 31,		
	2009	2008	2007
	NIS in thousands		
Interest on long-term bank loans	1,395	4,595	-
Interest on Short-term bank loans	807	4,499	26,815
Exchange rate differences	-	-	9

Interest expenses to tax authorities	-	-	158
Finance Expenses from derivative	-	3,002	1,779
Other	839	259	566
	3,041	12,355	29,327

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 22 - INCOME TAX

A. Recognized tax assets and deferred tax liabilities

Tax assets and deferred tax liabilities are attributed to the following items

Changes in temporary differences during the year (NIS in thousands)

	Balance at December 31, 2008	Charged to profit and loss	Charge to other comprehensive income	Change in Tax rate	Balance at December 31, 2009
Property, plant and equipment	39,498	1,562	-	(6,287)	34,773
Doubtful debts	(1,399)	975	-	(27)	(451)
Derivatives	433	-	(401)	-	32
Employee benefits	(4,848)	(791)	-	50	(5,589)
Expenses accruals	-	-	-	-	-
Tax carry forward losses	-	-	-	-	-
Other	(59)	25	-	-	(33)
	33,625	1,772	(401)	(6,264)	28,732

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 22 - INCOME TAX (Cont.)

A. Recognized tax assets and deferred tax liabilities (Cont.)

	Balance at January 1, 2007	Charged to profit and loss	Charged to equity	Exchange difference	Change in Tax rate	Balance at December 31, 2007	Charged to profit and loss	Charged to equity	Exchange difference	Change in Tax rate	Balance at December 31, 2008
Property, plant and equipment	33,902	6,118	-	46		40,066	(54)	-	(514)	-	39,498
Doubtful debts	(4,679)	2,878	-	(31)	141	(1,691)	112	-	50	130	(1,399)
Derivatives	(34)	-	(519)	-	-	(553)	-	986	-	-	433
Employee benefits	(3,183)	(2,404)	-	(27)	284	(5,330)	(410)	-	447	445	(4,848)
Expenses accruals	(1,852)	(1,676)	-	(290)	-	(3,818)	2,997	-	821	-	-
Tax carry forward losses	(27,047)	27,816	-	(769)	-	-	-	-	-	-	-
Other	84	(273)				(189)	130				(59)
	(2,809)	32,459	(519)	(1,071)	425	28,485	2,775	986	804	575	33,625

NOTE 22 - INCOME TAX (Cont.)

B. Deferred taxes are presented in the balance sheet as follows:

	2009	2008	2007
		NIS in thousands	
Long-term liabilities (in respect of depreciable assets)	33,631	38,014	39,730
Long-term Assets	(4,899)	(4,389)	(11,245)
	28,732	33,625	28,485

For 2009 - Deferred taxes were computed at rates between 18%-26%, primarily – 20.5%.
For 2008 - Deferred taxes were computed at rates between 20%-27%, primarily – 24.5%.
For 2007 - Deferred taxes were computed at rates between 20%-28%, primarily – 24.5%.

As of December 31, 2009 deferred tax liability at the amount of NIS 32 thousand (2008 – NIS 433) due to revaluation of financial instruments treated as cash flow hedges was recognized directly to equity.

C. Deferred tax assets that were not recognised

The calculation of deferred taxes does not take into account the taxes that would be applicable in case of realization of the investment in subsidiaries and associates, since the Group intends to retain the investment. Deferred taxes in respect of a distribution of profit in Israeli subsidiaries were also not taken into account, since the dividends are not taxable. In addition, unutilized deferred tax assets in respect of losses carried forward, were not recognized in cases where future taxable income against which they can be utilized, is not foreseen.

As of December 31, 2009 carry forward tax losses deriving from the Turkish subsidiary sum up to NIS 246.6 (98.7 YTL) millions. The Company has examined the validity of the deferred tax assets deriving from its Turkish subsidiary. As a result of this examination, the deferred tax asset due to carry-forward tax losses in the Turkish subsidiary was fully amortized in the amounts of NIS 26,509 thousand for the year ended December 31, 2007. As of December 31, 2009 deferred tax assets were not recognized in respect of utilizing tax losses in the Turkish subsidiary since it is not anticipated that there will be taxable income against which the tax benefits can be utilized.

According to the Turkish law, carry forward tax losses can be utilized for a five years period only, unrecognized tax losses of KCTR will expire as follow:

An amount of NIS 24.7, 81.6, 80.6, 7.6 and 6.9 will expire between 2010-2014, respectively. The balance of unrecognized deferred tax assets in respect of losses for tax purposes is approximately NIS 75 million.

