OFFICE DEPOT INC
Form 4
July 12, 2013

FORM 4

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

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
BC European Capital VIII-16

(Last) (First) (Middle)

HERITAGE HALL, LE MARCHANT STREET

(Street)

ST. PETER PORT, Y7 GY1 4HY

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
OFFICE DEPOT INC [ODP]

3. Date of Earliest Transaction (Month/Day/Year)
07/11/2013

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) __X__ Other (specify below)
Mbr 13d grp owning mre thn 10%

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

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

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

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

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

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

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of S
Series A Preferred Stock	$ 5 [(1)]	07/11/2013	07/11/2013	J[(2)]			1,167.5	06/23/2009	[(3)]	Common Stock	271,376.0
Series A Preferred Stock	$ 5 [(1)]	07/11/2013	07/11/2013	J[(2)]			137,298	06/23/2009	[(3)]	Common Stock	31,913,82 [(1)]
Series B Preferred Stock	$ 5 [(1)]	07/11/2013	07/11/2013	J[(2)]			320.5	10/14/2009	[(3)]	Common Stock	74,497.6
Series B Preferred Stock	$ 5 [(1)]	07/11/2013	07/11/2013	J[(2)]			37,702	10/14/2009	[(3)]	Common Stock	8,763,52 [(1)]

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BC European Capital VIII-16 HERITAGE HALL, LE MARCHANT STREET ST. PETER PORT, Y7 GY1 4HY				Mbr 13d grp owning mre thn 10%

Signatures

/s/ See signatures attached as Exhibit 99.1	07/12/2013
**Signature of Reporting Person	Date

Explanation of Responses:

*	If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
**	Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
(1)	Each share of Preferred Stock is convertible into that amount of shares of Common Stock equal to (i) the quotient of (x) the outstanding liquidation preference of such share of Preferred Stock plus all accrued and unpaid dividends not previously added to the liquidation preference of such share of Preferred Stock and (y) 1000 multiplied by (ii) 200. As of the Redemption Date, each share of Preferred Stock was convertible into 232.442 shares of Common Stock, which represents a conversion price of $5.00. The conversion rate is subject to change.
(2)	The Issuer redeemed the shares of Preferred Stock set forth in column 5 on the Redemption Date.
(3)	Not applicable.
(4)	Each share of Preferred Stock was redeemed for $1,235.17.
(5)	Each of the Reporting Persons may be deemed to have shared voting and investment power with respect to the Common Stock issuable upon the conversion of the Series A Preferred Stock or Series B Preferred Stock owned by each of the Investors. As such, based upon the conversion rate as of the Redemption Date, each of the Reporting Persons may be deemed to have shared beneficial ownership of 40,677,350 shares of the Issuer's Common Stock issuable upon the conversion of 137,298 shares of the Series A Preferred Stock and

37,702 shares of the Series B Preferred Stock held by the Investors. Each Reporting Person, however, disclaims beneficial ownership with respect to the shares owned of record by each of the Investors.

Remarks:
This Form 4 report is being filed in conjunction with 39 other Form 4 reports. These Form 4 reports are being filed by (i) BC E
to direct exposure to the underlying indices that provides a minimum positive return of 50.00% to 55.00% (to be determined on the pricing date) if the final index value of **each** underlying index is greater than or equal to its respective initial index value and offers uncapped 1-to-1 participation in the appreciation of the worst performing underlying index if the appreciation of such underlying index is greater than 50.00% to 55.00%;

§ To potentially outperform the worst performing of the S&P 500® Index and the Dow Jones Industrial Average℠ in a moderately bullish scenario;

§ To obtain limited protection against the loss of principal in the event of a decline of the underlying indices as of the valuation date, but only if the final index value of **each** underlying index is **greater than or equal** to its respective downside threshold value.

If the final index value of **either** underlying index is less than its downside threshold value, the securities are exposed on a 1-to-1 basis to the percentage decline of the final index value of the worst performing underlying index from its respective initial index value. **Accordingly, investors may lose their entire initial investment in the securities.**

Maturity:	Approximately 5.5 years
Upside payment:	$500 to 550 per security (50.00% to 55.00% of the stated principal amount). The actual upside payment will be set on the pricing date.
Downside threshold value:	For each underlying index, 70% of the respective initial index value
Minimum payment at maturity:	None. Investors may lose their entire initial investment in the securities.
Interest:	None

The original issue price of each security is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date will be less than $1,000. We estimate that the value of each security on the pricing date will be approximately $942.10, or within $30.00 of that estimate. Our estimate of the value of the securities as determined on the pricing date will be set forth in the final pricing supplement.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying indices. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying indices, instruments based on the underlying indices, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the upside payment and the downside threshold values, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the securities would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, may vary from, and be lower than, the estimated value on the pricing

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities, and, if it once chooses to make a market, may cease doing so at any time.

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

Key Investment Rationale

The securities do not pay interest but provide a minimum positive return of 50.00% to 55.00% (to be determined on the pricing date) if the final index value of each of the S&P 500® Index and the Dow Jones Industrial Average℠ is greater than or equal to its respective initial index value and offer an uncapped 1-to-1 participation in the appreciation of the worst performing underlying index if the appreciation of such index is greater than 50.00% to 55.00%. If the final index value of either underlying index is less than its respective initial index value but the final index value of each underlying index is greater than or equal to its respective downside threshold value, you will receive a payment at maturity equal to the stated principal amount. However, if, as of the valuation date, the value of **either** underlying index is *less* than its respective downside threshold value, the payment due at maturity will be less than $700 per security and could be zero.

Upside Scenario	*If the final index value of* ***each*** *underlying index is* ***greater than or equal to its respective initial index value,*** the payment at maturity for each security will be equal to $1,000 *plus* the *greater of* (i) $1,000 *times* the index percent change of the worst performing underlying index and (ii) the upside payment of $500 to 550. The actual upside payment will be determined on the pricing date.
Par Scenario	If the final index value of **either** underlying index is **less than** its respective initial index value **but** the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold value, the payment at maturity will be equal to the stated principal amount of $1,000 per security.
Downside Scenario	*If the final index value of* ***either*** *underlying index is* ***less than its respective downside threshold value***, you will lose 1% for every 1% decline in the value of the worst performing underlying index from its initial index value, without any buffer (e.g., a 50% depreciation in the worst performing underlying index from the respective initial index value to the respective final index value will result in a payment at maturity of $500 per security). Because the payment at maturity of the securities is based on the worst performing of the underlying indices, a decline in either underlying index below its respective downside threshold value will result in a loss of a significant portion or all of your investment, even if the other underlying index has appreciated or has not declined as much.

October 2018 Page 4

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

Hypothetical Examples

The following hypothetical examples illustrate how to calculate the payment at maturity on the securities. The following examples are for illustrative purposes only. The payment at maturity on the securities is subject to our credit risk. The below examples are based on the following terms. The actual initial index values and downside threshold values will be determined on the pricing date.

Stated Principal Amount:	$1,000 per security
Hypothetical Initial Index Value:	With respect to the SPX Index: 2,200 With respect to the INDU Index: 25,000
Hypothetical Downside Threshold Value:	With respect to the SPX Index: 1,540, which is 70% of its hypothetical initial index value With respect to the INDU Index: 17,500, which is 70% of its hypothetical initial index value
Hypothetical Upside Payment:	$525 per security (52.50% of the stated principal amount), the midpoint of the specified range). The actual upside payment will be determined on the pricing date.
Interest:	None

EXAMPLE 1: Both underlying indices appreciate substantially, and investors therefore receive the stated principal amount *plus* a return reflecting the index percent change of the worst performing underlying index.

Final index value	SPX Index: 4,400
	INDU Index: 52,500
Index percent change	SPX Index: (4,400 – 2,200) / 2,200 = 100%

		INDU Index: (52,500 – 25,000) / 25,000 = 110%
Index performance factor		SPX Index: 4,400 / 2,200 = 200% INDU Index: 52,500 / 25,000 = 210%
Payment at maturity	=	$1,000 + ($1,000 x the index percent change of the worst performing underlying index)
	=	$1,000 + $1,000
	=	$2,000

In example 1, the final index value for the SPX Index has increased from its initial index value by 100%, and the final index value for the INDU Index has increased from its initial index value by 110%. Because the final index value of each underlying index is at or above its respective initial index value, and the index percent change of the worst performing underlying index is greater than the hypothetical minimum positive return of 52.50%, investors receive at maturity the stated principal amount *plus* 1-to-1 participation in the performance of the worst performing underlying index. Investors receive $2,000 per security at maturity.

EXAMPLE 2: **The final index values of both underlying indices are at or above their respective initial index values but the worst performing underlying index has not appreciated by more than 52.50%, and investors therefore receive the stated principal amount *plus* the upside payment.**

Final index value	SPX Index: 2,530 INDU Index: 27,500
Index percent change	SPX Index: (2,530 – 2,200) / 2,200 = 15% INDU Index: (27,500 – 25,000) / 25,000 = 10%
Index performance factor	SPX Index: 2,530 / 2,200 = 115% INDU Index: 27,500 / 25,000 = 110%

Payment at maturity	=	$1,000 + upside payment

October 2018 Page 5

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

	=	$1,000 + $525
	=	$1,525

In example 2, the final index value for the SPX Index has increased from its initial index value by 15% and the final index value for the INDU Index has increased from its initial index value by 10%. Because the final index value of each underlying index is at or above its respective initial index value, investors receive at maturity the stated principal amount *plus* the hypothetical upside payment of $525. Investors receive $1,525 per security at maturity.

EXAMPLE 3: The final index value of one of the underlying indices is less than its respective downside threshold value. Investors are therefore exposed to the full decline in the worst performing underlying index from its initial index value.

Final index value		SPX Index: 2,640
		INDU Index: 16,250
Index performance factor		SPX Index: 2,640 / 2,200 = 120%
		INDU Index: 20,000 / 25,000 = 65%
Payment at maturity	=	$1,000 × index performance factor of the worst performing underlying index
	=	$1,000 × 65%
	=	$650

In example 3, the final index value for the SPX Index has increased from its initial index value by 20% and the final index value for the INDU Index has decreased from its initial index value by 35%. Because one of the underlying indices has declined below its respective downside threshold value, investors are exposed to the full negative performance of the INDU Index, which is the worst performing underlying index in this example. Under these circumstances, investors lose 1% of the stated principal amount for every 1% decline in the value of the worst performing underlying index from its initial index value. In this example, investors receive a payment at maturity equal to $650 per security, resulting in a loss of 35%.

EXAMPLE 4: **The final index values of one or more underlying indices are less than the respective initial index values but the final index value of each underlying index is greater than or equal to its respective downside threshold value.**

Final index value		SPX Index: 1,870
		INDU Index: 22,500
Index performance factor		SPX Index: 1,870 / 2,200 = 85%
		INDU Index: 22,500 / 25,000 = 90%
Payment at maturity	=	$1,000

In example 4, the final index value of at least one underlying index is less than its respective initial index value, and so investors do not receive the upside payment. However, the final index value of each underlying index is greater than or equal to its respective downside threshold value. The SPX index has declined by 15% and the INDU Index has declined by 10%. Therefore, because the final index value or each underlying index is greater than or equal to its respective downside threshold value, investors receive at maturity the stated principal amount of $1,000 per security.

EXAMPLE 5: **The final index value of each underlying index is less than its respective downside threshold value. Investors are therefore exposed to the full decline in the worst performing underlying index from its initial index value.**

Final index value	SPX Index: 440
	INDU Index: 8,750
Index performance factor	SPX Index: 440 / 2,200 = 20%
	INDU Index: 8,750 / 25,000 = 35%

October 2018 Page 6

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

Payment at maturity	=	\$1,000 × index performance factor of the worst performing underlying index
	=	\$1,000 × 20%
	=	\$200

In example 5, the final index value for the SPX Index has decreased from its initial index value by 80%, and the final index value for the INDU Index has decreased from its initial index value by 65%. Because one or more underlying indices have declined below their respective downside threshold values, investors are exposed to the full negative performance of the SPX Index, which is the worst performing underlying index in this example. Under these circumstances, investors lose 1% of the stated principal amount for every 1% decline in the value of the worst performing underlying index from its initial index value. In this example, investors receive a payment at maturity equal to \$200 per security, resulting in a loss of 80%.

If the final index value of either of the underlying indices is less than its respective downside threshold value, you will receive an amount in cash that is significantly less than the \$1,000 stated principal amount of each security by an amount proportionate to the full decline in the level of the worst performing underlying index from its initial index value over the term of the securities, and you will lose a significant portion or all of your investment.

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

Risk Factors

The following is a non-exhaustive list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement, index supplement and prospectus. You should also consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

§ **The securities do not pay interest or guarantee the return of any principal.** The terms of the securities differ from those of ordinary debt securities in that the securities do not pay interest or guarantee the payment of any principal at maturity. At maturity, you will receive for each $1,000 stated principal amount of securities that you hold an amount in cash based upon the final index value of each underlying index. If the final index value of **either** underlying index is less than 70% of its respective initial index value, you will receive at maturity an amount in cash that is significantly less than the $1,000 stated principal amount of each security by an amount proportionate to the full decline in the final index value of the worst performing underlying index from its initial index value over the term of the securities, and you will lose a significant portion or all of your investment. **There is no minimum payment at maturity on the securities, and, accordingly, you could lose your entire investment.**

§ **You are exposed to the price risk of both underlying indices.** Your return on the securities is not linked to a basket consisting of both underlying indices. Rather, it will be based upon the independent performance of each underlying index. Unlike an instrument with a return linked to a basket of underlying assets, in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to both underlying indices. Poor performance by either underlying index over the term of the securities will negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying index. If the final index value of either underlying index declines to below 70% of its respective initial index value, you will be fully exposed to the negative performance of the worst performing underlying index at maturity, even if the other underlying index has appreciated or has not declined as much. **Accordingly, your investment is subject to the price risk of both underlying indices.**

§ **Because the securities are linked to the performance of the worst performing underlying index, you are exposed to greater risk of sustaining a significant loss on your investment than if the securities were linked to just one underlying index.** The risk that you will suffer a significant loss on your investment is greater if you invest in the securities as opposed to substantially similar securities that are linked to the performance of just one underlying index. With two underlying indices, it is more likely that the final index value of either underlying index will decline to below its respective downside threshold value than if the securities were linked to only one underlying index. Therefore, it is more likely that you will suffer a significant loss on your investment.

§ **The amount payable on the securities is not linked to the values of the underlying indices at any time other than the valuation date.** The final index values will be the index closing values on the valuation date, subject to postponement for non-index business days and certain market disruption events. Even if the value of the worst performing underlying index appreciates prior to the valuation date but then drops by the valuation date, the payment at maturity may be significantly less than it would have been had the payment at maturity been linked to the value of the worst performing underlying index prior to such drop. Although the actual value of the worst performing underlying index on the stated maturity date or at other times during the term of the securities may be higher than its respective final index value, the payment at maturity will be based solely on the index closing value of the worst performing underlying index on the valuation date.

§ **The securities will not be listed on any securities exchange and secondary trading may be limited**. The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. Morgan Stanley & Co. LLC, which we refer to as MS & Co., may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the securities easily. Since other broker-dealers may not participate significantly in the secondary market for the securities, the price at which you may be

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

able to trade your securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the securities, it is likely that there would be no secondary market for the securities. Accordingly, you should be willing to hold your securities to maturity.

