

Hadera Paper Ltd
Form 6-K
November 08, 2010

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

FORM 6-K

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

For the Month of November 2010

HADERA PAPER LTD.
(Translation of Registrant's Name into English)

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

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

☒ Form 20-F ☐ Form 40-F

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

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

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

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

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby

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furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

☐ Yes ☒ No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's press release dated November 8, 2010 with respect to the Registrant's results of operations for the quarter ended September 30, 2010.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant's Management Discussion with respect to the Registrant's results of operations for the quarter ended September 30, 2010.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant's unaudited condensed consolidated financial statements for the quarter ended September 30, 2010.

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Hadera Paper Ltd. and subsidiaries with respect to the quarter ended September 30, 2010.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended September 30, 2010.

SIGNATURE

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

HADERA PAPER LTD.
(Registrant)

By: /s/ Yael Nevo
Name: Yael Nevo
Title: Corporate Secretary

Dated: November 8, 2010.

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|--|
| 1 | Press release dated November 8, 2010. |
| 2 | Registrant's management discussion. |
| 3 | Registrant's unaudited condensed consolidated financial statements. |
| 4 | Unaudited condensed interim consolidated financial statements of Mondi Hadera Paper Ltd. and subsidiaries. |
| 5 | Unaudited condensed interim consolidated financial statements of Hogla- Kimberly Ltd. and subsidiaries. |

Exhibit 1

NEWS

For Release: IMMEDIATE

Hadera Paper Ltd.

Reports Financial Results for the Third Quarter and Nine Months Ended September 30, 2010

Hadera, Israel, November 8, 2010 - Hadera Paper Ltd. (AMEX:AIP) (the "Company") today reported financial results for the third quarter (the "Third Quarter") and first nine months ended September 30, 2010 (the "Reported Period"). The Company, its subsidiaries and associated companies – are referred to hereinafter as the "Group".

The Consolidated Data set forth below excludes the results of operation of the associated companies: Mondi Hadera Paper Ltd. ("Mondi Hadera") and Hogla-Kimberly Ltd. ("H-K").

Consolidated sales during the Reported Period amounted to NIS 784.6 million, as compared with approximately NIS 654.4 million in the corresponding period last year, representing an increase of 19.9% originating primarily from growth in sales in the packaging paper and recycling segment, coupled with growth in the sales of the office supplies marketing segment, as compared with the corresponding period.

Consolidated sales in the Third Quarter of the year totaled NIS 295.4 million, as compared with NIS 220.4 million in the corresponding quarter last year, representing growth of approximately 34.0%, originating primarily as a result of an increase in the sales of the packaging paper and recycling segment in relation to the corresponding quarter last year and as compared with second quarter sales of NIS 249.2 million, representing growth of approximately 18.5%.

The operating profit totaled NIS 32.7 million during the Reported Period, 4.2% of sales, as compared with NIS 15.1 million, 2.3% of sales, in the corresponding period last year. The increase in operating profit, is primarily attributed to the increase in gross profit as a result of the increase in sales. The operating profit during the Reported Period included non-recurring revenues as a result of the sale of assets and a non-recurring labor expenditure, on account of a special bonus to the retiring CEO.

Operating profit amounted to NIS 20.2 million in the Third Quarter of the year, as compared with operating profit of NIS 1.2 million in the corresponding quarter last year. The increase in quarterly operating profit is primarily attributed to non-recurring revenues from the sale of an asset in the sum of approximately NIS 17.2 million, as mentioned above. The operating profit was also influenced by a decrease in relative output (in September) as a result of the Jewish high holidays that occurred during that time.

The net profit attributed to the Company's shareholders amounted to NIS 65.4 million in the Reported Period, as compared with net profit of NIS 70.2 million in the corresponding period last year. The net profit, net of non-recurring revenues and expenditures during the Reported Period, amounted to approximately NIS 54.1 million, as compared with net profits, net of non-recurring revenues and expenditures during the corresponding period last year, that amounted to NIS 38.2 million.

The net profit attributed to the Company's shareholders during the Reported Period was affected by the improvement in the operating margin of most Group companies in Israel as a result of the increase in operations that brought about an improvement in the operating profit.

The net profit for the Third Quarter this year amounted to NIS 23.0 million, as compared with net profit of NIS 35.4 million in the corresponding quarter last year. It should be noted that non-recurring revenues were recorded in the Third Quarter, as detailed above. Moreover, during the corresponding quarter last year, the net profit included non-recurring revenues from the decrease in tax rates in the amount of approximately NIS 15.4 million.

Basic earnings per share amounted to NIS 12.88 per share (\$3.51 per share) in the Reported Period, as compared with basic earnings per share of NIS 13.86 per share (\$3.69 per share) in the corresponding period last year.

Basic earnings per share amounted to NIS 4.53 per share (\$1.24 per share) in the Third Quarter of the year, as compared with earnings of NIS 7.00 per share (\$1.86 per share) in the corresponding quarter last year.

The exchange rate of the NIS vis-à-vis the US dollar was revaluated by approximately 2.9% during the Reported Period, as compared with a devaluation of approximately 1.2% during the corresponding period last year. The Company's business portfolio, including its associated companies, is close to be balanced in terms of foreign currency and the level of the Company's exposure to sharp fluctuations in currency rates is therefore low.

The inflation rate during the Reported Period amounted to 1.9%, as compared with an inflation rate of 3.4% in the corresponding period last year.

The Company estimates that as a result of the continuing rise in global pulp prices during the Reported Period, the demand for recycled packaging paper has increased, as an alternative to virgin packaging paper. The trend of rising prices continued in the Reported Period, across various product types, a trend that began in 2009. The packaging paper segment in Europe experienced an additional rise in prices during the Reported Period, amounting to approximately 23% (according to publications by PPI Germany). The said increase in demand, in addition to the prevailing high level of prices, may support the continued growth in the volumes of operation of the packaging paper segment, in Israel and worldwide.

The Group manages a wide and diverse portfolio of companies and businesses focused on consumer goods and basic commodities. As part of the trend of consumption in the Israeli economy, this has led to an increase in demand at most Group companies for a wide range of products, while continuing to place an emphasis on the implementation of efficiency and cost-cutting measures across all segments of operation.

In terms of raw materials, during the Reported Period the NIS was reevaluated vis-à-vis the average dollar and euro exchange rates by 5.5% and 8.7%, respectively, in relation to the corresponding period last year. This reevaluation led to savings in terms of the inputs and imported products denominated in either dollars or euros in the Company's principal sectors of operation, whose prices tend to follow import prices denominated in these currencies. As a result of the said revaluation, the price of natural gas – denominated in US dollars – decreased by approximately 6% in relation to the corresponding period last year, thereby also making a contribution to savings. Moreover, the price of electricity also decreased by approximately 9% during the Reported Period, in relation to the corresponding period last year. These savings were partially offset by the rising prices of water during the Reported Period, by an average rate of 38%, along with the sharp rise in the price of fibers by approximately 77%, in relation to the corresponding period last year.

The net financing expenses during the Reported Period amounted to NIS 28.4 million, as compared with NIS 14.8 million in the corresponding period last year. The interest on account of short-term credit decreased by approximately NIS 0.8 million, primarily on account of the decrease in the average short-term credit balance. Interest expenses on account of long-term liabilities - bonds - increased by approximately NIS 13.3 million in relation to the corresponding period last year, primarily as a result of the cost of financing Series 3 and 4, whose capitalization of financing costs for Machine 8 ended at the end of May, coupled with the issuing of bond series 5 (new series) in May.