D. Income tax attributable directly to other comprehensive income

	2009	2008	2007
		NIS in thousands	
Total tax recognized directly in equity	(199)	155	531

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 22 - INCOME TAX (Cont.)

E. Tax Ccomposition

	2009	2008	2007
		NIS in thousands	
Current taxes	48,715	43,902	33,082
Taxes in respect of prior years	-	221	(1,421)
Deferred taxes - A. above	(4,489)	3,350	32,884
	44,226	47,473	64,545

F. Reconciliation of the statutory tax rate to the effective tax rate:

	2009	2008	2007
		NIS in thousands	
Income before income taxes	195,321	137,100	33,913
Statutory tax rate (see H. below)	26 %	27 %	29 %
Tax computed by statutory tax rate-	50,783	37,017	9,835
Tax increments (savings) due to:			
Income (Expenses) in reduced tax rate	(4,268)	(2,104)	8,159
Non-deductible expenses	1,024	2,297	1,326
Non-taxable income	(48)	(90)	(505)
Unrecorded deferred taxes in connection with tax loss carry forward	3,027	5,483	20,216
Amortizing differed taxes	-	4,244	27,255
Reduction in corporate tax rates (see H. below)	(6,177)	651	(762)
Differences arising from basis of measurement	(185)	579	331
Income (Expenses) taxes for prior years	-	221	(1,421)
Other differences, net	70	(825)	111
	44,226	47,473	64,545

G. Current Tax Balance

	2009	2008	2007
		NIS in thousands	
Current taxes assets	-	137	12,219
Current tax liabilities	26,631	5,413	2,260

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 22 - INCOME TAX (Cont.)

H. The Company and its Israeli Subsidiaries are subject to the Income Tax Ordinance and the Income Tax Law (Inflationary Adjustments), 1985. Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the Israeli CPI. The Company and its subsidiaries in Israel are taxed under this law.

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

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

Non-Israeli Subsidiaries are subject to income tax provisions of their home country.

The Company is an industrial company in conformity with the Law for the Encouragement of Industry (Taxes), 1969. The principal benefit that the Company is entitled to under this law is accelerated depreciation rates and reduced tax rates.

According to this law the Company and Shikma (formerly a subsidiary) filed consolidated tax returns until December 31, 2005. On December 31, 2005, Shikma was merged into the Company.

On January 15,2009 the Company received an approval from the investment center for the merger of the Company and its subsidiary Shikma which took place at the end of 2005.

During 2002, the Company’s program for the establishment of a new facility for manufacturing paper was granted Approved Enterprise status in accordance with the Law for the Encouragement of Capital Investments, 1959, under “alternative benefits” track. The approval program is for total investments of approximately NIS 97 million. According to the terms of the program, income derived from the Approved Enterprise will be tax-exempt for a period of 10 years commencing in the year in which the program was substantially completed. Distribution of dividends from tax exempt profits of the Approved Enterprise will be subject to income tax at a rate equal to the income tax rate of the Approved Enterprise had the Company not elected the alternative benefits track. The Company completed the investments relating to the new facility. Commencement of operations was during 2003.

The Company filed a final report to the Investment center, An approval has not yet been given yet.

The Company and its subsidiary Shikma Ltd. possess final tax assessments through 2003.

Hogla Kimberly Marketing Ltd., a subsidiary of the Company, posses' final tax assessments through 2004.

Mollet Marketing Ltd., a subsidiary of the Company, posses' final tax assessments through 2004.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 22 - INCOME TAX (Cont.)

H. (Cont.)

On July 14, 2009 Knesset passed the Economic Efficiency Law (legislative amendments to implement the economic plan for the years 2009 and 2010) - 2009, which stipulates, inter alia, an additional gradual reduction in the rate of companies tax to 18% in the 2016. tax year and thereafter. According to these amendments, the rate of company tax applying to the 2009 tax year and thereafter are as follows: 2009 tax year - 26%, 2010 tax year - 25%, 2011 tax year - 24%, 2012 tax year - 23%, 2013 texture - 22%, 2014 tax year - 21%, 2015 tax year - 20%, and in the 2016 tax year and thereafter there will be a companies tax rate of 18%.

The change in the tax rates have decreased the deferred taxes liability as of December 31, 2009 in the amount of NIS 6,177 thousand.

NOTE 23 - FINANCIAL INSTRUMENTS

General

In the normal course of business, Hogla-Kimberly is exposed to credit, liquidity and market risks, as well as interest and currency risks. The Company monitors these risks on a constants basis.

The Group's policy is to hedge the exposure from fluctuations in foreign exchange rates to minimize its exposure to fluctuations of foreign currency rates. The hedging is according to a policy adopted by the Company's Board of Directors.