§ **The market price of the securities may be influenced by many unpredictable factors**. Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market, including:

§ the values of the underlying indices at any time (including in relation to their initial index values),

§ the volatility (frequency and magnitude of changes in value) of the underlying indices,

§ dividend rates on the securities underlying the underlying indices,

§ interest and yield rates in the market,

§ geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the component stocks of the underlying indices or securities markets generally and which may affect the value of the underlying indices,

§ the time remaining until the maturity of the securities,

§ the composition of the underlying indices and changes in the constituent stocks of the underlying indices, and

§ any actual or anticipated changes in our credit ratings or credit spreads.

Generally, the longer the time remaining to maturity, the more the market price of the securities will be affected by the other factors described above. Some or all of these factors will influence the price you will receive if you sell your securities prior to maturity. In particular, you may have to sell your securities at a substantial discount from the stated principal amount if at the time of sale the value of either underlying index is near, at or below its respective downside threshold value.

You cannot predict the future performance of the underlying indices based on their historical performance. If the final index value of either underlying index is less than 70% of its respective initial index value, you will be exposed on a 1-to-1 basis to the full decline in the final index value of the worst performing underlying index from its respective initial index value. There can be no assurance that the final index value of each underlying index will be greater than or equal to its respective initial index value so that you will receive at maturity an amount that is greater than the $1,000 stated principal amount for each security you hold, or that you will not lose a significant portion or all of your investment.

§ **The securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities.** You are dependent on our ability to pay all amounts due on the securities at maturity and therefore you are subject to our credit risk. If we default on our obligations under the securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the securities.

§ **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

October 2018 Page 9

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

§ **The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the securities in the original issue price reduce the economic terms of the securities, cause the estimated value of the securities to be less than the original issue price and will adversely affect secondary market prices.** Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., are willing to purchase the securities in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the securities in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

§ **The estimated value of the securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price.** These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the securities than those generated by others, including other dealers in the market, if they attempted to value the securities. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your notes in the secondary market (if any exists) at any time. The value of your securities at any time after the date of this document will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The market price of the securities may be influenced by many unpredictable factors” above.

§

Investing in the securities is not equivalent to investing in the underlying indices. Investing in the securities is not equivalent to investing in either underlying index or the component stocks of either underlying index. Investors in the securities will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to stocks that constitute the underlying indices.

§ **Adjustments to the underlying indices could adversely affect the value of the securities.** The publisher of either underlying index may add, delete or substitute the stocks underlying such index or make other methodological changes that could change the value of such underlying index. Any of these actions could adversely affect the value of the securities. The publisher of such underlying index may also discontinue or suspend calculation or publication of such underlying index at any time. In these circumstances, MS & Co., as the calculation agent, will have the sole discretion to substitute a successor index that is comparable to the discontinued underlying index. MS & Co. could have an economic interest that is different than that of investors in the securities insofar as, for example, MS & Co. is permitted to consider indices that are calculated and published by MS & Co. or any of its affiliates. If MS & Co. determines that there is no appropriate successor index, the payout on the securities at maturity will be an amount based on the closing prices on the valuation date of the stocks underlying the relevant index at the time of such discontinuance, without rebalancing or substitution, computed by the calculation agent in accordance with the formula for calculating such underlying index last in effect prior to such discontinuance (depending also on the performance of the other underlying index).

§ **The calculation agent, which is a subsidiary of Morgan Stanley and an affiliate of MSFL, will make determinations with respect to the securities.** As calculation agent, MS & Co. will determine the initial index values, the downside threshold values, the final index values, the index percent changes or the index performance factors, if applicable, and the payment that you will receive at maturity, if any. Moreover, certain

October 2018 Page 10

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

determinations made by MS & Co., in its capacity as calculation agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of market disruption events and the selection of a successor index or calculation of the index closing values in the event of a market disruption event or discontinuance of an underlying index. These potentially subjective determinations may adversely affect the payout to you at maturity, if any. For further information regarding these types of determinations, see "Description of Securities—Postponement of Valuation Date(s)," "—Discontinuance of Any Underlying Index or Basket Index; Alteration of Method of Calculation," "—Alternate Exchange Calculation in case of an Event of Default" and "—Calculation Agent and Calculations" in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the securities on the pricing date.

§ **Hedging and trading activity by our affiliates could potentially adversely affect the value of the securities**. One or more of our affiliates and/or third-party dealers expect to carry out hedging activities related to the securities (and to other instruments linked to the underlying indices or their component stocks), including trading in the stocks that constitute the underlying indices as well as in other instruments related to the underlying indices. As a result, these entities may be unwinding or adjusting hedge positions during the term of the securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the valuation date approaches. Some of our affiliates also trade the stocks that constitute the underlying indices and other financial instruments related to the underlying indices on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the pricing date could potentially increase the initial index value of an underlying index, and, therefore, could increase the value at or above which such underlying index must close on the valuation date so that you do not suffer a significant loss on your initial investment in the securities (depending also on the performance of the other underlying index). Additionally, such hedging or trading activities during the term of the securities, including on the valuation date, could adversely affect the value of either underlying index on the valuation date, and, accordingly, the amount of cash an investor will receive at maturity, if any (depending also on the performance of the other underlying index).

§ **The U.S. federal income tax consequences of an investment in the securities are uncertain**. Please read the discussion under "Additional Provisions—Tax considerations" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement for Jump Securities (together, the "Tax Disclosure Sections") concerning the U.S. federal income tax consequences of an investment in the securities. If the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment, the timing and character of income on the securities might differ significantly from the tax treatment described in the Tax Disclosure Sections. For example, under one possible treatment, the IRS could seek to recharacterize the securities as debt instruments. In that event, U.S. Holders would be required to accrue into income original issue discount on the securities every year at a "comparable yield" determined at the time of issuance and recognize all income and gain in respect of the securities as ordinary income. Additionally, as discussed under "United States Federal Taxation—FATCA" in the accompanying product supplement for Jump Securities, the withholding rules commonly referred to as "FATCA" would apply to the securities if they were recharacterized as debt instruments. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the securities, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features. We do not plan to request a ruling from the IRS regarding the tax treatment of the securities, and the IRS or a court may not agree with the tax treatment described in the Tax Disclosure Sections.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

retroactive effect. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities, including possible alternative treatments, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

S&P 500® Index Overview

The S&P 500® Index, which is calculated, maintained and published by S&P Dow Jones Indices LLC ("S&P"), consists of stocks of 500 component companies selected to provide a performance benchmark for the U.S. equity markets. The calculation of the S&P 500® Index is based on the relative value of the float adjusted aggregate market capitalization of the 500 component companies as of a particular time as compared to the aggregate average market capitalization of 500 similar companies during the base period of the years 1941 through 1943. For additional information about the S&P 500® Index, see the information set forth under "S&P 500® Index" in the accompanying index supplement.

Information as of market close on October 4, 2018:

Bloomberg Ticker Symbol:	SPX
Current Index Value:	2,901.61
52 Weeks Ago:	2,537.74
52 Week High (on 9/20/2018):	2,930.75
52 Week Low (on 10/4/2017):	2,537.74

The following graph sets forth the daily closing values of the SPX Index for the period from January 1, 2013 through October 4, 2018. The related table sets forth the published high and low closing values, as well as end-of-quarter closing values, of the SPX Index for each quarter in the same period. The closing value of the SPX Index on October 4, 2018 was 2,901.61. We obtained the information in the table and graph below from Bloomberg Financial Markets, without independent verification. The SPX Index has at times experienced periods of high volatility, and you should not take the historical values of the SPX Index as an indication of its future performance.

SPX Index Daily Closing Values
January 1, 2013 to October 4, 2018

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

S&P 500® Index	High	Low	Period End
2013			
First Quarter	1,569.19	1,457.15	1,569.19
Second Quarter	1,669.16	1,541.61	1,606.28
Third Quarter	1,725.52	1,614.08	1,681.55
Fourth Quarter	1,848.36	1,655.45	1,848.36
2014			
First Quarter	1,878.04	1,741.89	1,872.34
Second Quarter	1,962.87	1,815.69	1,960.23
Third Quarter	2,011.36	1,909.57	1,972.29
Fourth Quarter	2,090.57	1,862.49	2,058.90
2015			
First Quarter	2,117.39	1,992.67	2,067.89
Second Quarter	2,130.82	2,057.64	2,063.11
Third Quarter	2,128.28	1,867.61	1,920.03
Fourth Quarter	2,109.79	1,923.82	2,043.94
2016			
First Quarter	2,063.95	1,829.08	2,059.74
Second Quarter	2,119.12	2,000.54	2,098.86
Third Quarter	2,190.15	2,088.55	2,168.27
Fourth Quarter	2,271.72	2,085.18	2,238.83
2017			
First Quarter	2,395.96	2,257.83	2,362.72
Second Quarter	2,453.46	2,328.95	2,423.41
Third Quarter	2,519.36	2,409.75	2,519.36
Fourth Quarter	2,690.16	2,529.12	2,673.61
2018			
First Quarter	2,872.87	2,581.00	2,640.87

Second Quarter	2,786.85	2,581.88	2,718.37
Third Quarter	2,930.75	2,713.22	2,913.98
Fourth Quarter (through October 4, 2018)	2,925.51	2,901.61	2,901.61

“Standard & Poor’s®,” “S&P®,” “S&P 500®,” “Standard & Poor’s 500” and “500” are trademarks of Standard and Poor’s Financial Services LLC. For more information, see “S&P 500® Index” in the accompanying index supplement.

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

Dow Jones Industrial Average℠ Overview

The Dow Jones Industrial Average℠ is a price-weighted index composed of 30 common stocks that is published by Dow Jones Indexes, the marketing name and a licensed trademark of CME Group Index Services LLC, as representative of the broad market of U.S. industry. For additional information about the Dow Jones Industrial Average℠, see the information set forth under "Dow Jones Industrial Average℠" in the accompanying index supplement.

Information as of market close on October 4, 2018:

Bloomberg Ticker Symbol:	INDU
Current Index Value:	26,627.48
52 Weeks Ago:	22,661.64
52 Week High (on 10/3/2018):	26,828.39
52 Week Low (on 10/4/2017):	22,661.64

The following graph sets forth the daily closing values of the INDU Index for the period from January 1, 2013 through October 4, 2018. The related table sets forth the published high and low closing values, as well as end-of-quarter closing values, of the INDU Index for each quarter in the same period. The closing value of the INDU Index on October 4, 2018 was 26,627.48. We obtained the information in the table below from Bloomberg Financial Markets, without independent verification. The INDU Index has at times experienced periods of high volatility, and you should not take the historical values of the INDU Index as an indication of its future performance.

INDU Index Daily Closing Values
January 1, 2013 to October 4, 2018

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

Dow Jones Industrial Average℠	**High**	**Low**	**Period End**
2013			
First Quarter	14,578.54	13,328.85	14,578.54
Second Quarter	15,409.39	14,537.14	14,909.60
Third Quarter	15,676.94	14,776.13	15,129.67
Fourth Quarter	16,576.66	14,776.53	16,576.66
2014			
First Quarter	16,530.94	15,372.80	16,457.66
Second Quarter	16,947.08	16,026.75	16,826.60
Third Quarter	17,279.74	16,368.27	17,042.90
Fourth Quarter	18,053.71	16,117.24	17,823.07
2015			
First Quarter	18,288.63	17,164.95	17,776.12
Second Quarter	18,312.39	17,596.35	17,619.51
Third Quarter	18,120.25	15,666.44	16,284.70
Fourth Quarter	17,918.15	16,272.01	17,425.03
2016			
First Quarter	17,716.66	15,660.18	17,685.09
Second Quarter	18,096.27	17,140.24	17,929.99
Third Quarter	18,636.05	17,840.62	18,308.15
Fourth Quarter	19,974.62	17,888.28	19,762.60
2017			
First Quarter	21,115.55	19,732.40	20,663.22
Second Quarter	21,528.99	20,404.49	21,349.63
Third Quarter	22,412.59	21,320.04	22,405.09
Fourth Quarter	24,837.51	22,557.60	24,719.22
2018			
First Quarter	26,616.71	23,533.20	24,103.11

Second Quarter	25,322.31	23,644.19	24,271.41
Third Quarter	26,743.50	24,174.82	26,458.31
Fourth Quarter (through October 4, 2018)	26,828.39	26,627.48	26,627.48

"Dow Jones," "Dow Jones Industrial Average," "Dow Jones Indexes" and "DJIA" are service marks of Dow Jones Trademark Holdings LLC. See "Dow Jones Industrial Average^{SM}" in the accompanying index supplement.

October 2018 Page 16

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

Additional Information About the Securities

Please read this information in conjunction with the summary terms on the front cover of this document.

Additional Provisions:

Minimum ticketing size:	$1,000 / 1 security
Tax considerations:	Although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the securities due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP, under current law, and based on current market conditions, a security should be treated as a single financial contract that is an "open transaction" for U.S. federal income tax purposes.

Assuming this treatment of the securities is respected and subject to the discussion in "United States Federal Taxation" in the accompanying product supplement for Jump Securities, the following U.S. federal income tax consequences should result based on current law:

§ A U.S. Holder should not be required to recognize taxable income over the term of the securities prior to settlement, other than pursuant to a sale or exchange.

§ Upon sale, exchange or settlement of the securities, a U.S. Holder should recognize gain or loss equal to the difference between the amount realized and the U.S. Holder's tax basis in the securities. Such gain or loss should be long-term capital gain or loss if the investor has held the securities for more than one year, and short-term capital gain or loss otherwise.

In 2007, the U.S. Treasury Department and the Internal Revenue Service (the "IRS") released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect.

As discussed in the accompanying product supplement for Jump Securities, Section 871(m) of the Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% (or a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (each, an “Underlying Security”). Subject to certain exceptions, Section 871(m) generally applies to securities that substantially replicate the economic performance of one or more Underlying Securities, as determined based on tests set forth in the applicable Treasury regulations (a “Specified Security”). However, pursuant to an IRS notice, Section 871(m) will not apply to securities issued before January 1, 2021 that do not have a delta of one with respect to any Underlying Security. Based on our determination that the securities do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the securities should not be Specified Securities and, therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If withholding is required, we will not be required to pay any additional amounts with respect to the amounts so withheld. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

Both U.S. and non-U.S. investors considering an investment in the securities should read the discussion under “Risk Factors” in this document and the discussion under “United States Federal Taxation” in the accompanying product supplement for Jump Securities and consult their tax advisers regarding all aspects of the U.S. federal income tax consequences of an investment in the securities, including possible alternative treatments, the issues presented by the aforementioned notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

The discussion in the preceding paragraphs under “Tax considerations” and the discussion contained in the section entitled “United States Federal Taxation” in the accompanying

product supplement for Jump Securities, insofar as they purport to describe provisions of U.S. federal income tax laws or legal conclusions with respect thereto, constitute the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of an investment in the securities.