The Company's share in the earnings of associated companies totaled NIS 58.5 million during the Reported Period, as compared with NIS 63.9 million in the corresponding period last year.

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

- The Company's share in the net profit of Mondi Hadera (49.9%) rose by NIS 0.2 million. The slight increase in the profit originated primarily from the increase in the operating profit of Mondi Hadera, that grew from NIS 28.9 million last year, to NIS 30.4 million this year. The operating profit for the period has improved, despite the sharp rise in the prices of raw materials in relation to the corresponding period last year, thanks to the raising of prices during the reported period, coupled with the improved gross margin of some of the product range. The increase in net profit was also affected by the reduction of financing expenses by approximately NIS 7.3 million, that were offset as a result of the increase in tax expenses in the amount of approximately NIS 8.4 million during the reported period, as compared with the corresponding period last year, as a result of the increase in pretax earnings, as well as a result of recording tax revenues in the amount of approximately NIS 6 million during the corresponding period last year, as a result of the changing of tax rates.

- The Company's share in the net earnings of H-K Israel (49.9%) decreased by NIS 6.5 million. H-K's operating profit decreased from NIS 155.0 million to NIS 147.3 million this year. The decrease in the operating income is primarily attributed to the erosion of the selling prices in some sectors of operation, coupled with the rise in the prices of some principal inputs at H-K Israel, that were offset by far-reaching efficiency measures that were implemented across H-K Israel, continuing savings in purchasing and the strengthening of its brands, led to a reduction in the erosion of earnings during the reported period.

-The Company's share in the losses of KCTR Turkey (49.9%) was reduced by NIS 1.3 million. This reduction in loss, despite the slight decrease in the volumes of operation, is primarily attributed to the sale of the PEDO brand to a local chain, that generated non-recurring revenues of NIS 3.1 million during the reported period, that brought about the continuing reduction in the operating loss from NIS 12.2 million during the corresponding period last year, to NIS 10.5 million during the reported period.

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

Hadera PAPER LTD.
SUMMARY OF RESULTS
(UNAUDITED)
except per share amounts

| | Nine months ended September 30, NIS IN THOUSANDS (1) | |
|---|--|---------|
| | 2010 | 2009 |
| Net sales | 784,626 | 654,405 |
| Net earnings attributed to the Company's shareholders | 65,354 | 70,161 |
| Basic net earnings per share attributed to the Company's shareholders | 12.88 | 13.86 |
| Fully diluted earnings per share attributed to the Company's shareholders | 12.77 | 13.86 |

| | Three months ended September 30, NIS IN THOUSANDS (1) | |
|---|---|---------|
| | 2010 | 2009 |
| Net sales | 295,435 | 220,371 |
| Net earnings attributed to the Company's shareholders | 23,026 | 35,445 |
| Basic net earnings per share attributed to the Company's shareholders | 4.53 | 7.00 |
| Fully diluted earnings per share attributed to the Company's shareholders | 4.50 | 7.00 |

(1) The representative exchange rate at September 30, 2010 was N.I.S. 3.665=\$1.00.

Contact:
Yael Nevo, Adv.
Corporate Secretary and Chief of Legal Department
Hadera Paper Ltd. Group
Yaeln@hadera-paper.co.il

Exhibit 2

Hadera Paper Ltd.

Update to Chapter A
(Description of the Corporation's Business)
of the Information Presented in the Company's Periodical Report
As at September 30, 2010

Details in accordance with Regulation 39a of the Securities Regulations (Periodic and Immediate Reports), 1970.

1. Update to Chapter A, Section 5: "Equity investments in the Company and transactions in its shares"

During the reported period, 102,462 option warrants that were granted as part of the management option plan, were exercised. 23,733 company shares were issued following this exercise.

2. Update to Chapter C, section 9: "Paper, recycling and board segment operations"

In early 2009, the company filed a complaint regarding the importing at dumping prices of recycled brown paper products, following which, the Dumping Commissioner ("The Commissioner") decided to launch an investigation and later also imposed a temporary guarantee on the importing of these paper products from European nations. In early 2010, the Commissioner submitted the findings of his investigation to the Consulting Committee regarding dumping tariffs.

On August 4, 2010, the company received notice from the Commissioner, informing it that the Consulting Committee had recommended to impose a tariff for limited period and that the Minister of Employment, Industry and Trade had approved its recommendation, yet due to the objection of the Minister of Finance to the tariff, no dumping tariff would be imposed on the import of brown paper products.

3. Update of Chapter D, Section 12 - Fixed Assets Real Estate and Facilities

A wholly owned subsidiary - Amnir Recycling Industries Ltd. ("Amnir") - signed an agreement on July 25, 2010 with an unrelated third party, for the sale of its rights to a plot of land covering 9,200 m² located in Bnei-Brak (hereinafter: "The Property"), in consideration of a sum of NIS 20 million, to be paid in installments until the transfer of possession over the Property. For additional details, see the company's immediate report dated July 26, 2010. The transaction was approved by the Board of Directors of the company on August 1, 2010.

4. Update of Chapter D, Section 12 - Fixed Assets, Real Estate and Facilities

On June 1, 2010, the company entered into an agreement for the sale of its rights to a plot of land covering 7600 m² in Tel Aviv, in return for a sum of NIS 64 million, the purchasing parties are Bayside Land Corporation Ltd. ("Bayside"), a company indirectly controlled By IDB Development Corporation Ltd., the controlling shareholder of the company and by Amot Investments Ltd. ("Amot"), in shares of 71% and 29%, respectively. Two nullifying conditions were determined in the agreement. The transaction was approved by the general meeting of the shareholders of July 27, 2010. For additional details, see the companies immediate reports dated June 2, 2010, dated May 16, 2010, dated June 13, 2010 and dated July 11, 2010.

5. Update to Chapter D, Section 13: "Human Resources"

On March 23, 2010, the Audit Committee and the Board of Directors approved the payment of a special bonus to the retiring CEO. Additional details appear in the immediate report published by the company on March 23, 2010.

6. Update to Chapter D, Section 13: "Human Resources"

On July 27, 2010, the general meeting of shareholders of the company approved the engagement in an insurance policy for position holders for the period between June 1, 2010 and November 30, 2011. For additional details, see the immediate reports of the company dated June 13, 2010 and dated July 27, 2010.

7. Update to Chapter D, Section 15: "Finance"

On May 23, 2010, the company completed an issue of debentures (Series 5) totaling NIS 181,519 thousands. For additional details, see Note 4e to the financial statements of the company dated September 30, 2010. The said debentures were rated by Maalot - The Israel Securities Rating Company Ltd. For the rating report, see the company's immediate report dated May 10, 2010.

8. Update to Chapter D, Section 19: "Legal Proceedings"

For details regarding updated legal proceedings, see Note 4f to the financial statements of the company, dated September 30, 2010.

9. Update to Chapter A, Section 3: "Changes to the Corporation's Business"

On September 8, 2010, the company signed an agreement with a subsidiary of Mondi Group ("Mondi Group"), that holds - prior to the transaction - 50.1% of the issued and outstanding share capital of Mondi Hadera Ltd., an associated company of the Company ("Mondi Hadera"), pursuant to which Mondi Group will sell to the Company 25.1% of the issued and outstanding share capital of Mondi Hadera ("The Acquisition Transaction"). Prior to the transaction, the Company holds 49.9% of the issued and outstanding share capital of Mondi Hadera. Subsequent to the completion of the Acquisition Transaction, the Company will hold 75% of the issued and outstanding share capital of Mondi Hadera, while Mondi Group will hold the remaining 25%. In consideration of the shares being sold, the Company will pay Mondi Group, from its own resources, upon finalization of the Acquisition Transaction, a sum of 10.364 million euro. On November 4, 2011, the approval of the Antitrust Supervisor to the merger of the companies was received. The finalization of the Acquisition Transaction is still contingent upon meeting several other preconditions, some of them essential. For additional details, see the company's immediate report dated September 8, 2010 (reference 2010-01-616596).

