

**Ashot Ashkelon Industries
Limited**

**Financial Statements
as at
December 31, 2010**

THIS TRANSLATION IS FROM THE HEBREW VERSION AND HAS BEEN PREPARED FOR CONVENIENCE ONLY. IN CASE OF ANY DISCREPANCY, THE HEBREW VERSION WILL PREVAIL.

Financial Statements at December 31, 2010

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Balance Sheets

	As at December 31	
	2010	2009
	NIS in thousands	
Current assets		
Cash and cash equivalents	38,616	40,634
Restricted bank deposit	285	302
Trade receivables	28,291	54,895
Investment in financial instruments	80,645	45,406
Other accounts receivables	19,011	15,766
Financial derivative	1,297	1,442
Inventory	124,217	107,320
Total current assets	292,362	265,765
Non-current assets		
Investment in financial instruments	-	4,291
Financial derivative	4,055	7,792
Non-current inventory	24,872	19,677
Benefits to employees	22,413	23,250
Fixed assets	88,535	(1) 93,727
Intangible assets	8,238	8,303
Total non-current assets	148,113	157,040
Total assets	440,475	422,805

(1) Reclassified

 Avi Felder
 Chairman of the Board of
 Directors

 Dan Katz
 President & Chief Executive
 Officer

 Eli Zucker
 Vice President Finance and
 Control

Date of approval of the financial statements: March 28, 2011

Balance Sheets

	As at December 31	
	2010	2009
	NIS in thousands	
Current liabilities		
Short-term credits	5,824	6,356
Trade payables	29,635	21,524
Other accounts payables	26,771	23,062
Provisions	2,883	2,958
Current installments of debentures	20,972	21,436
Customer advances	59,475	46,086
Total Current liabilities	145,560	121,422
Long-term liabilities		
Loans from banks	6,365	5,965
Other liabilities	1,832	3,416
Liability for early retirement pensions	7,157	6,812
Debentures	50,453	65,458
Long-term customer advances	104,052	111,834
Liability for Benefits to employees	2,528	2,653
Total long-term liabilities	172,387	196,138
Total liabilities	317,947	317,560
Shareholders equity		
Outstanding share capital	93,144	(1) 93,144
Additional paid-in capital	18,234	18,234
Capital funds	24,374	24,374
Perpetual liabilities	126,648	122,853
Accumulated deficit	(139,872)	(1) (153,360)
Total equity	122,528	105,245
	440,475	422,805

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Statements of Operations

	For the year ended December 31		
	2010	2009	2008
	NIS in thousands		
Sales	222,333	227,713	207,147
Cost of sales	(179,838)	(193,885)	(187,195)
Gross profit	42,495	33,828	19,952
Other income	108	222	2,686
Research, development and pre-manufacturing expenses	(1,975)	(1,150)	(2,418)
Selling and marketing expenses	(4,770)	(4,471)	(5,447)
General and administrative expenses	(13,163)	(11,519)	(11,139)
Operating profit	22,695	16,910	3,634
Financing expenses	(10,021)	(13,597)	(14,483)
Financing income	4,789	6,590	2,232
Financing expenses, net	(5,232)	(7,007)	(12,251)
Profit (loss) before taxes	17,463	9,903	(8,617)
Taxes on income	(180)	(350)	(190)
Profit (loss) for the period	17,283	9,553	(8,807)
Basic and diluted earnings (losses) per share:	0.64	0.21	(0.72)

Statements of Comprehensive Income

	For the year ended December 31		
	2010	2009	2008
	NIS in thousands		
Income (loss) for the period	17,283	9,553	(8,807)
Other components of comprehensive income			
Revaluation fund for fixed asset items	-	-	4,635
Total comprehensive income(loss) for the period	17,283	9,553	(4,172)