October 2018 Page 17

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

Trustee:	The Bank of New York Mellon
Calculation agent:	Morgan Stanley & Co. LLC ("MS & Co.")
	The proceeds from the sale of the securities will be used by us for general corporate purposes. We will receive, in aggregate, $1,000 per security issued, because, when we enter into hedging transactions in order to meet our obligations under the securities, our hedging counterparty will reimburse the cost of the agent's commissions. The costs of the securities borne by you and described on page 2 above comprise the agent's commissions and the cost of issuing, structuring and hedging the securities.
Use of proceeds and hedging:	On or prior to the pricing date, we expect to hedge our anticipated exposure in connection with the securities by entering into hedging transactions with our affiliates and/or third party dealers. We expect our hedging counterparties to take positions in stocks of the underlying indices and in futures and options contracts on the underlying indices and any component stocks of the underlying indices listed on major securities markets. Such purchase activity could potentially increase the initial index value of either underlying index, and, therefore, could increase the value at or above which such underlying index must close on the valuation date so that you do not suffer a significant loss on your initial investment in the securities (depending also on the performance of the other underlying index). In addition, through our affiliates, we are likely to modify our hedge position throughout the term of the securities, including on the valuation date, by purchasing and selling the stocks constituting the underlying indices, futures or options contracts on the underlying indices or their component stocks listed on major securities markets or positions in any other available securities or instruments that we may wish to use in connection with such hedging activities. As a result, these entities may be unwinding or adjusting hedge positions during the term of the securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the valuation date approaches. We cannot give any assurance that our hedging activities will not affect the value of either underlying index, and, therefore, adversely affect the value of the securities or the payment you will receive at maturity, if any (depending also on the performance of the other underlying index). For further information on our use of proceeds and hedging, see "Use of Proceeds and Hedging" in the accompanying product supplement.
Benefit plan investor considerations:	Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing

the Plan.

In addition, we and certain of our affiliates, including MS & Co., may each be considered a "party in interest" within the meaning of ERISA, or a "disqualified person" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (such accounts and plans, together with other plans, accounts and arrangements subject to Section 4975 of the Code, also "Plans"). ERISA Section 406 and Code Section 4975 generally prohibit transactions between Plans and parties in interest or disqualified persons. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the securities are acquired by or with the assets of a Plan with respect to which MS & Co. or any of its affiliates is a service provider or other party in interest, unless the securities are acquired pursuant to an exemption from the "prohibited transaction" rules. A violation of these "prohibited transaction" rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions ("PTCEs") that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the securities. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Code Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and the related lending transactions, provided that neither the issuer of the securities nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than "adequate consideration" in connection with the transaction (the so-called "service provider" exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the securities.

Because we may be considered a party in interest with respect to many Plans, the securities may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing "plan assets" of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the securities will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the securities that either (a) it is

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

not a Plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with "plan assets" of any Plan or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law") or (b) its purchase, holding and disposition of these securities will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the securities on behalf of or with "plan assets" of any Plan consult with their counsel regarding the availability of exemptive relief.

The securities are contractual financial instruments. The financial exposure provided by the securities is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the securities. The securities have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the securities.

Each purchaser or holder of any securities acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (A) the design and terms of the securities, (B) the purchaser or holder's investment in the securities, or (C) the exercise of or failure to exercise any rights we have under or with respect to the securities;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (A) all transactions relating to the securities and (B) all hedging transactions in connection with our obligations under the securities;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests are adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the securities has exclusive responsibility for ensuring that its purchase, holding and disposition of the securities do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any securities to any Plan or plan subject to Similar Law is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan. In this regard, neither this discussion nor anything provided in this document is or is intended to be investment advice directed at any potential Plan purchaser or at Plan purchasers generally and such purchasers of these securities should consult and rely on their own counsel and advisers as to whether an investment in these securities is suitable.

However, individual retirement accounts, individual retirement annuities and Keogh plans, as well as employee benefit plans that permit participants to direct the investment of their accounts, will not be permitted to purchase or hold the securities if the account, plan or annuity is for the benefit of an employee of Morgan Stanley or Morgan Stanley Wealth Management or a family member and the employee receives any compensation (such as, for example, an addition to bonus) based on the purchase of the securities by the account, plan or annuity.

Additional considerations:	Client accounts over which Morgan Stanley, Morgan Stanley Wealth Management or any of their respective subsidiaries have investment discretion are not permitted to purchase the securities, either directly or indirectly.
Supplemental information regarding plan of distribution; conflicts of interest:	Selected dealers, which may include our affiliates, and their financial advisors will collectively receive from the agent a fixed sales commission of $ for each security they sell.

MS & Co. is an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley, and it and other affiliates of ours expect to make a profit by selling, structuring and, when applicable, hedging the securities. When MS & Co. prices this offering of securities, it will determine the economic terms of the securities, including the upside payment, such that for each security the estimated value on the pricing date will be no lower than the minimum level described in "Investment Summary" on page 2.

MS & Co. will conduct this offering in compliance with the requirements of FINRA Rule 5121 of the

Morgan Stanley Finance LLC

Trigger Jump Securities Based on the Value of the Worst Performing of the S&P 500® Index and the Dow Jones Industrial Average℠ due May 2, 2024

Principal at Risk Securities

	Financial Industry Regulatory Authority, Inc., which is commonly referred to as FINRA, regarding a FINRA member firm's distribution of the securities of an affiliate and related conflicts of interest. MS & Co. or any of our other affiliates may not make sales in this offering to any discretionary account. See "Plan of Distribution (Conflicts of Interest)" and "Use of Proceeds and Hedging" in the accompanying product supplement.
Contact:	Morgan Stanley Wealth Management clients may contact their local Morgan Stanley branch office or Morgan Stanley's principal executive offices at 1585 Broadway, New York, New York 10036 (telephone number (866) 477-4776). All other clients may contact their local brokerage representative. Third-party distributors may contact Morgan Stanley Structured Investment Sales at (800) 233-1087.
Where you can find more information:	Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by the product supplement for Jump Securities and the index supplement) with the Securities and Exchange Commission, or SEC, for the offering to which this communication relates. You should read the prospectus in that registration statement, the product supplement for Jump Securities, the index supplement and any other documents relating to this offering that Morgan Stanley and MSFL have filed with the SEC for more complete information about Morgan Stanley, MSFL and this offering. You may get these documents without cost by visiting EDGAR on the SEC web site at.www.sec.gov. Alternatively, Morgan Stanley, any underwriter or any dealer participating in the offering will arrange to send you the prospectus, the product supplement for Jump Securities and the index supplement if you so request by calling toll-free 800-584-6837. You may access these documents on the SEC web site at.www.sec.gov as follows: **Product Supplement for Jump Securities dated November 16, 2017** **Index Supplement dated November 16, 2017** **Prospectus dated November 16, 2017** Terms used but not defined in this document are defined in the product supplement for Jump Securities, in the index supplement or in the prospectus.

> 201

The fair value of the loans is based on a calculation of the present value of the cash flows, according to the generally-accepted interest rate on loans with similar characteristics (4% in 2010).

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

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

U

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

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in € 10%	Rise in € 5%	Fair value as at Jun-30-10	Decrease in € 5%	Decrease in € 10%
	In NIS thousands				
Cash and cash equivalents	1,559	779	15,589	(779)	(1,559)
Designated deposits	1,058	529	10,576	(529)	(1,058)
Other Accounts Receivable	824	412	7,992	(412)	(824)
Other Accounts Payable	(5,127)	(2,563)	(51,266)	2,563	5,127
Forward	3,330	1,784	251	(1,308)	(2,855)

Sensitivity to the US Dollar Exchange Rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	Fair value as at Jun-30-10	Devaluation of $ 5%	Devaluation of $ 10%
	In NIS thousands				
Cash and cash equivalents	2,079	1,040	20,791	(1,040)	(2,079)
Other Accounts Receivable	2,158	1,079	21,576	(1,079)	(2,158)
Other Accounts Payable	(3,637)	(1,819)	(36,372)	1,819	3,637
Liabilities at fair value through the statement of income	(1,403)	(701)	(14,028)	701	1,403

Other accounts receivable reflect primarily short-term customer debts

21

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at June 30, 2010:

Sensitivity to the Consumer Price Index

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in CPI 2%	Rise in CPI 1%	Fair value as at Jun-30-10	Decrease in CPI 1%	Decrease in CPI 2%
	In NIS thousands				
NIS-CPI forward transactions	600	300	(492)	(300)	(600)
Bonds 2	(4,243)	(2,121)	(212,140)	2,121	4,243
Bonds 3	(2,799)	(1,400)	(139,952)	1,400	2,799
Other receivables	42	21	2,119	(21)	(42)

See Note 17c to the financial statements dated December 31, 2009.

Sensitivity to the exchange rate of the yen

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in the yen 10%	Rise in the yen 5%	Fair value as at Jun-30-10	Decrease in the yen 5%	Decrease in the yen 10%
	In NIS thousands				
Accounts Payable	(409)	(205)	(4,094)	205	409

22

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at Jun-30-10:

In NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	€-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	209.5		20.8	15.6		245.9
Short-term deposits and investments				10.6		10.6
Other Accounts Receivable	403.0	2.1	22.2	8.2	3.0	438.5
Inventories					191.2	191.2
Investments in Associated Companies	18.8	36.7			293.7	349.2
Deferred taxes on income					31.6	31.6
Fixed assets, net					1,205.0	1,205.0
Investment property (real estate)					24.3	24.3
Intangible Assets					25.2	25.2
Land under lease					25.1	25.1
Other assets					2.1	2.1
Assets on account of employee benefits	0.7					0.7
Total Assets	632.0	38.8	43.0	34.4	1,801.2	2,549.4
Liabilities						
Short-term credit from banks	74.1					74.1
Other Accounts Payable	287.6		40.5	51.3		379.4
Current tax liabilities	5.8					5.8
Deferred taxes on income					58.3	58.3
Long-Term Loans	309.4	22.9				332.3
Notes (debentures) – including current maturities	415.5	331.5				747.0
Liabilities on account of employee benefits	36.8					36.8
Liabilities at fair value through the statement of income			14.0			14.0
Shareholders’ equity, reserves and retained earnings					901.7	901.7
Total liabilities and equity	1,129.2	354.4	54.5	51.3	960.0	2,549.4
Surplus financial assets (liabilities) as at Jun-30-2010	(497.2)	(315.6)	(11.5)	(16.9)	841.2	0.0
Surplus financial assets (liabilities) as at Dec-31-2009	(375.5)	(318.4)	(37.1)	(41.6)	772.6	0.0

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

Associated Companies

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

Hadera Paper is also exposed to tax related issues at KCTR, as detailed in Note 13L to the financial statements dated December 31, 2009.

23

F. Forward-Looking Statements

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

G. Corporate Governance Issues

1. Internal Auditing - SOX

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

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

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

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

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

The approval of the financial statements involves several meetings, as necessary: The first is held by the Audit Committee to discuss the material reporting issues in depth and at great length, whereas the second is held by the Board of Directors to discuss the actual results. Both meetings are held in proximity to the approval date of the financial statements.

3. Procedure for Classifying Transactions as Negligible

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

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

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

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

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

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

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

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

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

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

1. Events Subsequent to the Balance Sheet Date

For details regarding events that occurred subsequent to the balance sheet date, see Note 8 to the financial statements dated June 30, 2010.

I. Dedicated Disclosure to Debenture Holders

For details regarding the rating of debentures, see Note 15 to the periodical report for the year 2009. On May 10, 2010, Standard & Poor's Maalot ratified the Company's ilA+ rating. The rating is negative outlook. The said rating report is attached as an appendix to the management discussion.

1.Sources of Finance

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

2.Debentures for institutional investors and the public

Series	Issue Date	Name of Rating Company	Rating at time of issue and at report date	Total stated value at issue date	Interest type	Stated Interest	Registered for trade on stock exchange (Yes/No)	Interest payment dates	Nominal par value as at Jun-30-10	Book value of debenture balances as at Jun-30-10	Book value of interes to be paid as at Jun-30-1
						In NIS millions					
Series 2	12.2003	Maalot	A+	200,000,000	Fixed	5.65%	No	Annual interest On December 21 In the years 2004-2013	114.3	132.2	3.9
Series 3	7.2008	Maalot	A+	187,500,000	Fixed	4.65%	Yes	Annual interest On July 10 In the years 2009-2018	187.5	198.6	9.0
Series 4	7-8.2008	Maalot	A+	235,557,000	Fixed	7.45%	Yes	Semi-annual interest On January 10 and July 10 In the years 2009-2015	235.6	235.6	8.2
Series 5	5.2010	Maalot	A+	181,519,000	Fixed	5.85%	Yes	Semi-annual interest On November 30 and May 31 of the years 2010-2017	181.5	181.5	1.1

Comments:

1. Series 2 - Linked to the Consumer Price Index (CPI). Principal repaid in 7 annual installments, between Dec-21-2007 and Dec-21-2013.
2. Series 3 - Linked to the Consumer Price Index (CPI). Principal repaid in 9 annual installments, between July 2010 and July 2018.
3. Series 4 - Principal repaid in 6 annual installments, between July 2010 and July 2015.
4. Series 5 - Principal repaid in 5 annual installments, between November 2013 and November 2017.

5. The trustee of the debentures (Series 2) is Bank Leumi Le-Israel Trust Corporation Ltd. The responsible contact person on behalf of Bank Leumi Le-Israel Trust Corporation Ltd. is Ms. Idit Teuzer (telephone: 03-5170777).
6. The trustee of the public debentures (Series 3, 4) is Hermetic Trust Corporation (1975) Ltd. The responsible contact people on behalf of Hermetic Trust Corporation (1975) Ltd. are Mr. Dan Avnon and/or Ms. Merav Ofer-Oren (telephone: 03-5272272).
7. The trustee of the public debentures (Series 5) is Strauss Lazar Trust Corporation (1992) Ltd. The responsible contact person at Strauss Lazar Trust Corporation (1992) Ltd. in the matter of the public debentures is Mr. Uri Lazar (telephone: 03-6237777).
8. As at the date of the report, the Company has met all of the terms and undertakings of the trust notes and there exist no terms that constitute just cause for demanding the immediate repayment of the debentures.

Zvika Livnat Chairman of the Board of Directors	Ofer Bloch CEO

28

Exhibit 3

HADERA PAPER LTD
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

HADERA PAPER LTD

UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

TABLE OF CONTENTS

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

	Note	June 30 2010 (Unaudited)	2009	December 31 2009
Assets				
Current Assets				
Cash and cash equivalents		245,875	16,530	26,261
Designated deposits		10,576	96,862	127,600
Accounts receivable:				
Trade receivables		342,780	293,993	323,882
Other receivables		95,730	96,831	98,897
Current tax assets		-	65	-
Inventory		191,178	169,014	175,944
Total Current Assets		886,139	673,295	752,584
Non-Current Assets				
			*	*
Fixed assets, net	5	1,204,982	1,021,679	1,134,234
Investments in associated companies		349,249	318,509	340,975
Deferred tax assets		31,585	31,481	29,745
Prepaid expenses in respect of an operating lease		25,091	* 30,225	* 29,756
Other intangible assets		25,188	29,011	27,084
Investment property	C2	24,349	-	-
Other assets		2,076	2,549	1,298
Employee benefit assets		705	705	649
Total Non-Current Assets		1,663,225	1,434,159	1,563,741
Total Assets		2,549,364	2,107,454	2,316,325

* Retroactively adjusted in respect of implementation of amendment to IAS 17, see note 3a.