A. Significant accounting policies

Details as to the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

B. Categories of financial instruments

	As of December 31,		
	2009	2008	2007
	NIS in thousands		
Financial assets			
Derivative instruments	-	2,041	-
Loans and receivables (including cash and cash equivalents)	399,457	301,593	297,314
Financial liabilities			
Derivative instruments in designated hedge accounting relationships	119	-	2,394

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

C. Credit risk

Credit risk refers to the possibility that counterparty will fail to meet its contractual obligations, resulting in financial loss to the Company.

Commencing November 2007 Hogla Kimberly is covered by a credit insurance policy, which partially covers it's most major customers. In accordance with its policy conditions, the company will be reimbursed starting from an annual loss of US dollars 200 thousands to a maximum of US dollars 10 million, subject to deductible conditions.

The revenues of the Company and its Israeli subsidiaries are mainly in Israel and derived from two major customers and a large number of smaller customers. Trade receivables in the Turkish subsidiary consist of a limited number of customers, where no single counterparty or any company of counterparties having similar characteristics.

The Company has a policy of creditworthy customers and obtaining sufficient collaterals where possible as a means of mitigating the risk of financial loss from defaults,

For each customer, where possible, the Company checks its credit rating with an external credit rating companies to assess the potential customer's credit quality and help in defining its credit limit. Credit limit for each customer is determined and approved according to the Company's policy taking into account its rating and collaterals.

Management regularly monitors the balance of trade receivables and the financial statements include an allowance for doubtful accounts based on management's estimation.

The exposure to credit risks relating to trade receivables is limited due to the relatively large number of customers and to the credit insurance.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk (without taking account of the value of any collateral obtained).

Cash and cash equivalents are deposited with major banks in Israel and abroad. Therefore, it is not expected that such banks will fail to meet their obligations.

D. Liquidity risk

Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate.

The following table presents the Group's outstanding contractual maturity profile for its non-derivative financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the Group's financial liabilities, including any interest that will accrue. Non-interest bearing financial liabilities which are due to be settled in less than 12 months from maturity equal their carrying values, since the impact of the time value of money is immaterial over such a short duration.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

D. Liquidity risk (Cont.)

Maturity profile of outstanding financial liabilities

	1 year	1-2 years	2-4 years	Total
		NIS in thousands		
2009				
Supplier payables	296,359	-	-	296,359
Borrowings	25,977	26,795	6,941	59,713
Total	322,336	26,795	6,941	356,072
2008				
Supplier payables	286,835	-	-	286,835
Borrowings	52,718	25,307	26,795	104,820
Total	339,553	25,307	26,795	391,655
2007				
Supplier Payables	262,304	-	-	262,304
Borrowings	155,302	-	-	155,302
Total	417,606	-	-	417,606

E. Exchange rate risk

The Group is exposed to foreign currency risks mainly due to payments for purchases of raw materials and finished goods inventory and purchases of equipment and spare parts linked to the dollar or the Euro. In applying a policy of minimizing the exposure, the Group makes forward transactions against the dollar and euro.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

		31, December 2009 NIS thousands	
	USD	EURO	YTL
		NIS in thousands	
Cash and cash equivalents	38,586	748	22,975
Trade receivables	35,583	1,328	34,738
Borrowings	-	-	670
Trade payables	61,536	25,002	30,576

		December31, 2008 NIS thousands	
	USD	EURO	YTL
		NIS in thousands	
Cash and cash equivalents	17,886	954	4,106

Trade receivables	30,268	2,970	21,284
Borrowings	-	-	285
Trade payables	86,547	26,575	16,296

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

E. Exchange rate risk (Cont.)

	December 31, 2007		
	NIS thousands		
	USD	EURO	YTL
	NIS in thousands		
Cash and cash equivalents	17,422	3,165	2,327
Trade receivables	22,835	250	38,114
Borrowings	-	-	96,042
Trade payables	54,381	26,905	20,657

The following table details the Group's sensitivity to a 10% increase and decrease in the NIS against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the NIS strengthens 10% against the relevant currency. For a 10% weakening of the NIS against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	USD Impact			
			EUR Impact	
	2009	2008	2008	2008
	NIS in thousands			
Profit or loss (1)	(5,671)	(6,585)	(542)	(1,182)
Other equity (2)	1,737	1,873	740	811

(1) This is mainly attributable to the exposure outstanding on receivables, cash and payables at year end in the Group, and forward foreign exchange contracts.