Statements of Changes in Shareholders' Equity

	Outstanding share capital	Additional paid-in capital	Capital from transactions with interested party	Re-evaluation fund	Perpetual liabilities	Accumulated losses	Total
	NIS in thousands						
Balance as at January 1, 2008	86,354	18,119	691	19,048	111,334	(136,223)	99,323
Shares issuance	426	98	-	-	-	-	524
Bonus Shares issuance	⁽¹⁾ 6,364	-	-	-	-	⁽¹⁾ (6,364)	-
Accrued interest and linked differences on perpetual capital notes	-	-	-	-	6,334	(6,334)	-
Re-evaluation of fixed asset items	-	-	-	4,635	-	-	4,635
Total loss for the year	-	-	-	-	-	(8,807)	(8,807)
Balance as at December 31, 2008	93,144	18,217	691	23,683	117,668	(157,728)	95,675
Shares issuance	-	17	-	-	-	-	17
Accrued interest and linked differences on perpetual capital notes	-	-	-	-	5,185	(5,185)	-
Total income for the year	-	-	-	-	-	9,553	9,553
Balance as at December 31, 2009	93,144	18,234	691	23,683	122,853	(153,360)	105,245
Accrued interest and linked differences on perpetual capital notes	-	-	-	-	3,795	(3,795)	-
Total income for the year	-	-	-	-	-	17,283	17,283
Balance as at December 31, 2010	93,144	18,234	691	23,683	126,648	(139,872)	122,528

(1)Reclassified

Statements of Cash Flows

	For the year ended December 31		
	2010	2009	2008
	NIS in thousands		
Cash flows from operating activities			
Profit (loss) for the period	17,283	9,553	(8,807)
Adjustments to reconcile net income to net cash provided by operating activities (Appendix A)	35,514	66,103	46,692
Paid income taxes	(180)	(350)	(190)
Net cash provided by operating activities	52,617	75,306	37,695
Cash flow from investment activities			
Investment in financial instruments	(92,690)	(50,433)	-
Proceeds from sale of Financial derivative	6,047	-	-
Investment in intangible assets	(1,443)	(5,163)	(2,372)
Receipt of governmental investment grant	-	-	2,276
Purchase of fixed assets	(5,104)	(15,749)	(11,844)
Proceeds from financial instruments	62,578	454	-
Decrease (increase) in deposits	17	(2)	1,977
Proceeds from sale of fixed assets	43	70	302
Interest received	1,578	536	758
Net cash used in investment activities	(28,974)	(70,287)	(8,903)
Cash flows from financing activities			
Repayment of Debenture	(17,798)	-	-
Issuance of shares	-	17	524
Receipt of long-term loans	3,100	12,039	4,596
Repayment of long-term loans	(4,710)	(4,674)	(2,259)
Short-term bank credits, net	43	(5,502)	(5,819)
Interest paid	(5,979)	(6,790)	(6,525)
Net cash used in financing activities	(25,344)	(4,910)	(9,483)
Increase (decrease) in cash and cash equivalents	(1,701)	109	19,309
Balance of cash and cash equivalents as at the beginning of the period	40,634	42,327	22,576
Effect of changes in exchange rate on cash balances	(317)	(1,802)	442
Cash and cash equivalents as at the end of the period	38,616	40,634	42,327

Statements of Cash Flows (cont'd)

	For the year ended December 31		
	2010	2009	2008
	NIS in thousands		
Appendix A –			
Adjustments to reconcile net income to net cash provided from operating activities:			
Income and expenses not involving cash flows:			
Depreciation and amortization	10,342	⁽¹⁾ 10,648	11,158
Financing expenses, net	5,422	8,863	6,148
Loss on impairment of fixed assets and intangible assets	217	⁽¹⁾ 6,730	-
Gain on sale of fixed assets	32	(70)	(244)
Paid income taxes	180	350	190
Adjustments of long-term loans	(149)	21	311
Adjustments of debentures	1,625	3,274	3,398
Waiver of debt by vendor	-	(748)	-
Adjustment of financial instruments	(836)	(5)	-
Gain from financial derivative	(2,165)	(5,580)	(972)
	14,668	23,483	19,989
Changes in assets and liability items:			
Changes in inventory	(22,092)	(3,881)	(31,365)
Changes in trade receivables	26,604	3,791	2,116
Changes in other receivables	(1,646)	(3,650)	(6,024)
Changes in trade payables	7,682	(6,912)	1,513
Changes in customer advances	5,607	53,347	54,167
Changes in other accounts payables	4,307	(360)	(3,640)
Changes in benefits to employees	837	(530)	11,482
Changes in liability for benefits to employees	(292)	(32)	353
Changes in provisions	(75)	2,276	(150)
Changes in liability for early retirement pensions	(86)	(1,429)	(1,749)
	20,846	42,620	26,703
	35,514	66,103	46,692

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