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

F - 2

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

	June 30		December 31
	2010	2009	2009
	(Unaudited)		
Liabilities and Equity			
Current Liabilities			
Credit from banks and others	74,101	114,769	131,572
Current maturities of long-term bonds and long term loans	160,224	69,636	149,940
Trade payables	271,941	222,940	255,895
Account payables and accrued expenses	107,436	108,824	112,745
Short term employee benefit liabilities	21,354	20,382	22,421
Financial liability at fair value through profit and loss	14,028	12,553	11,982
Current tax liabilities	5,777	-	2,760
Total Current Liabilities	654,861	549,104	687,315
Non-Current Liabilities			
Loans from banks and others	266,501	105,694	225,802
Bonds	652,580	557,699	471,815
Deferred tax liabilities	58,279	75,771	58,053
Employee benefit liabilities	15,448	17,696	14,911
Total Non-Current Liabilities	992,808	756,860	770,581
Capital and reserves			
Issued capital	125,267	125,267	125,267
Reserves	304,123	308,720	307,432
Retained earnings	446,065	341,971	399,346
Capital and reserves attributed to shareholders	875,455	775,958	832,045
Non-controlling interests	26,240	25,532	26,384
Total capital and reserves	901,695	801,490	858,429
Total Liabilities and Equity	2,549,364	2,107,454	2,316,325

Z. Livnat	O. Bloch	S. Gliksberg
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial and Business Development Officer

Approval date of the interim financial statements: August 8, 2010.

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED INCOME STATEMENTS
(NIS in thousands)

	Note	Six months ended June 30 2010	Six months ended June 30 2009	Three months ended June 30 2010	Three months ended June 30 2009	Year ended December 31 2009
		(Unaudited)		(Unaudited)		
Revenue		489,191	434,034	249,206	204,153	891,995
Cost of sales		406,348	373,195	209,723	180,685	765,677
Gross profit		82,843	60,839	39,483	23,468	126,318
Selling and marketing expenses		40,654	34,982	19,935	16,966	71,998
General and administrative expenses		28,975	29,917	11,543	15,686	58,967
Other (income) expenses		642	(17,965)	2,856	(4,577)	(20,234)
Total expenses		70,271	46,934	34,334	28,075	110,731
Profit (loss) from ordinary operations		12,572	13,905	5,149	(4,607)	15,587
Finance income		2,620	3,814	579	783	4,727
Finance expenses		13,399	13,809	10,432	6,228	22,992
Finance expenses, net		10,779	9,995	9,853	5,445	18,265
Profit (loss) after financial expenses		1,793	3,910	(4,704)	(10,052)	(2,678)
Share in profit of associated companies, net		40,056	34,905	20,595	19,857	87,359
Profit before taxes on income		41,849	38,815	15,891	9,805	84,681
Taxes on income	6	(376)	4,409	(1,607)	(5,545)	(7,067)
Profit for the period		42,225	34,406	17,498	15,350	91,748
Attributed to:						
Company shareholders		42,328	34,716	18,038	15,637	91,230
		(103)	(310)	(540)	(287)	518

Non-controlling interests					
	42,225	34,406	17,498	15,350	91,748
			NIS		
Earning for share:					
Primary attributed to Company shareholders	8.35	6.86	3.55	3.09	18.03
Fully diluted attributed to company shareholders	8.27	6.86	3.52	3.09	18.03
Number of share used to compute the primary earnings per share	5,071,508	5,060,774	5,082,028	5,060,774	5,060,788
Number of share used to compute the fully diluted earnings per share	5,118,008	5,060,774	5,117,276	5,060,774	5,060,788

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

F - 4

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME
(NIS in thousands)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2009	2009	2009
	(Unaudited)		(Unaudited)		
Comprehensive Income	42,225	34,406	17,498	15,350	91,748
Other Comprehensive Income					
Profit (loss) on cash flow hedges, net	(971)	4,875	(529)	(551)	5,191
Allocation to the income statement on account of cash flow hedging transactions, net	-	320	-	95	(1,128)
Actuarial (loss) profit and defined benefit plans, net	(79)	-	(97)	-	477
Share in Other Comprehensive Income of associated companies, net	(3,239)	1,968	901	2,156	(507)
Share in Other Comprehensive Income of associated companies, which allocated to the income statements, net	307	-	377	-	1,163
Total Other Comprehensive Income for the period, net	(3,982)	7,163	652	1,700	5,196
Total Comprehensive Income for the period	38,243	41,569	18,150	17,050	96,944
Attributed to:					
Company shareholders	38,387	41,905	18,731	17,416	96,428
Non-controlling interests	(144)	(336)	(581)	(366)	516
	38,243	41,569	18,150	17,050	96,944

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

F - 5

HADERA PAPER LTD

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands)

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Cash Flows Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Non-controlling interests	Total
						(Unaudited)					
Balance - December 31, 2009 (Audited)	125,267	301,695	10,531	3,397	14,164	517	(22,872)	399,346	832,045	26,384	858,42
Adjustment of retained earnings in respect of implementation of amendment to IAS 17 (see note 3a)	-	-	-	-	-	-	-	3,590	3,590	-	3,590
Balance - January 1, 2010	125,267	301,695	10,531	3,397	14,164	517	(22,872)	402,936	835,635	26,384	862,01
For the Six months ended June 30, 2010:											
Total Comprehensive Income for the period	-	-	-	-	-	(932)	(2,938)	42,257	38,387	(144)	38,243
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(872)	-	-	872	-	-	-
Share based payment	-	-	1,433	-	-	-	-	-	1,433	-	1,433
Exercise of employee options into	*	5,106	(5,106)	-	-	-	-	-	-	-	-

shares											
Balance –June 30, 2010	125,267	306,801	6,858	3,397	13,292	(415)	(25,810)	446,065	875,455	26,240	901,69
Balance - January 1, 2009	125,267	301,695	6,227	3,397	15,908	(5,092)	(22,186)	306,097	731,313	26,316	757,62
For the Six months ended June 30, 2009:											
Total Comprehensive Income for the period	-	-	-	-	-	4,812	2,091	35,002	41,905	(336)	41,569
Purchasing shares of subsidiary company	-	-	-	-	-	-	-	-	-	(448)	(448
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(872)	-	-	872	-	-	-
Share based payment	-	-	2,740	-	-	-	-	-	2,740	-	2,740
Balance –June 30, 2009	125,267	301,695	8,967	3,397	15,036	(280)	(20,095)	341,971	775,958	25,532	801,49

HADERA PAPER LTD

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands)

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Cash Flows Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Non-controlling interests	Total
						(Unaudited)					
Balance - April 1, 2010	125,267	301,695	11,379	3,397	13,728	(490)	(26,517)	427,680	856,139	26,821	882,96
For the Three months ended June 30, 2010:											
Total Comprehensive Income for the period	-	-	-	-	-	75	707	17,949	18,731	(581)	18,150
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(436)	-	-	436	-	-	-
Share based payment	-	-	585	-	-	-	-	-	585	-	585
	*	5,106	(5,106)	-	-	-	-	-	-	-	-
Balance –June 30, 2010	125,267	306,801	6,858	3,397	13,292	(415)	(25,810)	446,065	875,455	26,240	901,69
Balance - April 1, 2009	125,267	301,695	7,887	3,397	15,473	861	(22,930)	325,812	757,462	25,898	783,36
For the Three months ended June 30, 2009:											
Total Comprehensive Income for the period	-	-	-	-	-	(1,141)	2,835	15,722	17,416	(366)	17,050

Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(437)	-	-	437	-	-	-
Share based payment	-	-	1,080	-	-	-	-	-	1,080	-	1,080
Balance –June 30, 2009	125,267	301,695	8,967	3,397	15,036	(280)	(20,095)	341,971	775,958	25,532	801,49

* Represents an amount less than NIS 1,000.

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

F - 7

HADERA PAPER LTD

CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands)

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Cash Flows Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Non-controlling interests	Total
Balance - January 1, 2009	125,267	301,695	6,227	3,397	15,908	(5,092)	(22,186)	306,097	731,313	26,316	757,629
For the Year ended December 31, 2009:											
Total Comprehensive Income for the Year	-	-	-	-	-	5,609	(686)	91,505	96,428	516	96,944
Purchasing shares of subsidiary company	-	-	-	-	-	-	-	-	-	(448)	(448
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(1,744)	-	-	1,744	-	-	-
Share based payment	-	-	4,304	-	-	-	-	-	4,304	-	4,304
Balance – December 31, 2009	125,267	301,695	10,531	3,397	14,164	517	(22,872)	399,346	832,045	26,384	858,429

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

F - 8

Explanation of Responses:

HADERA PAPER LTD
CONDENSED CONSOLIDATED STATMENTS OF CASH FLOWS
(NIS in thousands)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	(unaudited)		(unaudited)		
Cash flows – operating activities					
Profit for the period	42,225	34,406	17,498	15,350	91,748
Taxes on income recognized in profit and loss	(376)	4,409	(1,607)	(5,545)	(7,067)
Finance expenses, net recognized in profit and loss	10,779	9,995	9,853	5,445	18,265
Capital loss (profit) on disposal of fixed assets	(1,471)	(196)	129	(225)	(73)
Share in profit of associated companies	(40,056)	(34,905)	(20,595)	(19,857)	(87,359)
Dividends received from associated company	29,940	* 32,770	9,980	-	61,814
Income from repayment of capital note to associated company	-	* (16,418)	-	-	(16,418)
Depreciation and amortization	38,812	39,016	20,683	19,477	78,552
Share based payments expenses	1,142	2,061	476	839	3,762
	80,995	71,138	36,417	15,484	143,224
Changes in assets and liabilities:					
Decrease (Increase) in trade and other receivables	(14,871)	57,877	3,865	69,142	22,373
Decrease (Increase) in inventory	(15,234)	(259)	(3,630)	8,146	(7,189)
Increase (Decrease) in trade payables and account payables	12,379	(40,069)	(14,314)	(27,324)	24,407
Increase (Decrease) in financial liabilities at fair value through profit and loss	2,046	(1,351)	2,696	(4,350)	(1,922)
Increase (Decrease) in employee benefit liabilities, net	(821)	5,287	(738)	1,078	4,089
	(16,501)	21,485	(12,121)	46,692	41,758
Proceeds (payments) Taxes	(1,149)	(3,315)	241	(1,488)	(5,754)
Net cash generated by operating activities	63,345	89,308	24,537	60,688	179,228

* Reclassified.

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

		Six months ended June 30		Three months ended June 30		Year ended December 31
	Note	2010	2009	2010	2009	2009
		(Unaudited)		(Unaudited)		
Cash flows – investing activities						
Acquisition of property plant and equipment and Prepaid expenses in respect of a financing lease	5	(115,191)	* (219,871)	(36,981)	(99,358)	* (352,455)
Acquisition of other assets		(1,220)	-	(10)	-	(752)
Proceeds from disposal of fixed assets		2,554	1,030	650	880	1,960
Decrease (Increase) in designated deposits, net		114,557	155,896	75,900	(15,381)	124,614
Interest received		723	1,379	459	370	1,565
Granting of loans to an associated company		(816)	(510)	-	-	(1,068)
Net cash generated by (used in) investing activities		607	(62,076)	40,018	(113,489)	(226,136)
Cash flows – financing activities						
Short-term bank credit – net		(57,471)	37,114	(14,202)	77,034	53,917
Borrowings received from banks and from others		77,300	3,154	6,489	3,154	159,674
Repayment of borrowings from banks		(26,336)	(19,353)	(12,114)	(9,752)	(37,830)
Repayment of capital note		-	(32,770)	-	-	(32,770)
Interest Paid		(17,720)	(3,681)	(3,157)	(1,815)	(42,012)
Issuance of bonds		179,886	-	179,886	-	-
Repayment of bonds		-	(7,505)	-	(7,505)	(40,427)
		155,659	(23,041)	156,902	61,116	60,552

Net cash generated by(used in) financing activities					
Increase in cash and cash equivalents	219,611	4,191	221,457	8,315	13,644
Cash and cash equivalents – beginning of period	26,261	13,128	24,136	9,435	13,128
Net foreign exchange difference	3	(789)	282	(1,220)	(511)
Cash and cash equivalents – end of period	245,875	16,530	245,875	16,530	26,261

* Retroactively adjusted in respect of implementation of amendment to IAS 17, see note 3a.

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

F - 10

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

A. Description Of Business

Hadera Paper Limited (former - American Israeli Paper Mills Limited) and its subsidiaries (hereinafter – the Company) are engaged in the production and sale of paper packaging, in paper recycling activities and in the marketing of office supplies. The Company also has holdings in associated companies that are engaged in the productions and sale of paper and paper products including the handling of solid waste (the Company and its investee companies – hereinafter – the Group). Most of the Group's sales are made on the local (Israeli) market. For segment information, see note 7.

B. For further information read these concise reports in connection with the Company's annual financial statements as of December 31, 2009 and the year then ended, and the accompanying notes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of preparation

The consolidated concise financial statements (hereinafter – "interim financial statements") of the Group were prepared in accordance with IAS 34 "Financial Reporting for Interim Periods" (hereinafter – IAS 34).

In the preparation of these interim financial statements the Group applied identical accounting policy, presentation rules and calculation methods to those that were applied in the preparation of its financial statements as of December 31, 2009 and the year then ended, except for changes in the accounting policy that arose from the implementation of standards, amendment to standards and new interpretations that became effective on the date of the financial statements as specified in Section c and note 3 below.

B. The consolidated concise financial statements were prepared in accordance with the disclosure provisions of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

C. Investment Property

Investment property is real estate (land or building – or part thereof – or both), which is held by the Group for the purpose of generating rental income or for capital appreciation.

Such investment property includes buildings and lands that are leased to an associated company and are held under a financing lease arrangement (see also note 3a1). Investment property is initially recognized at cost, which includes transaction costs. In periods subsequent to initial recognition, investment property is measured at fair value. Profits or losses arising from changes in the fair value of investment property, including those originating from changes in exchange rates, are included in the statement of income in the period they were incurred, under "Other (income) expenses".

Costs directly attributable to the disposal of investment property are recognized in the statement of income on the date in which the property is sold and are deducted from the gain upon disposal. The difference between the proceeds received from disposing investment property and its fair value is a capital gain (loss) on disposal, which is recognized on the date of completion of the sale transaction to the statement of income and presented under "Other (income) expenses net ".

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2010

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

D. Exchange Rates and Linkage Basis

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

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

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

As of:	Representative exchange rate of the dollar (NIS per $1)	Representative exchange rate of the Euro (NIS per €1)	CPI “in respect of” (in points) (*)
June 30, 2010	3.875	4.7575	207.56
June 30, 2009	3.919	5.5346	202.66
December 31, 2009	3.775	5.442	206.19
Increase (decrease) during the:	%	%	%
Three months ended June 30, 2010	4.36	(4.68)	1.54
Three months ended June 30, 2009	(6.42)	(0.7)	2.3
Six months ended June 30, 2010	2.65	(12.58)	0.66
Six months ended June 30, 2009	3.08	4.49	2.1
Year ended December 31, 2009	(0.71)	2.74	3.92

(*) Based on the CPI for the month ending at the end of each reporting period, on an average basis of 100=1993.

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS:

A. Standards and new interpretations that influence this reporting period and/or Previous reporting periods:

§ Amendment to IAS17 "leases"

As part of the annual improvements project, for 2009 ,IAS 17 "Leases" was amended.

Amendment to IAS 17, “Leases”, provides for the classification of land leases as a financing lease or an operating lease in accordance with the general principles of the Standard, taking into consideration the fact that the land is an asset with an infinite economic life. As part of the amendment, the sweeping prohibition to classify land as an operating lease was cancelled when the land is not transferred to the less or at the end of the leasing period.

The amendment is to be retroactively applied in annual reporting periods commencing on January 1, 2010 or thereafter.