10. Update to Chapter A, Section 3: "Changes to the Corporation's Business"

On August 30, 2010, the company announced that it had submitted a full tender offer for the acquisition of all of the public holdings in Carmel Container Systems Ltd. ("Carmel"), a subsidiary of the company (89.3%). On October 4, 2010, the company announced that it had successfully completed the full tender offer at a cash price of \$22.5 per share, for the total sum of approximately \$4.2 million. True to the last acceptance date in the tender offer, 155,260 shares of Carmel accepted the terms of the tender offer. Pursuant to the Companies Law - 1999, the company automatically acquires all of the shares offered as part of the tender offer, including all of the shares held by shareholders that did not accept the tender offer. The company is currently working to complete the process of transferring payment to the shareholders that were coerced into selling and completing the technical process vis-à-vis the American Stock Exchange, subsequent to which the company will hold 100% of the issued and outstanding share capital and voting rights of Carmel, starting with the last acceptance date of the tender offer, i.e. - October 4, 2010. For additional details, see the immediate reports of the company dated August 30, 2010 -and dated October 4, 2010.

11. Update to Chapter D, Section 14: " Restrictions and Regulation on Group Operations"

In September 2010, the Knesset's finance committee approved the legislative bill known as the Efficiency of Enforcement at the Securities Authority (Legislative Amendments) - 2010, in preparation of submitting it to the second and third readings at the Knesset. The objective of the proposed legislation is to allow a more efficient enforcement of the laws, for which the Securities Authority is responsible, that regulate securities law, including The Securities Law, Law for the Regulation of Dealing in Investment Consulting, Investment Marketing and Management of Investment Portfolios - 1995 and the Law for Joint Investments in Trusts - 1994.

The proposed legislation determines administrative enforcement mechanisms, consisting primarily of handling certain types of breach of the said laws, within the framework of a procedural process that will render it possible to impose means of enforcement upon the breaching party, including: Financial penalties, payment to parties damaged by the breach, prohibition to serve as a senior officer in a supervised entity for a certain period of time, and revoking or suspension of a license, authorization or permit. In certain cases where the breaching party is a corporation, the proposed legislation stipulates that responsibility will also be assigned to the general manager, except in cases where certain conditions are met, including the existence of procedures for preventing the breach at the Corporation. The proposed legislation also includes a mechanism for agreed-upon settlement as an alternative to a criminal or procedural process, that also allows for imposing the said means of enforcement.

As part of the preparations of the Company in anticipation of the said law, once it is accepted by the Knesset, and the validity of the Securities Regulations (Periodical and Immediate Reports) (Amendment) - 2009, regarding the effectiveness of internal auditing on financial reporting and disclosure, the Company plans - inter alia - to adopt procedures to reinforce strict enforcement within the Company of the Securities Law and other relevant legislation and the reliability of financial reporting and disclosure.

-Translation from Hebrew-

November 7, 2010

MANAGEMENT DISCUSSION

The Board of Directors of Hadera Paper Ltd. ("Hadera Paper" or "The Company", the Company, its consolidated subsidiaries and its associated companies – hereinafter: "The Group") is hereby honored to present the Management Discussion as at September 30, 2010, reviewing the principal changes in the operations of the company for the months January through September 2010 ("The Reported Period"). The report was formulated in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, based on the assumption that the reader is also in possession of the full Periodic Report of the company as at December 31, 2009 ("Annual Financial Statements"). The results of the company that are presented in the management discussion relate to the share of the shareholders of the company in the results, unless stated otherwise.

A. Description of the Status of the Corporation's Business

1. Company Description

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

The company's securities are traded on the Tel Aviv Stock Exchange and on the New York Stock Exchange (NYSE).

2. General

Principal Current Operations

1. Business Environment

Since the beginning of 2010, the trend of economic recovery has been continuing in most financial and real markets worldwide and. Nevertheless, the repercussions of the financial crisis that began in 2008 are still evident, and are illustrated – inter alia - by the fluctuations in the rates of securities and currencies, by the continuing credit crunch experienced by certain countries and corporations and by the uncertainty accompanying economic activity.

The local capital market has reported a positive trend that has grown even stronger recently, while in parallel, the corporate debt market has recovered, as the raising of funds by the business sector has resumed. Against the background of the recovery indicators of the Israeli economy, the Bank of Israel has adopted a policy of gradually raising the monetary interest rate over the past several months.

The company estimates that as a result of the continuing rise in global pulp prices during the reported period, the demand for recycled packaging paper has increased, as an alternative to virgin packaging paper. The trend of rising prices continued in the reported period, across various product types, a trend that began in 2009. The packaging paper segment in Europe experienced an additional rise in prices during the reported period, amounting to approximately 23% (according to publications by PPI Germany). The said increase in demand, in addition to the prevailing high level of prices, may support the continued growth in the volumes of operation of the packaging paper segment, in Israel and worldwide.

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

2. Impact of the Business Environment on Company Operations

General

The Hadera Paper Group manages a wide and diverse portfolio of companies and businesses focused on consumer goods and basic commodities. As part of the trend of consumption in the Israeli economy, this has led to an increase in demand at most Group companies for a wide range of products, while continuing to place an emphasis on the implementation of efficiency and cost-cutting measures across all segments of operation. It should be noted that the Jewish high holidays occurred toward the end of the period (September), as the supply and manufacturing decreased in relation to the previous months of the year.

Segment Operations

In the packaging paper and recycling segment, Machine 8 entered into operation during the reported period (the new packaging paper manufacturing array). This manufacturing array is intended to bring about a doubling of the quantities manufactured by the segment. The running-in of the machine was completed in May and the results of operations have been included as part of the Segment's profits since June. In parallel, the gradual improvement in the learning curve of the machine is continuing. Following the operation of the new manufacturing array, the sales turnover of the segment has increased, both to the local market and in export sales. Selling prices in the packaging paper segment are currently on an upward trend globally and locally. This trend is apparently expected to continue in the near future. These factors are expected to assist in the continuing improvement in the profitability and results of the segment. Regarding the capitalization of the net costs of the running-in period, see Note 5 to the financial statements dated September 30, 2010.

The proposed government legislation for regulating the treatment of packaging (2010) has passed its first reading in the Knesset last June.

The legislation is intended to regulate the treatment of packaging waste, including paper and cardboard packaging, and assigns direct responsibility on packaging manufacturers and importers, to treat the packaging of their products and to meet predetermined recycling targets, starting in 2011. The legislation is being discussed at the Knesset Economic Committee.

At this stage, it remains unclear whether the legislation will be accepted, what its final format will be and what arrangements will be determined - if any - by virtue of this bill covering the cardboard and paper segment. The company is therefore unable to estimate its impact on the operations of the companies in the Group.

In early 2009, the company filed a complaint regarding the importing at dumping prices of recycled brown paper products, following which, the Dumping Commissioner ("The Commissioner") decided to launch an investigation and later also imposed a temporary guarantee on the importing of these paper products from European nations. In early 2010, the Commissioner submitted the findings of his investigation to the Consulting Committee regarding dumping tariffs.