(2) This is as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

Forward foreign exchange contracts

The Company hedges its exposure of itself and its Israeli subsidiaries by entering into forward foreign exchange contracts, according to a policy adopted by the Company's Board of Directors, to manage the risk associated with anticipated purchase transaction. The Company hedges 80% of its forecasted payments to suppliers of its forecasted exposure for a period of six month forward.

These hedging transactions are treated as cash flow hedges and the resulting gain or loss is recognized in other comprehensive income.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 23 - FINANCIAL INSTRUMENTS (Cont.)

E. Exchange rate risk (Cont.)

The following table details the forward foreign currency (FC) contracts outstanding as at the reporting date:

Outstanding contracts	Buy Currency	Sell Currency	Fair value NIS
Less than 3 months	USD	NIS	2,360
3 to 6 months	USD	NIS	1,503
Less than 3 months	EUR	NIS	809
3 to 6 months	EUR	NIS	411

The Company does not hedge its foreign currency exposure to the YTL in respect of its investment in the Turkish subsidiary.

F. Fair Value of Financial Instruments

The financial instruments of the Group consist primarily of non-derivative assets and liabilities. Non-derivative assets include cash and cash equivalents, receivables and other current assets. Non-derivative liabilities include trade payables and other current liabilities. Due to the nature of these financial instruments, their fair value, generally, is identical or close to the value at which they are presented in the financial statements, unless stated otherwise.

NOTE 24 - RELATED PARTIES AND INTERESTED PARTIES

The Company is owned by Kimberly Clark Corp. ("KC" or the "Parent Company") (50.1%) and Hadera Paper Ltd. ("Hadera Paper") (49.9%).

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below:

A. Balances with Related Parties

	December 31,		
	2009	2008	2007
	NIS Thousands		
Trade receivables	35,682	30,212	22,678
Other current assets	948	-	-
Capital note - shareholder	-	32,770	31,210
Trade payables	72,339	79,683	55,099

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 24 - RELATED PARTIES AND INTERESTED PARTIES (Cont.)

B. Transactions with Related Parties

	2009	December 31, 2008	2007
		NIS Thousands	
Sales to related parties (1)	243,212	216,841	82,217
Cost of sales (2)	256,696	268,476	188,252
Royalties to the shareholders (3)	31,117	29,584	28,069
General and administrative expenses (*) (4)	11,980	12,488	10,944

(*) Company - excludes Subsidiaries.

C.

(1) Sales of finished goods to companies in KC group and Hadera Paper.

(2) Mainly purchase of finished goods from companies in KC group and Hadera Paper group.

(3) The group is obligated to pay royalties to KC.

(4) The Company leases its premises in Hadera and Naharia from Hadera Paper and receives certain services (including energy, water, maintenance, computer and professional services) under agreements, which are renewed based on shareholders agreements.

D. Compensation of key management personnel

Total remuneration of key management during the year was NIS 9,891 thousands (2008: NIS 11,939 thousands). The amounts include costs relating to options (*) granted to senior managements to shares of the Company's shareholders.

(*) The Company's senior management was rewarded by allotment of KC's and Hadera Paper's share options. The cost of the benefit was determined as the fair value on the grant day and this amount is being charged to the income statement over the vesting period. The company's debt resulting from the grant will be paid in cash to both shareholders.

The fair value of the options granted as aforementioned was estimated by applying the economic models.

The total expenses resulting from the aforementioned grant for the year ended December 31, 2009 was NIS 589 thousand (2008: NIS 1,652 thousands).

NOTE 25 - Dividends

(1) On March 19, 2009 Hogla-Kimberly distributed dividend in the amount of NIS 32.77 million to the holder of the preference share.

(2) On February 26, 2009 the board of directors decided to distribute Dividend in the amount of Dollar 10 million from the unapproved enterprise retained earnings of 2008 to the holders of the ordinary shares. On July 1, 2009 the company paid the Dividend.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

NOTE 25 - Dividends (Cont.)

(3) On July 30, 2009 the board of directors decided to distribute Dividend in the amount of Nis 19,015 thousand from the unapproved enterprise retained earnings accumulated as of June 30, 2009 to the holders of the ordinary shares On October 1, 2009 the company paid Dividend.

(4) On October 22, 2009 the board of directors decided to distribute Dividend in the amount Nis 40 million from the unapproved enterprise retained earnings accumulated as of September 30, 2009 to the holders of the ordinary shares. The dividend was paid On January 20, 2010.

NOTE 26 - SUBSEQENT EVENTS

On February 18, 2010 the board of directors decided to distribute Dividend in the amount of Nis 20 million from the unapproved enterprise retained earnings to the holders of the ordinary shares. The dividend will be paid during May 2010.