The amendment is to be retroactively applied to existing leases for which the required information is available at the initial date of the lease.

Land leases for which the required information is unavailable are to be reviewed as for the date of the adoption of the amendment.

F - 12

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

A. Standards and new interpretations that influence this reporting period and/or Previous reporting periods: (cont.)

1) The Group has lands and buildings that are leased to an associated company and which, until the amendment of IAS 17, have been presented as an operating lease. In accordance with the amendment to IAS 17, these leases meet the definition of financing lease and therefore are classified as investment property measured at fair value, in accordance with the Group's policy. Since the information on the fair value of the lands in previous periods is not available, the Company has recognized the property at fair value as of the date of implementation of the amendment. As a result of implementing the amendment, as of January 1, 2010, a sum of NIS 24,349 thousands was recognized in investment property, a sum of NIS 787 thousands was recognized in deferred tax liabilities and a sum of NIS 74 thousands in account payables and accrued expenses (in respect of liability for a financing lease). Pursuant to the transitional provisions of the amendment, the difference in the amount of NIS 3,590 thousands was recognized in retained earnings.

2) The Group has lands (which do not constitute investment property at fair value), which have been leased from the Israel Land Administration and the leasing fees in respect thereof have been paid in full. Following the amendment, amounts in respect of the above leases, which have been presented in the financial statements as of December 31, 2009 under "prepaid expenses in respect of an operating lease" are now presented under "fixed assets".

The effect of the retroactive implementation of the amendment on the statement of financial position in the current and previous periods:

	June 30 2010	June 30 2009	December 31 2009
		NIS in thousands	
Increase in fixed assets	7,449	7,540	7,534
Decrease in long-term expenses for lease	(7,449)	(7,540)	(7,534)

3) The Group has lands (which do not constitute investment property measured at fair value) which are held as part of a leasing agreement with the Israel Land Administration, the payment in respect thereof is made periodically. Since the information as of the date the commencement of the leases is not available, the Company recognizes the asset and liability related to the lease of the land, which was recognized again as a financing lease, at fair value as of the date of implementation of the amendment; the difference between the fair value of the asset and the fair value of the related liability was recognized in "retained earnings".

As a result of implementing the amendment, commencing from 2010, some of the leases that were treated until December 31, 2009 as operating leases, have been reclassified as financing leases.

Following the implementation of the amendment, on January 1, 2010, a sum of NIS 407 thousands was recognized in "fixed assets" and a sum of NIS 73 thousands was recognized in "accounts payable and accrued expenses" (in respect of a liability for a financing lease). In addition, prepaid expenses in respect of a lease have decreased by NIS 334 thousands.

F - 13

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

B. New standards and interpretations that are effective and that do not have a material effect on the reporting period and/or previous reporting periods:

The following new standards, interpretation and amendments, that became effective in the current year, do not have a material effect on the reporting period and/or previous reporting periods, but their validation may have an impact of future periods.

§ IFRS 3 (Amended) “Business Combinations”

The new standard stipulates the rules for the accounting treatment of business combinations. The standard will apply to business combinations that take place from January 1, 2010 and thereafter.

§ IAS 27 (Amended) “Consolidated and Separate Financial Statements “

The new standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively.

§ Amendment of IAS 28 "Investment in Associates" (regarding the loss of significant influence in an associated company)

Following the adoption of Amended IAS 27 as aforesaid, certain provisions in IAS 28 "Investment in Associates" have been amended.

This amendment prescribes the accounting for the loss of significant influence in an associated company, while the entity continues to retain some interest in the investee.

The amendment will be implemented prospectively in annual reporting periods commencing on or after January 1, 2010.

§ Amendment of IFRS 5 "Non-Current Asset Held for Sale ad Discontinued Operations"

As part of the annual improvements project for the year 2008, IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations”, was amended.

Pursuant to the amendment, the assets and liabilities of a subsidiary are to be classified as held for sale to the extent that the parent company has undertaken to carry out a program for the sale of its controlling interest therein, even if it intends to maintain non-controlling interest. The amendment is applicable prospectively to reporting periods commencing January 1, 2010 or thereafter.

§

Amendment of IAS 39 "Financial Instruments: Recognition and Measurement" (regarding the designation of exposure to inflationary risks as hedging items).

The amendment, inter alia, determines that changes in cash flows arising from exposure to inflationary risks can be designated as hedging items. Furthermore, pursuant to the amendment, the intrinsic value, unlike the time value of acquired options, qualifies as a hedging instrument of one-party risk arising from a forecast transaction. The amendment is implemented retroactively for annual accounting periods commencing on or subsequent to January 1, 2010.

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

B. New standards and interpretations that are effective and that do not have a material effect on the reporting period and/or previous reporting periods: (cont.)

The following amendments were published in the annual improvements project for 2009:

§ Amendment to IAS 7, “Statements of Cash Flows”

Amendment to IAS 7, "Statements of Cash Flows" Clarifies that only as cash expenditure for an asset recognized in the statement of financial position qualifies for classification as cash flows used in investing activities.

The amendment is to be retroactively applied in annual reporting periods commencing on January 1, 2010 or thereafter.

§ Amendment to IAS 36, “Impairment of Assets”

Amendment to IAS 36, “Impairment of Assets”, stipulates that the cash-generating units or groups of cash-generating units to which goodwill is allocated within the framework of impairment testing shall not be larger than an operating segment, excluding the grouping of segments with similar financial characteristics. The amendment is to be applied prospectively in annual reporting periods commencing on January 1, 2010 or thereafter.

§ Amendment of IAS 39 "Financial Instruments: Recognition and Measurement" (regarding the scope of the standard, the date of recognition of gains and losses in profit or loss with respect to hedging instruments and an option for early repayment in debt instruments)

Amendment to IAS 39, “Financial Instruments: Recognition and Measurement", stipulates some amendments to the standard provisions. Additionally, the amendment clarifies that gains or losses attributed to a cash flow hedge are to be reclassified to profit or loss during the period in which the hedged anticipated cash flows affect the profit or loss.

The amendment is to be applied prospectively to in annual periods commencing on January 1, 2010 or thereafter.

The amendment further determines a clarification regarding the treatment in case of early repayment option that is embedded in a host debt regarding the separation of an embedded derivative.

The amendment is to be applied prospectively in annual periods commencing on January 1, 2010 or thereafter.

C. New Standards and Interpretations that have been Published but not yet Become Effective, and have not been Adopted by the Group in Early Adoption, which expected or may have an impact on future periods:

§ For information regarding commencement dates, transitional provisions and the expected impact on the Company from the standards, amendments to standards and interpretations detailed below see note 3C to the annual financial statements of the Company as of December 31, 2009 and the year then ended:

§ IFRS 9: "Financial instruments".

F - 15

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS: (cont.)

D. New standards amendments and interpretations which have been published but not yet become effective and have not been adopted by the Group in early adoption, and are not expected to affect the Group's financial statements:

§ For information regarding commencement dates and the transitional provisions of the standards, amendments and interpretations detailed below, see note 3D to the annual financial statements of the Company as of December 31, 2009 and the year ended:

§ IAS 24 (Amended) "Related Party Disclosures"

§ Amendment to IAS 32 "Financial Instruments: Presentation"

§ IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

§ Amendment of IFRIC 14: "Prepayments of a Minimum Funding Requirement"

§ In May 2010, the IASB published improvements to international financial reporting standards. Within this framework, several revisions were made to standards and interpretations that will be implemented for annual reporting periods commencing January 1, 2011, or thereafter.

§ Revision to IFRS 3 (Revised) "Business Combinations" - regarding measurement of rights that do not grant control

The revision stipulates that the possibility of selecting the method of measurement, at the date of business combination, of rights that do not grant control, exists only for rights that do not grant control, that constitute existing ownership rights in the company being acquired. Rights that do not grant control, that do not constitute existing ownership rights, shall be measured at the date of business combination exclusively at fair value. The revision will be implemented prospectively, starting with the adoption date of the directives of IFRS 3 (Revised).

§ Revision of IAS 1 - "Presentation of Financial Statements"

The revision stipulates that the other comprehensive income will be presented together with the statement of Changes in Shareholders' Equity, or in the Notes, according to the accounting policy of the company. The revision will be implemented retroactively.

§ Revision of IAS 27 (Revised) - "Consolidated and Separate Financial Statements"

The revision clarifies the transitional provisions of revisions to other standards regarding the adoption of IAS 27 (Revised), namely the revisions of IAS 21 "Impact of changes in foreign currency exchange rates", IAS 28 "Investment and associated companies" and IAS 31 "Rights in Joint Transactions" and it was determined that these revisions to the other standards will be implemented prospectively, commencing on the adoption date of the directives of IAS 27 (Revised).

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 4 - SEGNIFICANT TRANSACTIONS AND EVENTS

a. On February 11, 2010 the company assumed a long-term loan from banks in the sum of NIS 70 million, carrying a variable interest rate of prime+1.15%, and to be repaid within 7 years. The principal and the interest are to be repaid in quarterly installments, commencing from the second year.

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

c. On February 18, 2010, an associated company declared the distribution of a dividend in the amount of approximately NIS 20 million out of the unapproved retained earnings accumulated as of December 31, 2009. The Company’s share in the dividend is approximately NIS 10 million. The dividend was paid during May 2010.

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

e. On May 23, 2010 the Company contemplated a public offering pursuant to the shelf prospectus published by the Company in Israel on May 26, 2008 of a new series of debentures. The Company has offered an aggregate principal amount of NIS 181,519 thousands of debentures (Series 5) issued in return for approximately NIS 181,519 thousands bearing an interest rate of 5.85%. The principal is payable in five annual equal payments, each on November 30th of the years 2013-2017. The interest is payable half annually each on May 31st and November 30th of the years 2010-2017.

The net proceed of the offering net of issue expenses is NIS 179,886 thousands.

f. On June 6, 2010, an associated company Hogla-Kimberly Ltd. and another competitor company received a petition for the approval of a class action against them.

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

The plaintiff estimates the scope of the petition against Hogla-Kimberly, if approved as class action, to be approximately NIS 111 million. At this early stage Hogla-Kimberly legal advisor opinion is that the probability of the request for approval of a class action lawsuit will be rejected is higher than the probability that it will be approved.

NOTE 5 - FIXED ASSETS

a. During the periods of six months ended June 30, 2010 and June 30, 2009, the Company purchased fixed assets at a cost of approximately NIS 115,191 thousands and NIS 219,871 thousands, respectively. Most of the acquisitions of the fixed assets during the reported period, in sum of NIS 92,647 thousand (Including decrease in suppliers' credit in the amount of NIS 10,568 thousands), were made for Machine 8 - a new machine for the packaging paper system. The balance of investment in Machine 8 as of June 30, 2010, amounts to NIS 698,827 thousands. The machine finished the running-in stage, at the end of May 2010. During the running-in stage, capitalized costs have aggregated NIS 8,417 thousands net, after the deduction of the proceeds from the sale of items during the running-in stage in the amount of NIS 69,996 thousands.

Total suppliers' credit from acquired fixed assets amounted to NIS 64,432 thousands as of June 30, 2010 (and NIS 70,541 thousands as of December 31, 2009).

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 5 - FIXED ASSETS (cont.)

b. In light of indications that came in the first quarter of 2010, regarding the impairment of the packaging paper cash-generating unit, the company estimated on March 31, 2010 the fair value of the fixed asset items that are included under the packaging paper sector, based on assessment reports. In this capacity, the company found that the fair value of the fixed assets, net of the selling costs, is higher than the book value and in accordance with IAS-36, no recognition is necessary of a loss on account of the impairment of the fixed assets. See also in note 4c to the financial statements as of December 31, 2009.

NOTE 6 - INCOME TAX CHARGE

Tax income for the six months period ended June 30, 2010 amounts to NIS 0.4 million, primarily derives from the differences between tax rates expected to realize current losses and tax rates expected for reversal of deferred tax liabilities, in respect of the accelerated depreciation reduction of Machine 8, as a result of gradual reduction in the corporate tax rate in accordance with Economic Efficiency Law.

NOTE 7 - SEGMENT INFORMATION

a. General

The Group has been implementing IFRS 8 "operating segments" (hereinafter – "IFRS 8") as of January 1, 2009. In accordance with the provisions of IFRS 8, operating segments are identified on the basis of internal reports on the Group's components, which are regularly reviewed by the chief operational decision maker of the Group for the purpose of allocating resources and evaluating the performance of the operating segments.

The identified operating segments, according to IFRS8 are:

The paper and recycling segment – generates revenue from the sale of paper products to paper manufacturing companies as well as from the recycling of paper and cardboard.

The office supplies marketing segment – generates revenue from the sale of office supplies to customers.

The packaging and cardboard products segment – generates revenue from the sale of packaging and cardboard products to customers.

The Hogla Kimberly segment – an associated company that generates revenue from the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products, in Israel and in Turkey.

The Mondi Hadera Paper segment – an associated company that generates revenue from the manufacture and marketing of fine paper.

Information relating to these assets is reported below. Amounts that were reported with respect to previous reporting periods are reported on the basis of the new segment reporting.

F - 18

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 7 - SEGMENT INFORMATION (cont.)

b. Analysis of incomes and results according to operating segments:

The results of the segment include the profit (loss) generated from the activity of every reportable segment. These reports were edited based on the same accounting policy implemented by the Company.

Six months (Unaudited) NIS in thousands

	Paper and recycling		Marketing of office supplies		Packaging and carton products		Hogla Kimberly		Mondi Hadera Paper	
	Jan-June 2010	Jan-June 2009	Jan-June 2010	Jan-June 2009	Jan-June 2010	Jan-June 2009	Jan-June 2010	Jan-June 2009	Jan-June 2010	Jan-June 2009
Sales to external customers	141,674	105,448	82,247	68,279	233,032	236,101	856,515	882,902	357,460	332,914
Sales between Segments	47,801	56,655	1,243	946	8,812	7,118	2,381	1,323	17,923	10,646
Total sales	189,475	162,103	83,490	69,225	241,844	243,219	858,896	884,225	375,383	343,560
Segment results	8,040	8,411	2,120	1,165	2,925	4,552	93,133	88,239	23,190	15,901

Three months (Unaudited) NIS in thousands

	Paper and recycling		Marketing of office supplies		Packaging and carton products		Hogla Kimberly		Mondi Hadera Paper	
	April-June 2010	April-June 2009	April-June 2010	April-June 2009	April-June 2010	April-June 2009	April-June 2010	April-June 2009	April-June 2010	April-June 2009
Sales to external customers	81,223	50,638	41,520	32,121	110,445	108,024	415,312	446,139	193,599	156,030
Sales between Segments	22,279	30,951	608	411	4,038	2,728	1,228	269	9,094	5,498
Total sales	103,502	81,589	42,128	32,532	114,483	110,752	416,540	446,408	202,693	161,528
Segment results	5,332	(5,530)	619	248	(642)	722	45,971	48,300	14,639	10,496

F - 19

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 7 - SEGMENT INFORMATION (cont.)

b. Analysis of incomes and results according to operating segments: (cont.)