On August 4, 2010, the company received notice from the Commissioner, informing it that the Consulting Committee had recommended to impose a tariff for a limited period and that the Minister of Employment, Industry and Trade had approved its recommendation, yet due to the objection of the Minister of Finance to the tariff, no dumping tariff would be imposed on the import of brown paper products.

In the fine paper segment, pulp prices continued to soar during the reported period in relation to the corresponding period last year, inter alia as a result of the damage of the earthquake in Chile, that harmed three production plants of large pulp suppliers, thereby leading to delays in the provision of pulp to the global market. In order to compensate for this cost increase, prices were raised in this segment starting in the second quarter. This rise in prices served to compensate for the decrease in the sold quantities, among others. The segment is also making efforts to increase export sales and expand the target markets for its products.

In the household paper and absorbent segment (through the Hogla Kimberly segment - an associated company), the level of profitability has decreased somewhat in relation to the corresponding period, due to the fierce competition in certain areas of activity. Moreover, the collapse of a significant supplier overseas has created shortages in the market and has led to a temporary increase in costs, that was partially offset by far-reaching efficiency measures. Operations in this segment during the reported period were characterized by price competition and by a preference - on the part of consumers - for attractively-priced products. The company is therefore continuing to promote special sales campaigns in order to preserve customers and market share. Additionally, the revaluation of the NIS in relation to the average dollar exchange rate during the reported period, as compared with the corresponding period last year, has limited the damage associated with the higher purchasing costs in some of the segments. Efforts were also made to distribute purchasing among a wider selection of suppliers, in order to reduce costs. These measures provided the company with the necessary flexibility in order to protect market share and preserve optimized profitability in a competitive business environment.

Raw Materials

During the reported period the NIS was reevaluated vis-à-vis the average dollar and euro exchange rates by 5.5% and 8.7%, respectively, in relation to the corresponding period last year. This reevaluation led to savings in terms of the inputs and imported products denominated in either dollars or euros in the company's principal sectors of operation, whose prices tend to follow import prices denominated in these currencies. As a result of the said revaluation, the price of natural gas – denominated in US dollars – decreased by approximately 6% in relation to the corresponding period last year, thereby also making a contribution to savings. Moreover, the price of electricity also decreased by approximately 9% during the reported period, in relation to the corresponding period last year. These savings were partially offset by the rising prices of water during the reported period, by an average rate of 38%, along with the sharp rise in the price of fibers by approximately 77%, in relation to the corresponding period last year.

The Crisis in the Financial Markets

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

The developments in global markets and particularly in the euro zone and in the United States, that are also characterized by volatility in global exchange rates, have affected and may continue to affect the business results of the Company and its investee companies, their liquidity, the value of their shareholders' equity, the value of their assets and their ability to divest assets, the state of their business (and in this respect, the demand for the products of the investee companies), their financial indicators and covenants, their credit rating, their ability to distribute dividends and even their ability to raise financing for their current operations and long-term plans, as well as on their financing terms.

All of the above, in relation to trends in the global market, in the paper market, selling prices and in the prices of inputs and their impact on the company, and in relation to the influence of the completion of the running-in period of the new manufacturing array - all constitute forward-looking information as defined in the securities law, based on the company's estimates at the date of this report. These estimates may not materialize - in whole or in part - or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as the crisis in global banking and credit markets, changes in global raw material prices and changes in the supply and demand of global paper products.

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

The exchange rate of the NIS vis-à-vis the US dollar was revaluated by approximately 2.9% during the reported period, as compared with a devaluation of approximately 1.2% during the corresponding period last year (the average exchange rate of the NIS vis-à-vis the US dollar was revaluated during the reported period by a rate of approximately 6% in relation to the corresponding quarter last year).

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

The inflation rate during the reported period amounted to 1.9%, as compared with an inflation rate of 3.4% in the corresponding period last year.

B. Explanation of the Results of Operation

1. Analysis of Operations and Profitability

Commencing January 1, 2009, the company applies International Financial Reporting Standard (IFRS) No. 8, "Operating Segments", and has accordingly recognized the packaging products and board segment, which includes the operations of Carmel Container Systems and Frenkel C.D., as a separate segment. The associated companies Hogla Kimberly and Mondi Hadera were also recognized as independent segments (for further details, see Note 19 to the financial statements dated December 31, 2009). It should be noted that the following analysis of financial results relates to the companies that are consolidated in the results of Hadera Paper and is affected by the adoption of the Standard mentioned above.

1.1. Sales

Consolidated sales during the reported period amounted to NIS 784.6 million, as compared with approximately NIS 654.4 million last year, representing an increase of 19.9% originating primarily from growth in the packaging paper and recycling segment, coupled with growth in the sales of the office supplies marketing segment, as compared with the corresponding period.

The sales of the packaging paper and recycling segment amounted to NIS 341.5 million during the reported period, or NIS 299.3 million net of inter-company sales, as compared with NIS 250.9 million, or NIS 194.4 million net of inter-company sales in the corresponding period last year, representing an increase of approximately 54.0%.

The increase in the sales turnover in the packaging paper and recycling segment originated from the quantitative growth in the sales of the packaging paper and recycling segment as a result of the operation of Machine 8, as mentioned above, the increase in exports to Europe and the growth in the demand of the local market, coupled with the higher selling prices in relation to the corresponding period last year.

The sales of the packaging products and cardboard segment during the reported period amounted to NIS 365.1 million, or NIS 359.1 million net of inter-company sales, as compared with approximately NIS 356.7 million, or NIS 351.9 million net of inter-company sales, during the corresponding period last year, representing an increase of approximately 2.0%, originating primarily as a result of the increase in the volume of operations of Frenkel CD.

The sales of the office supplies marketing segment during the reported period amounted to NIS 127.2 million, or NIS 126.3 million net of inter-company sales, as compared with NIS 108.9 million last year, or NIS 108.1 million net of inter-company sales, representing an increase of 16.0% that originated from the quantitative growth in sales, primarily due to having secured institutional tenders that have expanded the volume of customers and activity in this segment.

The consolidated sales in the third quarter of the year totaled NIS 295.4 million, as compared with NIS 220.4 million in the corresponding quarter last year, representing growth of approximately 34.0%, originating primarily as a result of an increase in the sales of the packaging paper and recycling segment in relation to the corresponding quarter last year and as compared with second quarter sales of NIS 249.2 million, representing growth of approximately 18.5%.

The sales of the packaging paper and recycling segment, net of inter-company sales, amounted to NIS 118.6 million in the third quarter of the year, as compared with NIS 69.3 million in the corresponding quarter last year, primarily as a result of the quantitative increase in sales as a result of the continuing growth in demand and the continuing recovery of operations in the segment, coupled with the recognition of revenues from the sales of Machine 8 starting in June, that materially affected the growth in sales in the third quarter.

The sales of the packaging products and cardboard segment, net of inter-company sales, amounted to NIS 113.7 million in the third quarter of the year, as compared with NIS 111.8 million in the corresponding quarter last year.

Sales in the marketing of office supplies segment amounted to NIS 43.6 million in the third quarter of the year, as compared with NIS 39.3 million in the corresponding quarter last year. This increase was primarily attributed to the expansion of the company's customer portfolio in this market, having successfully secured institutional tenders, as mentioned above.

1.2.

Cost of Sales

The cost of sales amounted to NIS 661.0 million – or 84.2% of sales – during the reported period, as compared with NIS 561.6 million – or 85.8% of sales – last year. The increase in the cost of sales originated primarily from an increase in manufacturing costs (especially energy costs and the use of raw materials, as a result of the operation of Machine 8).

The gross profit totaled NIS 123.6 million during the reported period, 15.8% of sales, as compared with NIS 92.8 million, 14.2% of sales, in the corresponding period last year, representing growth of approximately 33.2% in relation to the corresponding period last year.

The higher gross profit in relation to the corresponding period last year originated primarily as a result of a quantitative growth in sales in light of the initial recognition of revenues from the sale of Machine 8 in June, coupled with the market recovery, as stated above. The growth was also attributed to the impact of raw material prices - see Section A.2, above.

Labor Wages

The labor wages within the cost of sales amounted to NIS 153.8 million during the reported period, 19.6% of sales, as compared with NIS 153.2 million last year, approximately 23.4% of sales. The preservation of the level of labor expenses, despite the growth in the volume of operations in relation to the corresponding period last year originates primarily from the moderate increase in the number of employees, in relation to the volume of operations as a result of the capitalization of labor costs amounting to NIS 8.5 million associated with the running-in process of Machine 8. (See Note 5 to the financial statements dated September 30, 2010).

The labor wages within the Selling, General and Administrative expenses amounted to NIS 71.1 million during the reported period, approximately 9.1% of sales, as compared with the sum of NIS 65.3 million last year (approximately 10.0% of sales).

The growth in the cost of labor wages in relation to the corresponding period last year originated primarily from the recording of labor wages on account of a special bonus to the retiring CEO, in line with the decision of the Board of Directors dated March 23, 2010.

1.3.Selling, General and Administrative and Other Expenses

The growth in Selling, General and Administrative and other Expenses originated primarily from the bonus paid to the retiring CEO, as mentioned above, that was offset by the recording of revenues from the sale of real estate in the amount of NIS 18.6 million. The general and administrative expenses also included an amortization of excess cost in the sum of NIS 2.2 million, on account of excess cost recorded during the acquisition of Carmel and Frenkel CD in 2008. Net of the non-recurring labor expenses and net of non-recurring revenues, the Selling General, Administrative and Other expenses increased by approximately NIS 10.4 million, in relation to the corresponding period last year. The increase in expenses originates primarily from an increase in the selling and transportation expenses as a result of the growth in the volumes of operation with export markets of the packaging and recycling segment, coupled with the recording of an expenditure related to the valuation of a Mondri Put option in the amount of NIS 1.7 million during the reported period, as compared with a revenue of NIS 0.4 million during the corresponding period last year.

The selling, general and administrative expenses (including wages) and other expenses amounted to NIS 90.8 million in the reported period – or 11.6% of sales – as compared with NIS 77.6 million – or 11.9% of sales – in the corresponding period last year. Net of non-recurring revenues during the reported period, as a result of the sale of assets in the amount of approximately NIS 18.6 million and a non-recurring labor expenditure - as mentioned above - the selling, general and administrative expenses amounted to NIS 104.4 million, or approximately 13.3% of sales, as compared with the corresponding period last year, during which the selling, general and administrative and other expenses, net of non-recurring revenues as a result of the distribution of a unilateral dividend on account of a preferred share that was allocated by a consolidated subsidiary in the amount of NIS 16.4 million, amounted to NIS 94.0 million, or approximately 14.4% of sales.

1.4. Operating Profit

The operating profit totaled NIS 32.7 million during the reported period, 4.2% of sales, as compared with NIS 15.1 million, 2.3% of sales, last year. The increase in operating profit during the reported period as compared with the corresponding period last year, is primarily attributed to the increase in gross profit as a result of the increase in sales, as mentioned above. The operating profit during the reported period and the corresponding period last year included non-recurring revenues, as mentioned in Section 1.3, above.

The operating profit of the entire paper and recycling segment amounted to NIS 26.8 million, as compared with operating profit of NIS 4.6 million in the corresponding period last year. The profit during the reported periods included non-recurring profits, as mentioned above. It should be noted that the expenses allocated during the period to the packaging segment included non-recurring labor expenses of NIS 5.0 million, as detailed in Section 1.2, above.

The operating profit of the packaging products and board segment amounted to NIS 3.9 million in the reported period, as compared with an operating profit of NIS 7.9 million in the corresponding period last year. The decrease in operating profit in this segment is primarily attributed to the rise in raw material prices and the increase in other manufacturing expenses, as compared with the corresponding period last year.

The operating profit of the office supplies segment amounted to NIS 2.4 million during the reported period, as compared with NIS 2.9 million in the corresponding period last year.

The Company's operating profit amounted to NIS 20.2 million in the third quarter of the year, as compared with operating profit of NIS 1.2 million in the corresponding quarter last year. The increase in quarterly operating profit is primarily attributed to non-recurring revenues from the sale of an asset in the sum of approximately NIS 17.2 million, as mentioned above. The operating profit was also influenced by a decrease in relative output (in September) as a result of the Jewish high holidays that occurred during that time.

The operating profit of the paper and recycling segment in the third quarter of the year amounted to NIS 18.8 million, as compared with an operating loss of NIS 3.8 million in the corresponding quarter last year, as a result of the growing sales in the segment, coupled with non-recurring revenues, as mentioned above.

The operating profit of the packaging products and cardboard segment amounted to NIS 1.0 million in the third quarter of the year, as compared with operating profit of NIS 3.4 million in the corresponding quarter last year.

The operating profit of the office supplies segment amounted to NIS 0.3 million in the third quarter of the year, as compared with NIS 1.7 million in the corresponding quarter last year.

1.5.Financing Expenses

The net financing expenses during the reported period amounted to NIS 28.4 million, as compared with NIS 14.8 million in the corresponding period last year.

The interest on account of short-term credit decreased by approximately NIS 0.8 million, primarily on account of the decrease in the average short-term credit balance. Interest expenses on account of long-term liabilities - bonds - increased by approximately NIS 13.3 million in relation to the corresponding period last year, primarily as a result of the cost of financing Series 3 and 4, whose capitalization of financing costs for Machine 8 ended at the end of May, coupled with the issuing of bond series 5 (new series) in May.

1.6.Taxes on Income

Tax revenues of NIS 2.5 million were recorded during the reported period, as compared with tax revenues totaling NIS 6.0 million in the corresponding period last year. The decrease in tax revenues during the reported period, originating from a loss for tax purposes from current operations, as compared with the tax revenues during the reported period last year, originates primarily from non-recurring tax revenues that were included during the reported period last year as a result of the decrease in the tax rates for the coming years.

1.7.Company's Share in Earnings of Associated Companies

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

The company's share in the earnings of associated companies totaled NIS 58.5 million during the reported period, as compared with NIS 63.9 million in the corresponding period last year.

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

- The Company's share in the net profit of Mondi Hadera Paper (49.9%) rose by NIS 0.2 million. The slight increase in the profit originated primarily from the increase in the operating profit of Mondi, that grew from NIS 28.9 million last year, to NIS 30.4 million this year. The operating profit for the period has improved, despite the sharp rise in the prices of raw materials in relation to the corresponding period last year, thanks to the raising of prices during the reported period, coupled with the improved gross margin of some of the product range. The increase in net profit was also affected by the reduction of financing expenses by approximately NIS 7.3 million, that were offset as a result of the increase in tax expenses in the amount of approximately NIS 8.4 million during the reported period, as compared with the corresponding period last year, as a result of the increase in pretax earnings, as well as a result of recording tax revenues in the amount of approximately NIS 6 million during the corresponding period last year, as a result of the changing of tax rates.