Year ended December 31, 2009
NIS in thousands

	Paper and recycling	Marketing of office supplies	Packaging and carton products	Hogla Kimberly	Mondi Hadera Paper	Adjustments to consolidation	Total
Sales to external customers	219,866	149,107	468,339	1,722,613	645,972	(2,368,582)	837,315
Sales between Segments	119,433	1,904	15,965	4,014	23,250	(109,886)	54,680
Total sales	339,299	151,011	484,304	1,726,627	669,222	(2,478,468)	891,995
Segment results	(2,737)	3,983	14,712	193,805	40,541	(234,717)	15,587

NOTE 8 - SUBSEQUENT EVENTS

a. On July 25, 2010 a subsidiary company - Amnir Recycling Industries Ltd. was entered into an agreement for the sale of the leasing rights to a plot of land covering 9,200 m² located in Bnei-Brak, in return for a sum of NIS 20 million. The agreement also grants subsidiary the right to cancel the agreement in the event that the taxation rate exceeds her estimates, unless the buyer would assume payment of the difference.

Following the transaction, the company will register net capital gains of approximately NIS 14 million.

b. On July 26, 2010 an associated company declared the distribution of a dividend in the amount of EURO 1.2 million. The dividend will be paid during the third quarter of 2010. The Company’s share in the dividend is approximately EURO 0.6 million.

c. On July 27, 2010 the General meeting approved the company's entering into the agreement from June 1, 2010 for the sale of its rights to a plot of land with an area of approximately 7600 square meters in Totseret HaAretz Street in Tel Aviv, that is currently leased by the Company from the Tel Aviv municipality in consideration of NIS 64 million, plus VAT. The purchasing parties are Gev Yam Ltd., (“Gev Yam”), a company indirectly controlled by IDB Development Company Ltd., the controlling shareholder of the Company and by Amot Investments Ltd. (“Amot”), with holdings in Gev Yam of 71% and 29%, respectively. The transaction is subject to a two nullifying conditions. Pursuant to the finalization of the transaction according to the terms of the agreement, the Company is expected to record in its financial statements net capital gains totaling approximately NIS 27.5 million. At the date of signing of financial statements the terms of the agreement did not fulfilled.

d. On July 27, 2010 an associated company declared the distribution of a dividend up to amount of NIS 40 million from the retained earnings, subject to availability of funds and partners agreement. The dividend will be paid during the fourth quarter of 2010. The Company’s share in the dividend is up to NIS 20 million

F - 20

HADERA PAPER LTD

SEPARATE FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

HADERA PAPER LTD

SEPARATE FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

TABLE OF CONTENTS

HADERA PAPER LTD

SEPARATE STATEMENTS OF FINANCIAL POSITION

	June 30		December 31
	2010	2009	2009
	NIS in thousands		
Current Assets			
Cash and cash equivalents	216,100	779	363
Designated deposits	10,576	96,862	127,600
Trade receivables	2,367	10,559	4,347
Affiliated companies, net	56,946	404,201	548,181
Current tax assets	-	-	96
Total Current Assets	285,989	512,401	680,587
Non-Current Assets			
Investment in associated companies	927,306	890,105	918,771
Loans to associated companies	666,242	69,197	69,706
Fixed assets	85,149	*96,604	*101,746
Real Estate Investment	24,349	-	-
Prepaid leasing expenses	25,091	*30,225	*29,756
Other assets	315	842	370
Deferred tax assets	11,820	14,460	13,223
Total Non-Current Assets	1,740,272	1,101,433	1,133,572
Total Assets	2,026,261	1,613,834	1,814,159
Current Liabilities			
Credit from banks	40,017	85,003	102,446
Current maturities of long-term notes and long term loans	135,004	44,742	125,805
Trade payables	3,660	5,052	3,068
Other payables and accrued expenses	79,891	81,248	87,765
Financial liabilities at fair value through profit and loss	14,028	12,553	11,982
Short term employee benefit liabilities	2,919	3,643	5,303
Current tax liabilities	1,864	2,689	-
Total Current Liabilities	277,383	234,930	336,369
Non-Current Liabilities			
Loans from banks and others	216,932	38,952	170,155
Notes	652,580	557,699	471,815
Employee benefit liabilities	3,911	6,295	3,775
Total Non-Current Liabilities	873,423	602,946	645,745
Capital and reserves	875,455	775,958	832,045
Total Liabilities and Equity	2,026,261	1,613,834	1,814,159

* Retroactively adjusted in respect of implementation of amendment to IAS 17, see note 2.

Z. Livnat	O. Bloch	S. Gliksberg
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial and Business Development Officer

Approval date of the separate financial statements: August 8, 2010

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

HADERA PAPER LTD

SEPARATE INCOME STATEMENTS

	Six month ended June 30		Three month ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	NIS in thousands				
	(Unaudited)		(Unaudited)		
Income					
Revenues from services, net	7,379	4,368	7,305	1,705	6,430
Other income	-	17,769	-	4,350	19,624
Share in profits of associated companies - net	41,856	27,729	18,637	14,536	87,010
Finance income	5,479	3,005	5,457	460	5,557
	54,714	52,871	31,399	21,051	118,621
Cost and expenses					
Other expenses	(720)	-	(3,056)	-	-
Finance expenses	(10,127)	(9,429)	(9,206)	(7,547)	(18,318)
Profit before taxes on income	43,867	43,442	19,137	13,504	100,303
Tax revenues (expenses) on the income	(1,539)	(8,726)	(1,099)	2,133	(9,073)
profit for the period	42,328	34,716	18,038	15,637	91,230

SEPARATE STATEMENT
OF COMPREHENSIVE INCOME

	Six month ended June 30		Three month ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	NIS in thousands				
	(Unaudited)		(Unaudited)		
Comprehensive Income	42,328	34,716	18,038	15,637	91,230
Actuarial loss and defined benefit plans, net	-	-	-	-	14
Share in Other Comprehensive Income of associated companies, net	(3,941)	7,189	693	1,779	5,184

Comprehensive Income (loss) for the period	(3,941)	7,189	693	1,779	5,198
Total other comprehensive income for the period	38,387	41,905	18,731	17,416	96,428

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

HADERA PAPER LTD

SEPARATE FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands)

	Share capital	Premium on shares	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders
	NIS in thousands (Unaudited)								
Balance - December 31, 2009 (Audited)	125,267	301,695	10,531	3,397	14,164	517	(22,872)	399,346	832,045
Adjustment of retained earnings in respect of implementation of amendment to IAS 17 (see note 2)	-	-	-	-	-	-	-	3,590	3,590
Balance - January 1, 2010	125,267	301,695	10,531	3,397	14,164	517	(22,872)	402,936	835,635
For the Six months ended June 30, 2010:									
Comprehensive Income for the period	-	-	-	-	-	(932)	(2,938)	42,257	38,387
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(872)	-	-	872	-
Share based payment	-	-	1,433	-	-	-	-	-	1,433
Exercise of employee options into shares	*	5,106	(5,106)	-	-	-	-	-	-
Balance – June 30, 2010	125,267	306,801	6,858	3,397	13,292	(415)	(25,810)	446,065	875,455

Balance - January 1, 2009	125,267	301,695	6,227	3,397	15,908	(5,092)	(22,186)	306,097	731,313
For the Six months ended June 30, 2009:									
Comprehensive Income for the period	-	-	-	-	-	4,812	2,091	35,002	41,905
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(872)	-	-	872	-
Share based payment	-	-	2,740	-	-	-	-	-	2,740
Balance – June 30, 2009	125,267	301,695	8,967	3,397	15,036	(280)	(20,095)	341,971	775,958

* Represents an amount less than NIS 1,000.

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

H - 3

HADERA PAPER LTD

SEPARATE FINANCIAL STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands)

	Share capital	Premium on shares	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders
	NIS in thousands (Unaudited)								
Balance - April 1, 2010	125,267	301,695	11,379	3,397	13,728	(490)	(26,517)	427,680	856,139
For the Three months ended June 30, 2010:									
Comprehensive Income for the period	-	-	-	-	-	75	707	17,949	18,731
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(436)	-	-	436	-
Share based payment	-	-	585	-	-	-	-	-	585
Exercise of employee options into shares	*	5,106	(5,106)	-	-	-	-	-	-
Balance – June 30, 2010	125,267	306,801	6,858	3,397	13,292	(415)	(25,810)	446,065	875,455
Balance - April 1, 2009	125,267	301,695	7,887	3,397	15,473	861	(22,930)	325,812	757,462
For the Three months ended June 30, 2009:									
Total Comprehensive Income for the period	-	-	-	-	-	(1,141)	2,835	15,722	17,416
	-	-	-	-	(437)	-	-	436	-

Depreciation of capital from revaluation from step acquisition to retained earnings									
Share based payment	-	-	1,080	-	-	-	-	-	1,080
Balance – June 30, 2009	125,267	301,695	8,967	3,397	15,036	(280)	(20,095)	341,970	775,958
					(Audited)				
Balance - January 1, 2009	125,267	301,695	6,227	3,397	15,908	(5,092)	(22,186)	306,097	731,313
For the Year ended December 31, 2009:									
Total Comprehensive Income for the Year	-	-	-	-	-	5,609	(686)	91,505	96,428
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(1,744)	-	-	1,744	-
Share based payment	-	-	4,304	-	-	-	-	-	4,304
Balance – December 31, 2009	125,267	301,695	10,531	3,397	14,164	517	(22,872)	399,346	832,045

* Represents an amount less than NIS 1,000.

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

H - 4

HADERA PAPER LTD

SEPARATE CASH FLOWS STATEMENTS

	Six month ended June 30		Three month ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	NIS in thousands				
	(Unaudited)		(Unaudited)		
Cash flows – operating activities					
Profit for the period	42,328	34,716	18,038	15,637	91,230
Tax expenses (income) recognized in profit and loss	1,539	8,726	1,099	(2,133)	9,073
Financial expenses recognized in profit and loss, net	4,648	6,424	3,749	7,087	12,761
Share in profit of associated companies, net	(41,856)	(27,729)	(18,637)	(14,536)	(87,010)
Dividend received	29,940	32,770	9,980	-	61,814
Income from repayment of capital note to associated company	-	(16,418)	-	-	(16,418)
Capital loss (profit) on sell of fixed assets	(1,387)	15	36	15	34
Depreciation and amortization	3,761	2,313	2,013	1,064	5,127
Share based payments expenses	580	1,017	248	427	1,880
	39,553	41,834	16,526	7,561	78,491
Changes in assets and liabilities:					
Decrease (Increase) in trade and other receivables	(86,364)	(194,815)	(11,990)	(54,126)	(313,050)
Decrease (Increase) in trade and other payables	(8,637)	10,416	(19,134)	(8,369)	21,702
Increase (decrease) in financial liabilities at fair value through profit and loss	2,046	(1,351)	2,696	(4,350)	(1,922)
Increase (decrease) in employee benefits and provisions	(2,309)	2,401	(333)	1,819	1,418
Cash used in operating activities	(55,711)	(141,515)	(12,235)	(57,465)	(213,361)
Proceeds (payments) Taxes	(1,323)	-	67	-	-
Net cash used in operating activities	(57,034)	(141,515)	(12,168)	(57,465)	(213,361)

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

H - 5

HADERA PAPER LTD

SEPARATE CASH FLOWS STATEMENTS

	Six month ended June 30		Three month ended June 30		Year ended December 31
	2010	2009	2010	2009	2009
	NIS in thousands				
	(Unaudited)		(Unaudited)		
Cash flows – investing activities					
Acquisition of fixed assets and Prepaid expenses in respect of a financing lease	(975)	(1,218)	(559)	(375)	*(5,089)
Proceeds from fixed assets and other assets	1,483	414	60	414	747
Decrease (Increase) in designated deposits, net	114,557	155,896	75,900	(15,381)	124,614
Interest received	635	885	391	124	1,292
Net cash generated (Cash used) investing activities	115,700	155,977	75,792	(15,218)	121,564
Cash flows – financing activities					
Short-term bank credit – net	(62,429)	42,335	(20,039)	84,970	59,778
Borrowings received from banks	70,000	-	-	-	156,490
Repayment of borrowings from banks	(14,233)	(6,261)	(6,158)	(3,136)	(12,568)
Repayment of capital note	-	(32,770)	-	-	(32,770)
Interest Paid	(16,153)	(9,892)	(2,763)	(1,282)	(38,753)
Issuance of bonds	179,886		179,886		
Redemption of notes	-	(7,505)	-	(7,505)	(40,427)
Net cash generated (used in) by financing activities	157,071	(14,093)	150,926	73,047	91,750
Increase (Decrease) in cash and cash equivalents	215,737	369	214,550	364	(47)
Cash and cash equivalents – beginning of period	363	410	1,550	415	410
Cash and cash equivalents – end of period	216,100	779	216,100	779	363

* Retroactively adjusted in respect of implementation of amendment to IAS 17, see note 2.

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

H - 6

HADERA PAPER LTD

NOTES TO SEPARATE FINANCIAL STATEMENTS

NOTE 1 - GENERAL

The separate financial statements of the Company are prepared in accordance with the provisions of Regulation 38d to the Securities Regulations (Immediate and Periodic Reports), 1970.

A. Definitions:

The Company	-	Hadera Paper Limited.
Affiliated Companies	-	As defined by note 1b of the conciliated financial statement of the company as of December 31, 2009.

B. Accounting policy:

The separate financial statements were drawn up in accordance with the accounting policy set forth in note 2 of the consolidated financial statements of the Company, except for changes in the accounting policy that arose from the implementation of standards, amendment to standards and new interpretations that became effective on the date of the financial statements as specified in Section c and note 3 of the consolidated financial statements of the Company.

NOTE 2 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS:

Standards and new interpretations that influence this reporting period and/or previous reporting periods:

§ Amendment to IAS17 "leases"

As part of the annual improvements project, for 2009, IAS 17 "Leases" was amended.

Amendment to IAS 17, “Leases”, provides for the classification of land leases as a financing lease or an operating lease in accordance with the general principles of the Standard, taking into consideration the fact that the land is an asset with an infinite economic life. As part of the amendment, the sweeping prohibition to classify land as an operating lease was cancelled when the land is not transferred to the less or at the end of the leasing period.

The amendment is to be retroactively applied in annual reporting periods commencing on January 1, 2010 or thereafter. Early adoption is permitted.

The amendment is to be retroactively applied to existing leases for which the required information is available at the initial date of the lease.

Land leases for which the required information is unavailable are to be reviewed as for the date of the adoption of the amendment.

1) The Company has lands and buildings that are leased to an associated company and which, until the amendment of IAS 17, have been presented as an operating lease. In accordance with the amendment to IAS 17, these leases meet the definition of financing lease and therefore are classified as investment property measured at fair value, in

accordance with the Group's policy. Since the information on the fair value of the lands in previous periods is not available, the Company has recognized the property at fair value as of the date of implementation of the amendment. As a result of implementing the amendment, as of January 1, 2010, a sum of NIS 24,349 thousands was recognized in investment property, a sum of NIS 787 thousands was recognized in deferred tax liabilities and a sum of NIS 74 thousands in account payables and accrued expenses (in respect of liability for a financing lease). Pursuant to the transitional provisions of the amendment, the difference in the amount of NIS 3,590 thousands was recognized in retained earnings.

HADERA PAPER LTD

NOTES TO SEPARATE FINANCIAL STATEMENTS

NOTE 2 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS (cont.):

Standards and new interpretations that influence this reporting period and/or Previous reporting periods (continued):

§ Amendment to IAS17 "leases" (cont.)

2) The Company has lands (which do not constitute investment property at fair value), which have been leased from the Israel Land Administration and the leasing fees in respect thereof have been paid in full. Following the amendment amounts in respect of the above leases, which have been presented in the financial statements as of December 31, 2009 under "prepaid expenses in respect of an operating lease" are now presented under "fixed assets".