- The Company's share in the net profit of Hogla-Kimberly Israel (49.9%) decreased by NIS 6.5 million. Hogla's operating profit decreased from NIS 155.0 million to NIS 147.3 million this year. The decrease in the operating profit is primarily attributed to the erosion of the selling prices in some sectors of operation, coupled with the rise in the prices of some principal inputs at the company, that were offset by far-reaching efficiency measures that were implemented across the company, continuing savings in purchasing and the strengthening of the company brands, led to a reduction in the erosion of earnings during the reported period.
- The Company's share in the losses of KCTR Turkey (49.9%) was reduced by NIS 1.3 million. This reduction in loss, despite the slight decrease in the volumes of operation, is primarily attributed to the sale of the PEDO brand to a local chain, that generated non-recurring revenues of NIS 3.1 million during the reported period, that brought about the continuing reduction in the operating loss from NIS 12.2 million during the corresponding period last year, to NIS 10.5 million during the reported period.

1.8.The Net Profit and the Earnings Per Share Attributed to the Company's Shareholders

The net profit attributed to the Company's shareholders amounted to NIS 65.4 million in the reported period, as compared with net profit of NIS 70.2 million in the corresponding period last year, representing a decrease of 6.8%. The net profit, net of non-recurring revenues and expenditures during the reported period, amounted to approximately NIS 54.1 million, as compared with net profits, net of non-recurring revenues and expenditures during the corresponding period last year, that amounted to NIS 38.2 million, representing an increase of 41.6%.

The net profit attributed to the Company's shareholders during the reported period was affected by the improvement in the operating margin of most Group companies in Israel as a result of the increase in operations that brought about an improvement in the operating profit, as mentioned above.

The net profit for the third quarter this year amounted to NIS 23.0 million, as compared with net profit of NIS 35.4 million in the corresponding quarter last year, representing a decrease of approximately 35.0%. It should be noted that non-recurring revenues were recorded in the third quarter, as detailed above. Moreover, during the corresponding quarter last year, the net profit included non-recurring revenues from the decrease in tax rates in the amount of approximately NIS 15.4 million.

Basic earnings per share amounted to NIS 12.88 per share (\$3.51 per share) in the reported period, as compared with basic earnings per share of NIS 13.86 per share (\$3.69 per share) in the corresponding period last year.

Diluted earnings per share amounted to NIS 12.77 per share (\$3.49 per share) in the reported period, as compared with NIS 13.86 per share (\$3.69 per share) in the corresponding period last year.

Basic earnings per share amounted to NIS 4.53 per share (\$1.24 per share) in the third quarter of the year, as compared with earnings of NIS 7.00 per share (\$1.86 per share) in the corresponding quarter last year.

Diluted earnings per share amounted to NIS 4.50 per share (\$1.23 per share) in the third quarter of the year, as compared with earnings of NIS 7.00 per share (\$1.86 per share) in the corresponding quarter last year.

2. Analysis of the Company's Financial Situation

- The cash and cash equivalents item rose from NIS 22.3 million on September 30, 2009, to NIS 161.8 million on September 30, 2010. The increase in cash and cash equivalents originates primarily from the issuing of bond series 5 in the second quarter, that was invested in NIS deposits and is serving to finance the company's current operations.
- Designated Deposits decreased from NIS 113.8 million as at September 30, 2009, to NIS 9.0 million as at September 30, 2010. The decrease in deposits originates as a result of the use of the designated deposit funds for the construction of Machine 8, between the reported periods. The remaining deposits are intended to serve for making the remaining payments for equipment and fixed assets associated with the Machine 8 project.
- Trade receivables relating to the packaging paper and recycling segment increased from NIS 82.9 million as at September 30, 2009, to NIS 108.3 million as at September 30, 2010. This increase is attributed to a quantitative growth in operations in both the local market and in export markets. In the packaging products and cardboard segment, an increase was recorded in trade receivables, from NIS 174.8 million on September 30, 2009, to NIS 186.2 million on September 30, 2010, as a result of an increase in sales in this segment, coupled with an increase in the days of credit in some of the segments of operation in the segment. Trade receivables for the office supplies marketing segment rose from NIS 51.1 million as at September 30, 2009, to NIS 63.4 million, as at September 30, 2010, as a result of growth in the volume of operations.
- Other receivables relating to the packaging paper and recycling segment increased from NIS 93.3 million as at September 30, 2009, to NIS 114.6 million as at September 30, 2010. The increase originates primarily from revenues to receive in the sum of approximately NIS 14 million on account of the sale of a real estate asset in Bnei-Brak, that were offset as a result of the decrease in revenues to receive from hedging transactions that were performed last year, coupled with the debt of an associated company on account of dividend declared for distribution. Other receivables relating to the packaging products and board segment decreased from NIS 5.1 million as at September 30, 2009, to NIS 4.4 million as at September 30, 2010. In the office supplies marketing segment, the Other Receivables item increased from NIS 2.5 million on September 30, 2009, to NIS 5.2 million on September 30, 2010, primarily as a result of the increase in supplier advances.

- Inventories of the packaging paper and recycling segment increased from NIS 75.5 million as at September 30, 2009 to NIS 80.8 million as at September 30, 2010. This increase is primarily attributed to the increase of the spare parts and maintenance products inventories as a result of the full operation of the new packaging paper manufacturing machine, following the completion of its running-in period. Inventories of the packaging products and board segment increased from NIS 59.8 million as at September 30, 2009, to NIS 85.9 million as at September 30, 2010. This increase is primarily attributed to the stabilization of inventory levels, as compared with a lower level due to delays in orders last year, coupled with the rising prices of raw materials by approximately 28% in relation to last year. Inventories in the office supplies marketing segment rose from NIS 20.1 million as at September 30, 2009, to NIS 25.7 million, as at September 30, 2010, primarily as a result of growth in the inventories imported from the Far East.
- Investments in associated companies increased from NIS 337.8 million on September 30, 2009 to NIS 349.3 million on September 30, 2010. The principal components of the said increase consist primarily of the company's share in the earnings of associated companies in the amount of NIS 82.0 million between the reported periods, offset by the company's share in distributed dividend in the sum of NIS 52.9 million from associated companies and the company's share in the declared dividend of NIS 20.0 million by an associated company, that led to an increase in the total investment between the reported periods.
- Short-term credit decreased from NIS 91.8 million on September 30, 2009 to NIS 73.8 million on September 30, 2010. The decrease in this item originates primarily as a result of the repayment of credit.
- The other accounts payables item for packaging paper and recycling grew from NIS 88.5 million on September 30, 2009 to NIS 98.1 million on September 30, 2010. The increase is primarily attributed to the increase in interest to pay on account of Bond Series 5, that was issued between the reported periods, coupled with the recording of advanced revenues in the amount of NIS 6.4 million, from the sale of a real estate asset in Bnei-Brak, that were offset by a decrease in labor wage provisions. Other accounts payable of the packaging products and board segment decreased from NIS 15.4 million as at September 30, 2009, to NIS 12.1 million as at September 30, 2010, primarily as a result of a decrease in debts to institutions. In the office supplies marketing segment, the Other Accounts Payable item increased from NIS 4.7 million on September 30, 2009, to NIS 5.0 million on September 30, 2010.
- The company's shareholders' equity increased from NIS 836.1 million as at September 30, 2009, to NIS 931.9 million as at September 30, 2010. This change originated primarily from the net profit attributed to the company's shareholders between the periods, in the sum of NIS 86.0 million.

3. Investments in Fixed Assets

Investments in fixed assets amounted to NIS 175.4 million in the reported period, as compared with NIS 282.0 million in the corresponding period last year. The investments in the reported period consisted primarily of payments on account of purchasing from equipment vendors for the new packaging paper manufacturing network (Machine 8), in the sum of NIS 93.4 million (including a decrease of NIS 33.5 million in supplier credit). The outstanding investment in Machine 8, true to September 30, 2010, amounts to NIS 699.6 million. Additional investments included were related to environmental protection (wastewater treatment) and current investments in equipment renewal, means of transportation and building maintenance at the Hadera site.

Regarding the examination of the need for impairment of fixed assets during the reported period, see Note 5b to the financial statements dated September 30, 2010, along with Note 4c(5) to the financial statements dated December 31, 2009.

4. Financial Liabilities

The long-term liabilities (including current maturities) amounted to NIS 1,011.2 million as at September 30, 2010, as compared with NIS 832.6 million as at September 30, 2009. The long-term liabilities have increased in relation to last year primarily as a result of the issuing of a NIS-denominated bond series (Series 5) in the amount of NIS 181.5 million in the second quarter (see Note 4e to the financial statements dated September 30, 2010), coupled with the assumption of long-term loans intended to finance the payments for Machine 8. This increase was offset as a result of the repayment of the older debenture series, coupled with the cash flows from operating activities.

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

Series 2 – NIS 133.8 million, for repayment until 2013.

Series 3 – NIS 178.7 million, for repayment until 2018.

Series 4 – NIS 196.3 million, for repayment until 2015.

Series 5 – NIS 181.5 million, for repayment until 2017.

Long-term loans – NIS 321.8 million.

- The balance of short-term credit, as at September 30, 2010, amounted to NIS 73.8 million, as compared with NIS 91.8 million as at September 30, 2009.

- The net debt, as at September 30, 2010, net of the deposits and cash balance, amounted to NIS 914.1 million, as compared with net debt of NIS 788.8 million as at September 30, 2009.

In July 2010, the Supervisor of the Capital Market Insurance and Savings at the Ministry of Finance ("The Supervisor"), published a memorandum implementing the recommendations of the Committee for determining parameters for institutional entities that provide credit by acquiring non-government bonds. The said memorandum includes, inter alia, recommendations regarding the internal processes at an institutional entity prior to investing in bonds, regarding the information that is necessary for an institutional entity to analyze a potential investment in bonds and to regularly monitor such bonds, recommendations regarding creating mechanisms for cooperation between institutional entities in certain aspects related to investment in bonds, recommendations regarding directives that must be included in the bond documents as a precondition for investment by institutional entities, recommendations regarding obligations of institutional entities to determine a policy regarding the rights for immediate repayment that will be included in the bonds, relating to the characteristics of the different bonds and issuers. Most of the directives in the memorandum entered into effect in October 2010.

The memorandum of the Supervisor and the manner by which the recommendations are adopted by institutional entities, may hold implications on the ability to raise capital from institutional entities by way of bonds, including the terms and the price of raising such capital. As at the date of the financial statements, the company is unable to identify these implications.

5. Financial liabilities at fair value through the statement of income

Put Option to a Shareholder at an Associated Company

For information pertaining to the Put option, see Note 5.b(3) to the annual financial statements dated December 31, 2009.

The liability on account of the Put option to the shareholder at the associated company as at 30.09.10, 30.09.09, and as at December 31, 2009, amounts to NIS 13.7 million, NIS 13.5 million and NIS 12.0 million, respectively.

On account of the Put option, other expenses of NIS 1.7 million were recorded during the reported period, as compared with other expenses of NIS 0.4 million in the corresponding period last year.

The principal factors responsible for the change in fair value during the reported period include the change in the value of the base asset in dollar terms following an agreement signed by the company for the purchase of 25.1% of the shares of the associated company ("Acquisition Agreement"), coupled with the change in the risk-free interest rate that serves for calculating the value of the option. Regarding additional agreements arising from the Acquisition Agreement and its potential influence on the terms of the option, see Note 4.1 to the financial statements dated September 30, 2010.

C.

Liquidity

Cash Flows

The cash flows from operating activities totaled approximately NIS 126.8 million during the reported period, as compared with NIS 133.0 million in the corresponding period last year. The decrease in the cash flows from operating activities during the reported period, as compared with the corresponding period last year, is primarily attributed to the increase in working capital during the reported period in relation to last year, that amounted to approximately NIS 3.3 million, as compared with a decrease of approximately NIS 22.9 million in the corresponding period last year. The increase in working capital during the reported period originated primarily from the increase in customer balances and the increase in maintenance products inventories and in the packaging products and board segment, as a result of the rise in raw material prices in this segment.

The company possesses positive cash flows from operating activities, according to its interim consolidated financial statements dated September 30, 2010. However, the company's ongoing cash flows from operating activities in its separate financial statements, according to Regulation 38d of the Reporting Regulations ("Separate Financial Statements"), are negative. In light of the above, the company's Board of Directors conducted a discussion during its meeting on November 7, 2010, of Regulation 10(b)(14) to the Securities Regulations (Periodical and Immediate Reports) - 1970 ("Reporting Regulations") and determined that the ongoing negative cash flows from operating activities in the separate financial statements as at September 30, 2010, does not indicate a liquidity problem on the part of the company. This determination is based on an examination of the expected cash flows of the company and on the company's ability to raise additional credit, on the basis of an economic calculation performed by the company, and after having been presented to the Board of Directors and having the report of cash flows that is included in the company's separate financial statements discussed by the Board.

The data that served the Board of Directors as a basis for its estimation included the expected cash flows of the company for the next two years, based on the balance of cash and deposits as at the date of the report, totaling NIS 119.6 million held by the company, from cash flows from operating activities approximately NIS 102 million in the coming year (approximately NIS 82 million in the following year), originating from the company's estimations regarding the cash flows from operating activities, cash flows from dividends and the repayment of debt from investee companies. Cash flows that will serve for investment activities approximately NIS 1.2 million (net) in the coming year (approximately NIS 5 million the following year), originating from the realization of real estate assets and an increase in holdings in investee and associated companies. The cash flows that will serve for financing activities, approximately NIS 207.5 million in the coming year (approximately NIS 86.1 million in the following year), originating from the utilization of short-term credit, to serve for the repayment of loans plus interest, net.

In addition to the above, the company is able to raise additional credit in the total sum of approximately NIS 202 million, also by way of recycling existing bank credit, for its continued operating activities and for making investments.

The information appearing above, including the expected cash flows, is based on the estimates, forecasts and plans of the company, according to the best of its knowledge and understanding regarding its operations and according to the data at its disposal as at the date of this report and which constitutes forward-looking information as defined in the Securities Law - 1968, whose materialization is not certain and whose realization is not exclusively under the control of the company. Consequently, there is no certainty that the data and/or estimates and/or forecasts and/or plans will materialize, in whole or in part, and they may materialize in a manner that is materially different than anticipated, inter alia, on account of the dependence upon external and macro-economic factors that are not subject to the control of the company, including changes in the business and defense environment, coupled with the materialization of any of the risk factors affecting the company.

D. Details of the Various Segments of Segments of Operations

1.Hogla-Kimberly (Household Products)

The sales turnover of Hogla-Kimberly Israel amounted to approximately NIS 917.0 million in the reported period, as compared with approximately NIS 924.7 million in the corresponding period last year, representing a decrease of 0.8%.

The decrease in sales in relation to the corresponding period last year is primarily attributed to the erosion of prices as a result of escalating competition in the market, coupled with a relative decrease in sales in September, due to the Jewish high holidays that occurred at that time.

The operating profit of Hogla-Kimberly Israel amounted to approximately NIS 147.3 million in the reported period, as compared with approximately NIS 155.0 million in the corresponding period last year, representing a decrease of approximately 5%.