The effect of the retroactive implementation of the amendment on the statement of financial position in the current and previous periods:

	June 30 2010	June 30 2009	December 31 2009
		NIS in thousands	
Increase in fixed assets	7,549	6,638	6,847
Decrease in long-term expenses for lease	(7,549)	(6,638)	(6,847)

3) The Company has lands (which do not constitute investment property measured at fair value) which are held as part of a leasing agreement with the Israel Land Administration, the payment in respect thereof is made periodically. Since the information as of the date the commencement of the leases is not available, the Company recognizes the asset and liability related to the lease of the land, which was recognized again as a financing lease, at fair value as of the date of implementation of the amendment; the difference between the fair value of the asset and the fair value of the related liability was recognized in "retained earnings".

As a result of implementing the amendment, commencing from 2010, some of the leases that were treated until December 31, 2009 as operating leases, have been reclassified as financing leases.

Following the implementation of the amendment, on January 1, 2010, a sum of NIS 407 thousands was recognized in "fixed assets" and a sum of NIS 73 thousands was recognized in "accounts payable and accrued expenses" (in respect of a liability for a financing lease). In addition, prepaid expenses in respect of a lease have decreased by NIS 334 thousands.

HADERA PAPER LTD

NOTES TO SEPARATE FINANCIAL STATEMENTS

NOTE 3 - MATERIAL ENGAGEMENTS AND TRANSACTIONS WITH INVESTEE COMPANIES

On June 30, 2010, the Company granted a loan to the subsidiary Hadera Paper Industries, in the amount of NIS 595,000 thousands for a period of seven years, to cover the financing of the investment made by Hadera Paper Industries in the Machine 8 project. The loan agreement formalized in writing the arrangement that actually existed between the companies in the preceding years as well, since the time that the balance between the parties started to accrue. The annual interest rate of the loan is 6.55% on the outstanding balance of the principal of the loan and will be repaid to Hadera Paper on a quarterly basis, starting September 30, 2010. The principal of the loan will be repaid in seven equal installments, each amounting to NIS 85 million, on June 30th of each of the years between 2011 and 2017.

The annual interest rate of 6.55%, is in line with the existing weighted rate of interest on the loans and liabilities of Hadera Paper on account of the debt raised by Hadera Paper for the purpose of financing the investment of Hadera Paper Industries in Machine 8, that is equal to the sum of the loan.

H - 9

Enclosed please find the financial reports of the following associated companies:

- Mondi Hadera Paper Ltd.
- Hogla-Kimberly Ltd.

Hadera-Paper LTD group
Meizer st' Industrial Zone,
P.O.B 142 Hadera 38101,Israel
Tel: 972-4-6349402
Fax: 972-4-6339740
hq@hadera-paper.co.il

www.hadera-paper.co.il

Exhibit 4

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

TABLE OF CONTENTS

Report on review of Interim Financial Information
To the shareholders of Mondi Hadera Paper Ltd.

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Mondi Hadera Paper Ltd. ("the Company") as of June 30, 2010 and the related condensed interim consolidated statements of income, statement of comprehensive income, changes in equity and cash flows for the six and three months period then ended. The board of directors and management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this financial information based on our review.

Scope of Review

We conducted our review in accordance with review standard No. 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Company". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with accepted auditing standards in Israel, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

July 26, 2010
Haifa, Israel.

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(NIS in thousands)

	June 30, 2010	June 30, 2009	December 31, 2009
Assets			
Current assets			
Cash and cash equivalents	5,964	5,052	17,076
Trade receivables	201,486	180,597	184,415
Other receivables	8,433	2,569	2,018
Inventories	135,094	125,981	108,202
Total current assets	350,977	314,199	311,711
Non-current assets			
Property, plant and equipment	142,787	150,386	146,731
Goodwill	3,177	3,177	3,177
Long term trade receivables	-	199	167
Total non-current assets	145,964	153,762	150,075
Total assets	496,941	467,961	461,786
Equity and liabilities			
Current liabilities			
Short-term bank credit	70,191	98,578	69,440
Current maturities of long-term bank loans	5,938	15,032	10,599
Financial liabilities carried at fair value through profit or loss	-	2,228	-
Trade payables	137,897	91,073	105,624
Hadera Paper Ltd. Group, net	51,016	60,930	57,595
Other financial liabilities	-	3,583	432
Current tax liabilities	7,850	300	3,701
Other payables and accrued expenses	18,385	17,874	21,079
Accrued severance pay, net	200	285	206
Total current liabilities	291,477	289,883	268,676
Non-current liabilities			
Long-term bank loans	10,599	16,537	13,019
Deferred taxes	22,161	27,388	22,704
Employees Benefits	2,516	2,097	2,079
Total non-current liabilities	35,276	46,022	37,802
Commitments and contingent liabilities			
Shareholders' equity			
Share capital	1	1	1
Premium	43,352	43,352	43,352

Capital reserves	929	(1,723)	929
Retained earnings	125,906	90,426	111,026
	170,188	132,056	155,308
Total equity and liabilities	496,941	467,961	461,786

D. Muhlgay	A. Solel	P. Machacek
Finance Director	General Manager	Chairman of the Supervisory Board

Approval date of the interim financial statements: July 26, 2010.

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

M - 2

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT
(NIS in thousands)

	Six months ended June 30, 2010 (Unaudited)	Six months ended June 30, 2009 (Unaudited)	three months ended June 30, 2010 (Unaudited)	three months ended June 30, 2009 (Unaudited)	Year ended December 31. 2009
Revenue	357,460	343,560	184,770	161,528	669,222
Cost of sales	305,282	301,582	153,530	138,466	578,537
Gross profit	52,178	41,978	31,240	23,062	90,685
Operating costs and expenses					
Selling expenses	20,197	20,683	10,545	9,766	39,694
General and administrative expenses	8,944	5,383	6,056	2,734	10,826
Other (income) expenses	(153)	11	-	66	(376)
	28,988	26,077	16,601	12,566	50,144
Operating profit	23,190	15,901	14,639	10,496	40,541
Finance income	(2)	(99)	(1)	-	(104)
Finance costs	3,486	5,131	2,721	4,469	11,363
Finance cost, net	3,484	5,032	2,720	4,469	11,259
Profit before tax	19,706	10,869	11,919	6,027	29,282
Income tax charge	(4,826)	(2,798)	(2,932)	(1,545)	611
Profit for the period	14,880	8,071	8,987	4,482	28,671

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

M - 3

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED COMPREHENSIVE INCOME
(NIS in thousands)

	Six months ended June 30, 2010 (Unaudited)	Six months ended June 30, 2009 (Unaudited)	Three months ended June 30, 2010 (Unaudited)	Three months ended June 30, 2009 (Unaudited)	Year ended December 31, 2009
Profit for period	14,880	8,071	8,987	4,482	28,671
Cash flow hedges, net	-	(935)	-	3	80
Transfer to profit or loss from equity on cash flow hedge	-	2,362	-	1,394	3,999
Total comprehensive income for the period (net of tax)	14,880	9,498	8,987	5,879	32,750

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

M - 4

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
(NIS in thousands)

	Share capital	Premium	Capital reserves	Retained earnings	Total
Six months ended June 30, 2010 (unaudited)					
Balance – January 1, 2010	1	43,352	929	111,026	155,308
Profit for the period	-	-	-	14,880	14,880
Total comprehensive income for the period	-	-	-	14,880	14,880
Balance – June 30, 2010	1	43,352	929	125,906	170,188
Six months ended June 30, 2009 (unaudited)					
Balance – January 1, 2009	1	43,352	(3,150)	82,355	122,558
Profit for the period	-	-	-	8,071	8,071
Other comprehensive income for the period	-	-	1,427	-	1,427
Total comprehensive income for the period	-	-	1,427	8,071	9,498
Balance – June 30, 2009	1	43,352	(1,723)	90,426	132,056
Three months ended June 30, 2010 (Unaudited)					
Balance - April 1, 2010	1	43,352	929	116,919	161,201
Profit for the period	-	-	-	8,987	8,987
Total comprehensive income for the period	-	-	-	8,987	8,987
Balance - June 30, 2010	1	43,352	929	125,906	170,188
Three months ended June 30, 2009 (Unaudited)					
Balance – April 1, 2009	1	43,352	(3,120)	85,944	126,177
Profit for the period	-	-	-	4,482	4,482
Other comprehensive income for the period	-	-	1,397	-	1,397
Total comprehensive income for the period	-	-	1,397	4,482	5,879
Balance – June 30, 2009	1	43,352	(1,723)	90,426	132,056
Year ended December 31, 2009					
Balance - January 1, 2009	1	43,352	(3,150)	82,355	122,558
Profit for the period	-	-	-	28,671	28,671
Other comprehensive income for the period	-	-	4,079	-	4,079
Total comprehensive income for the year	-	-	4,079	28,671	32,750
Balance - December 31, 2009	1	43,352	929	111,026	155,308

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

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2010	2009	2010	2009	2009
	Unaudited		Unaudited		
Cash flows - operating activities					
Profit for the period	14,880	8,071	8,987	4,482	28,671
Adjustments to reconcile net profit to net cash used in operating activities (Appendix A)	(14,899)	3,286	(13,420)	13,409	38,406
Net cash (used in) provided by operating activities	(19)	11,357	(4,433)	17,891	67,077
Cash flows – investing activities					
Acquisition of property plant and equipment	(2,020)	(2,191)	(1,097)	(727)	(4,383)
Proceeds from sale of property plant and Equipment	180	275	-	110	676
Interest received	2	63	-	23	104
Net cash used in investing activities	(1,838)	(1,853)	(1,097)	(594)	(3,603)
Cash flows – financing activities					
Short-term bank credit, net	751	(6,810)	11,817	(20,632)	(35,948)
Repayment of long-term bank loans	(7,101)	(7,872)	(4,111)	(5,073)	(15,929)
Interest paid	(2,501)	(4,095)	(1,790)	(2,836)	(7,894)
Net cash (used in) provided by financing activities	(8,851)	(18,777)	5,916	(28,541)	(59,771)
(Decrease) Increase in cash and cash equivalents	(10,708)	(9,273)	386	(11,244)	3,703
Cash and cash equivalents at the beginning of the financial period	17,076	13,315	5,559	16,115	13,315
Net foreign exchange difference on cash and cash equivalents	(404)	1,010	19	181	58
Cash and cash equivalents of the end of the financial period	5,964	5,052	5,964	5,052	17,076

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

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED APPENDICES TO STATEMENTS OF CASH FLOWS
(NIS in thousands)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2010	2009	2010	2009	2009
	Unaudited		Unaudited		
A. Adjustments to reconcile net profit to net cash (used in) provided by operating activities					
Finance expenses recognized in profit and loss, net	3,484	5,032	2,720	4,469	11,259
Taxes on income recognized in profit and loss	4,826	2,798	2,932	1,545	611
Depreciation and amortization	5,937	5,960	2,968	3,045	12,028
Capital (gain) loss on disposal of property plant and equipment	(153)	11	-	66	(376)
Changes in assets and liabilities:					
(Increase) Decrease in trade receivables and other receivables	(23,129)	(11,808)	(13,118)	3,042	(16,582)
(Increase) Decrease in inventories	(26,892)	14,021	(28,538)	(10,896)	31,565
Increase (Decrease) in trade and other payables, and accrued expenses	28,835	(4,011)	20,988	14,468	11,991
Decrease in Hadera Paper Ltd. Group, net	(6,579)	(8,684)	(1,200)	(2,319)	(12,019)
	(13,671)	3,319	(13,248)	13,420	38,477
Income tax paid	(1,228)	(33)	(172)	(11)	(71)
	(14,899)	3,286	(13,420)	13,409	38,406

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

M - 7

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 31, 2010

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

Description of Business

Mondi Hadera Paper Ltd. (“the Company”) was incorporated and commenced operations on January 1, 2000. The Company and its Subsidiaries are engaged in the production and marketing of paper, mainly in Israel.

The Company is presently owned by Neusiedler Holdings BV. (“NL” or the “Parent Company”) (50.1%) and Hadera Paper Ltd. (49.9%).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of preparation

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting.

The unaudited condensed interim consolidated financial statements as of June 30, 2010 and for the six and three months then ended (“interim financial statements") of the Company and subsidiaries should be read in conjunction with the audited consolidated financial statements of the Company and subsidiaries as of December 31, 2009 and for the year then ended, including the notes thereto.

B. Significant accounting policies

The same accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2009.

C. Standards and Interpretations issued but are not yet effective.

For information about dates of initial application, instruction for initial application and the expected influence of the standards that are not yet effective, please see note 2 S of the financial statements as of December 31, 2009.

D. Improvement to International Financial Reporting Standards (IFRS) 2010

In May 2010 the IASB published a series of improvements for IFRS.

Improvements include amendments to some of the standards, which change the manner of presentation, recognition and measurement of different items in the financial statements. The improvements will be applied to reporting periods starting January 1, 2011. The company chose to adopt in early adoption the following improvements:

- Amendment IAS 1 "presentation of financial statements", which stipulates that changes in the components of the other comprehensive income will be presented in the statement of changes in equity or in the notes to the financial statements, according to the company's policy.

In accordance to the above, the company presents the changes in the components of the other comprehensive income in the changes in shareholder equity statements.

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

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

E. Exchange Rates and Linkage Basis

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

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)
June 30, 2010	4.7575	3.875	115.53
June 30, 2009	5.540	3.944	112.80
December 31, 2009	5.4417	3.775	114.77
Increase (decrease) during the:	%	%	%
Six months ended June 30, 2010	(12.5)	2.6	0.66
Three months ended June 30, 2010	(4.7)	4.36	1.53
Six months ended June 30, 2009	4.58	3.73	2.04
Three months ended June 30, 2009	(0.61)	(5.28)	2.17
Year ended December 31, 2009			

NOTE 3 - RELATED PARTIES AND INTERESTED PARTIES

A. Balances with Related Parties

	Hadera Paper and its subsidiaries			Neusiedler Holding and its related parties		
	June 30,		December 31,	June 30,		December 31,
	2010	2009	2009	2010	2009	2009
	(Unaudited)			(Unaudited)		
Other payables and accrued expenses	-	-	-	-	-	166
Trade payables	51,016	60,930	57,595	1,016	3,197	2,752

M - 9

MONDI HADERA PAPER LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 3 - RELATED PARTIES AND INTERESTED PARTIES (Cont.)

B. Transactions with Related Parties

	Hadera Paper and its subsidiaries			Neusiedler Holding and its related parties		
	Six months ended June 30,		Year ended December 31,	Six months ended June 30,		Year ended December 31,
	2010	2009	2009	2010	2009	2009
	(Unaudited)			(Unaudited)		
Sales	18,118	10,763	23,453	-	-	-
Purchases of goods	-	-	-	1,256	3,380	6,225
Cost of sales	41,214	39,929	85,709	1,248	1,122	1,818
Sales, general and Administrative expenses	1,437	1,157	3,020	-	-	166
Financing expenses, net	823	1,445	3,349	-	-	-

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.

(2) The Group is obligated to pay commissions to Mondi Neuseiedler Gmbh.

(3) Negotiations between the company and its two shareholders are currently being held regarding the transfer of logistic activities from the Hadera, Holon and 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 September 18, 2008 under which it has undertaken to lease the site for two of its subsidiaries and for the company. The total monthly rental fee according to this agreement is 1,135 thousand NIS (linked to the Israeli CPI) and 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.

NOTE 4 - SUBSEQENT EVENTS

On July 26, 2010 the board of directors decided to distribute Dividend in the amount of Euro 1.2 million. The dividend will be paid during the third quarter of 2010.

M - 10

Exhibit 5

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES

UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2010

TABLE OF CONTENTS

Report on review of interim Financial Information to the shareholders of Hogla-Kimberly Ltd.

Introduction

We have reviewed the accompanying Condensed Interim Consolidated statement of financial position of Hogla Kimberly LTD. ("the Company") as of June 30, 2010 and the related Condensed Interim Consolidated statements of income, statement of comprehensive income, changes in equity and cash flows for the six and three months then ended. The board of directors and management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this financial information based on our review.

Scope of Review

We conducted our review in accordance with review standard No. 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Company". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with accepted auditing standards in Israel, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu
Israel
July 27, 2010

K - 1

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

	As of June 30, 2010 (Unaudited)	As of June 30, 2009 (Unaudited)	As of December 31, 2009
Current Assets			
Cash and cash equivalents	49,543	28,344	106,996
Trade receivables	314,423	313,099	289,680
Inventories	226,132	229,424	180,631
Current tax assets	44	-	-
Other current assets	7,832	6,958	5,757
	597,974	577,825	583,064
Non-Current Assets			
VAT Receivable	49,013	40,825	47,171
Property plant and equipment	331,349	322,167	334,604
Goodwill	18,208	19,041	18,650
Employee benefit asset	575	288	517
Deferred tax assets	5,263	5,895	4,899
Prepaid expenses for operating lease	1,701	1,829	1,765
	406,109	390,045	407,606
	1,004,083	967,870	990,670
Current Liabilities			
Borrowings	35,659	24,590	25,977
Trade payables	329,804	296,608	296,359
Employee benefit obligations	13,890	13,195	12,855
Current tax liabilities	9,976	10,274	26,631
Dividend payables	40,000	39,190	40,000
Other payables and accrued expenses	52,913	57,234	57,873
	482,242	441,091	459,695
Non-Current Liabilities			
Borrowings	20,530	47,262	33,736
Employee benefit obligations	7,452	8,277	7,515
Deferred tax liabilities	34,780	38,795	33,631
	62,762	94,334	74,882
Capital and reserves			
Issued capital	265,246	265,246	265,246
Reserves	(66,030)	(55,165)	(60,156)
Retained earnings	259,863	222,364	251,003
	459,079	432,445	456,093
	1,004,083	967,870	990,670

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

Approval date of the interim financial statements: July 27, 2010.

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

K - 2

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2010	2009	2010	2009	2009
	(Unaudited)		(Unaudited)		
Revenue	858,896	884,225	416,540	446,408	1,726,627
Cost of sales	578,059	604,162	277,791	302,323	1,164,949
Gross profit	280,837	280,063	138,749	144,085	561,678
Operating costs and expenses					
Selling and marketing expenses	159,422	155,192	78,340	76,825	304,776
General and administrative expenses	31,413	36,632	14,438	18,961	63,097
Other Income	(3,131)	-	-	-	-
Operating profit	93,133	88,239	45,971	48,299	193,805
Finance expenses	(3,257)	(8,434)	49	(2,562)	(3,041)
Finance income	1,153	7,890	(1,787)	3,493	4,557
Profit before tax	91,029	87,695	44,233	49,230	195,321
Income taxes charge	22,169	24,254	10,653	14,237	44,226
Profit for the period	68,860	63,441	33,580	34,993	151,095

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

K - 3

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

	Six months ended June 30, 2010	Six months ended June 30, 2009	Three months ended June 30, 2010	Three months ended June 30, 2009	Year ended December 31, 2009
	(unaudited)		(unaudited)		
Profit for period	68,860	63,441	33,580	34,993	151,095
Exchange differences arising on translation of foreign operations	(5,887)	4,190	1,417	5,681	(1,375)
Cash flow hedges	(805)	1,428	518	(1,279)	766
Transfer to profit or loss from equity on cash flow hedge	821	(3,711)	1,008	(2,450)	(2,270)
Income tax relating to components of other comprehensive income	(3)	608	(382)	970	403
Other comprehensive income for the period (net of tax)	(5,874)	2,515	2,561	2,922	(2,476)
Total comprehensive income for the period	62,986	65,956	36,141	37,915	148,619

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

K - 4

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

	Share capital	Capital reserves	Foreign currency translation reserve	Cash flow hedges	Retained earnings	Total
Six months ended June 30, 2010 (unaudited)						
Balance - January 1, 2010	29,638	235,608	(60,228)	72	251,003	456,093
Profit for the period	-	-	-	-	68,860	68,860
Exchange differences arising on translation of foreign operations	-	-	(5,887)	-	-	(5,887)
Cash flow hedges	-	-	-	13	-	13
Dividend	-	-	-	-	(60,000)	(60,000)
Balance - June 30, 2010	29,638	235,608	(66,115)	85	259,863	459,079

	Share capital	Capital reserves	Foreign currency translation reserve	Cash flow hedges	Retained earnings	Total
Six months ended June 30, 2009 (unaudited)						
Balance - January 1, 2009	29,638	235,608	(58,853)	1,173	233,423	440,989
Profit for the period	-	-	-	-	63,441	63,441
Exchange differences arising on translation of foreign operations	-	-	4,190	-	-	4,190
Cash flow hedges	-	-	-	(1,675)	-	(1,675)
Dividend	-	-	-	-	(74,500)	(74,500)
Balance - June 30, 2009	29,638	235,608	(54,663)	(502)	222,364	432,445

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

	Share capital	Capital reserves	Foreign currency translation reserve	Cash flow hedges	Retained earnings	Total
Three months ended June 30, 2010 (unaudited)						
Balance - March 31, 2010	29,638	235,608	(67,532)	(1,059)	266,283	462,938
Profit for the period	-	-	-	-	33,580	33,580
Exchange differences arising on translation of foreign operations	-	-	1,417	-	-	1,417
Cash flow hedges	-	-	-	1,144	-	1,144
Dividend	-	-	-	-	(40,000)	(40,000)
Balance - June 30, 2010	29,638	235,608	(66,115)	85	259,863	459,079

	Share capital	Capital reserves	Foreign currency translation reserve	Cash flow hedges	Retained earnings	Total
Three months ended June 30, 2009 (unaudited)						
Balance - March 31, 2009	29,638	235,608	(60,344)	2,257	187,371	394,530
Profit for the period	-	-	-	-	34,993	34,993
Exchange differences arising on translation of foreign operations	-	-	5,681	-	-	5,681
Cash flow hedges	-	-	-	(2,759)	-	(2,759)
Balance - June 30, 2009	29,638	235,608	(54,663)	(502)	222,364	432,445

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

	Share capital	Capital reserves	Foreign currency translation reserve	Cash flow hedges	Retained earnings	Total
Year ended December 31, 2009						
Balance - January 1, 2009	29,638	235,608	(58,853)	1,173	233,423	440,989
Profit for the year	-	-	-	-	151,095	151,095
Exchange differences arising on translation of foreign operations	-	-	(1,375)	-	-	(1,375)
Cash flow hedges	-	-	-	(1,101)	-	(1,101)
Dividend	-	-	-	-	(133,515)	(133,515)
Balance - December 31, 2009	29,638	235,608	(60,228)	72	251,003	456,093

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

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

	Six months ended June 30, 2010	Six months ended June 30, 2009	Three months ended June 30, 2010	Three months ended June 30, 2009	Year ended December 31, 2009
	(unaudited)		(unaudited)		
Cash flows – operating activities					
Profit for the period	68,860	63,441	33,580	34,993	151,095
Adjustments to reconcile operating profit to net cash provided by operating activities (Appendix A)	(39,824)	5,666	(59,029)	19,506	90,548
Net cash generated by operating activities	29,036	69,107	(25,449)	54,499	241,643
Cash flows – investing activities					
Acquisition of property plant and equipment	(23,843)	(23,517)	(10,289)	(9,847)	(42,484)
Proceeds from disposal of Property plant and equipment	22	24	9	2	32
Proceeds from realization of trademark	3,131	-	-	-	-
Repayment of capital note by shareholders	-	32,770	-	-	32,770
Interest received	97	237	64	110	1,495
Net cash provided by (used in) investing activities	(20,593)	9,514	(10,216)	(9,735)	(8,187)
Cash flows – financing activities					
Dividend paid	(60,000)	(32,770)	(20,000)	-	(93,515)
Borrowings paid	(12,473)	(11,781)	(6,281)	(5,932)	(23,904)
Short-term bank credit	9,050	(28,122)	9,013	(32,493)	(28,139)
Interest paid	(1,548)	(2,245)	(1,162)	(498)	(3,381)
Net cash Provided by (used in) financing activities	(64,971)	(74,918)	(18,430)	(38,923)	(148,939)
Net increase (decrease) in cash and cash equivalents	(56,528)	3,703	(54,095)	5,841	84,517
Cash and cash equivalents – beginning of period	106,996	23,219	103,100	20,394	23,219
Effects of exchange rate changes on the balance of cash held in foreign currencies	(925)	1,422	538	2,109	(740)
Cash and cash equivalents - end of period	49,543	28,344	49,543	28,344	106,996

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

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2010	2009	2010	2009	2009
	(Unaudited)		(Unaudited)		
A. Adjustments to reconcile operating profit to net cash generated (used) by operating activities					
Finance expenses paid adjustment to profit	1,451	2,008	1,098	388	4,426
Taxes on income recognized in profit and loss	22,169	24,254	10,653	14,237	44,226
Depreciation and amortization	14,700	13,851	7,110	7,900	29,213
Capital loss (gain) on disposal of property, plant and equipment	890	566	696	105	948
Capital gain from realization of trademark	(3,140)	-	-	-	-
Changes in assets and liabilities:					
Decrease (Increase) in trade receivables	(30,931)	(48,040)	(366)	2,909	(19,566)
Decrease (Increase) in other current assets	(2,095)	(546)	(1,440)	2,509	597
Decrease (Increase) in inventories	(47,273)	6,185	(42,863)	(1,769)	54,144
Increase in trade payables	36,475	21,410	8,342	8,228	11,927
Net change in balances with related parties	20,019	(6,093)	(6,749)	(5,619)	(12,911)
Increase (decrease) in other payables and accrued expenses	(12,024)	10,248	(11,065)	2,194	12,303
Effect of exchange rate differences on dividend payables	-	(2,540)	-	(2,540)	(2,540)
Decrease (increase) in other long term asset	(2,987)	1,373	(4,891)	910	(5,947)
Change in employee benefit obligations, net	979	2,389	(295)	(401)	1,089
	(1,767)	25,065	(39,770)	29,051	117,909
Income taxes received	67	642	67	642	10,880
Income taxes paid	(38,133)	(20,041)	(19,326)	(10,187)	(38,241)
	(39,833)	5,666	(59,029)	19,506	90,548

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

Explanation of Responses:

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

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 Israeli Securities law and Regulations 1968.

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)

Basis of preparation

The condensed interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard (IAS) 34 – "Interim Financial Reporting".

The unaudited condensed interim consolidated financial statements as of June 30, 2010 and for the six and three months then ended (“interim financial statements") of the Company and subsidiaries should be read in conjunction with the audited consolidated financial statements of the Company and subsidiaries as of December 31, 2009 and for the year then ended, including the notes thereto.

K - 10

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

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

B. Significant accounting policies

The same accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2009.

C. Standards and Interpretations issued but are not yet effective.

For information about dates of initial application, instruction for initial application and the expected influence of the standards that are not yet effective, please see note 2 S of the financial statements as of December 31, 2009.

D. Improvement to International Financial Reporting Standards (IFRS) 2010

In May 2010 the IASB published a series of improvements for IFRS.

Improvements include amendments to some of the standards, which change the manner of presentation, recognition and measurement of different items in the financial statements. The improvements will be applied to reporting periods starting January 1, 2011. The company chose to adopt in early adoption the following improvements:

- Amendment IAS 1 "presentation of financial statements", which stipulates that changes in the components of the other comprehensive income will be presented in the statement of changes in equity or in the notes to the financial statements, according to the company's policy.

In accordance to the above, the company presents the changes in the components of the other comprehensive income in the changes in shareholder equity statements.

E. 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)
June 30, 2010	1,593	3.875	115.53
June 30, 2009	1,539	3.919	111.82
December 31, 2009	1,515	3.775	114.77
Increase (decrease) during the:	%	%	%
Six months ended June 30, 2010	5.14	2.65	0.66

Three months ended June 30, 2010	3.77	4.36	1.54
Six months ended June 30, 2009	1.17	3.08	1.25
Three months ended June 30, 2009	(8.77)	(6.42)	1.39
Year ended December 31, 2009	(0.4)	(0.71)	3.9

K - 11

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 3 - SEGNIFICANT TRANSACTIONS AND EVENTS (Cont.)

A. On October 22, 2009 the board of directors decided to distribute Dividend in the amount of 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.

B. 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 was paid on May 12, 2010.

C. On April 22, 2010, the board of directors decided to distribute Dividend in the amount of NIS 40 million from the unapproved enterprise retained earnings to the holders of the ordinary shares. The dividend was paid on July 15, 2010

D. 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 June 30, 2010, with regards to one of these two matters (Stamp Tax) of 264 thousands YTL, which KCTR consider to be the required estimated cash outflow for the matter. On July amount of 264 thousands YTL was paid to Turkish Tax Authorities regarding settlement in the stamp duty issue.

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 Financial Reports for June 30, 2010, 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.

E. On June 15, 2010,a petition was filed against Hogla-Kimberly and against another competitor for the approval of a class action. According to the petition, the Competitor and Hogla-Kimberly has misled the public by presenting plastic bags as oxo biodegradable and therefore environmentally friendly, while the products are breaking down into fragments.

The plaintiff estimates the scope of the petition, if approved as class action, to be approximately NIS 111 million. At this early stage Hogla-Kimberly legal advisor opinion is that the probability of the request for approval of a class action lawsuit will be rejected is higher than the probability that it will be approved.

Explanation of Responses:

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2010

NOTE 4 - RELATED PARTIES AND INTERESTED PARTIES

A. Balances with Related Parties

	June 30, 2010	June 30, 2009	December 31, 2009
	(Unaudited)		
Trade receivables	31,349	29,823	35,682
Other current assets	4,596	3,741	948
Trade payables	80,014	72,570	72,339

B. Transactions with Related Parties

	Six months ended June 30, 2010	Six months ended June 30, 2009	Three months ended June 30, 2010	Three months ended June 30, 2009	Year ended December 31, 2009
	(Unaudited		(Unaudited)		
Sales to related parties	96,708	119,792	45,006	52,493	243,212
Cost of sales	152,139	167,724	80,204	85,162	256,696
Royalties to the shareholders	14,601	15,595	6,896	7,565	31,117
General and administrative expenses	4,517	6,498	1,439	3,167	11,980

NOTE 5 - INCOME TAX CHARGE

The effective tax rate for the six months period ended June 30, 2010 is 24.4%.

NOTE 6 - SUBSEQENT EVENTS

On July 27, 2010 the board of directors decided to distribute Dividend up to amount of Nis 40 million from the unapproved enterprise retained earnings to the holders of the ordinary shares, subject to availability of funds and the agreement of KC. The dividend will be paid during the fourth quarter of 2010.

K - 13