The decrease in the operating profit in relation to the preceding year is attributed to the erosion of prices as a result of the escalating competition in the market, coupled with the rise in the prices of the principal raw materials, as well as the collapse of a principal supplier that led to a specific increase in the price of a raw material and its transportation cost (aerial transport), that was partially offset by efficiency measures that were implemented by the company, as well as of the decrease in the average US dollar exchange rate vis-à-vis the NIS, by a rate of approximately 5.5%, in relation to the corresponding period last year.

The operating profit in the third quarter of the year amounted to NIS 47.1 million, as compared with NIS 52.7 million in the corresponding quarter last year and as compared with NIS 49.8 million in the second quarter of the year, as a result of the erosion of prices in the segment, as mentioned above, coupled with a relative decrease in sales due to the Jewish high holidays.

The sales turnover of KCTR, Hogla-Kimberly's subsidiary operating in Turkey, amounted to approximately NIS 375.4 million (approximately \$99.2 million) in the reported period, as compared with approximately NIS 380.3 million (approximately \$95.3 million) in the corresponding period last year.

KCTR's strategic cooperation agreement with Unilever, under which Unilever carries out the selling, distribution and collection activities nationwide, with the exception of retail chains to which KCTR continues to sell independently, continues to expand the customer base in the reported period and to bring about the enhancement of the Huggies and Kotex brands.

in addition, it should be noted that toward the end of 2009, the Turkish tax authorities addressed KCTR as part of the examination of its financial statements for the years 2004-2008, conducted at KCTR on account of the taxation of the influx of capital from Hogla Kimberly Ltd. to KCTR. KCTR estimates, on the basis of the opinion of its legal and tax consultants, that the probability that it will be liable for an additional tax payment is low. Consequently, it has created a provision in its September 30, 2010 financial statements in the amount of €0.3 million, to cover the anticipated legal fees in accordance with the progress in the handling of the lawsuit. (See also Note 13.12 to the financial statements dated December 31, 2009).

The necessary financing according to the strategic plan in Turkey, for financing the current operations and investments, originate primarily from internal resources of Hogla Kimberly. (In 2010, KCTR financed its operations through local banks in Turkey). In early 2008, KCTR repaid the outstanding loans to the banks in the sum of approximately \$25 million.

2. Mondi Hadera Paper (Mondi Hadera – Fine Paper)

The sales turnover of fine paper amounted to NIS 553.5 million in the reported period, as compared with NIS 511.9 million in the corresponding period last year, representing an increase of 8.1%. The sales turnover of fine paper in the second quarter of 2010 amounted to NIS 196.0 million, as compared with NIS 168.3 million in the corresponding period last year, representing an increase of 16.5%, and as compared with NIS 184.8 million in the second quarter of 2010, representing an increase of 6.1%.

Pulp prices soared during the reported period in relation to the corresponding period last year, inter alia as a result of high demand in China, coupled with the damage of the earthquake in Chile, that harmed three production plants of large pulp suppliers, thereby leading to delays in the provision of pulp to the global market. Subsequent to these higher prices, the entire segment underwent a process of raising prices, in order to compensate for this increase. The said increase in selling prices during the reported period serve to reduce the impact of the rise in pulp prices.

The operating profit of Mondi Hadera amounted to NIS 30.4 million in the reported period, as compared with operating profit of NIS 28.9 million in the corresponding period last year, representing an increase of 5.2%. The increase in operating profit in relation to the corresponding period last year, despite the rise in pulp prices as mentioned above, is attributed to the adjustment of selling prices and the change and the mix of export markets during the reported period, coupled with improvement in the gross margin of the sale of purchased paper.

In the third quarter of 2010, the company's operating profit amounted to NIS 7.2 million, as compared with an operating profit of NIS 13.0 million in the corresponding quarter last year and as compared with operating profit of NIS 14.7 million in the second quarter of 2010.

The decrease in operating profit in the current quarter in relation to the corresponding quarter last year and in relation to the preceding quarter is attributed to the sharp rise in pulp prices, that peaked during the third quarter and were only partially offset by the rise in selling prices. The operating profit was also affected by a specific decrease in sales to the local market in September (due to the high holidays and the corresponding low number of workdays) and their steering toward greater quantities in export markets and a corresponding rise in transportation costs for exports.

3. Carmel Container Systems - Packaging and Board Products

The aggregate sales turnover of Carmel, including the sales of Frenkel CD, amounted to NIS 365.1 million during the first nine months of 2010, as compared with NIS 356.7 million in the corresponding period last year, representing an increase of 2.4%.

The consolidated sales turnover of Carmel Container Systems Ltd. amounted to NIS 283.4 million during the reported period and is identical to the corresponding period last year.

The steady level of the sales turnover, despite the quantitative increase in sales in relation to the corresponding period last year, originates primarily from approximately 4% decrease in the selling prices during the reported period, in relation to the corresponding period last year, following the fierce competition in the sector, coupled with the decrease in the prices of brown paper last year, which constitutes a principal input in production. This trend began to reverse itself since the second quarter of the year, as selling prices began to climb. This was offset by an increase in raw material prices.

The consolidated operating profit of Carmel amounted to NIS 1.2 million in the reported period, as compared with an operating profit of NIS 7.0 million in the corresponding period last year. The decrease in the operating profit is primarily attributed to the eroded margin of the segment as a result of the lowering of the average selling prices on the one hand, coupled with the higher prices of raw materials on the other hand, along with the eroded profitability of the Triwall subsidiary. These influences were offset by improved operational efficiency, that led to reduced down time and increase in output. Moreover, during the reported period, Carmel acquired a new processing machine that will serve to improve its output capacity and printing capability. These moves are expected to bring about an improvement in the profitability of Carmel over the next several quarters.

The aggregate operating profit of Carmel (including Frenkel CD) amounted to NIS 3.9 million in the reported period, as compared with an operating profit of NIS 7.9 million in the corresponding period last year.

With respect to the examination of the need of impairment of the Carmel cash generating unit, see note 8 to the financial statements dated September 30, 2010. Following below are principal data regarding a material valuation: The value of Carmel in the company books, as at September 30, 2010, was equal to approximately NIS 156.8 million. The valuator Giza Singer Even (Giza Singer Even is a financial and economic consulting firm, possessing over 25 years of experience. Giza Singer Even specializes in the preparation of economic professional opinions, performed by its consulting services departments, that include: Value economics, finance and capital market, applicative economic research, economic accounting and risk management, project finance and infrastructure, as well as a professional department) has evaluated the resulting value in use of Carmel at approximately NIS 236 million for this date. This value, minus the net financial liabilities, amounts to NIS 158.3 million. The valuator employed the DCF model in its valuation. The valuator used a discount rate of 10% and a growth rate of 2.5%. The residual value as a percentage of the total value set in the evaluation is equal to 64%.

The above information pertaining to the output capacity and improved profitability of Carmel constitutes forward-looking information as defined in the Securities Law, based on the company's preparations at the date of this report. These reparations may not materialize - in whole or in part - or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as changes in local and global raw material prices and changes in the supply and demand of local and global cardboard packaging products.

4.Packaging Paper and Recycling

The sales turnover of the Packaging Paper and Recycling Segment amounted to NIS 341.5 million in the reported period (net, subsequent to the capitalization of the sales of Machine 8 through to May 31, 2010, in the amount of NIS 70 million - see above), as compared with NIS 250.9 million in the corresponding period last year, representing an increase of approximately 36.1%.

The quantitative sales of packaging paper amounted to 188.5 thousand tons during the reported period, as compared with 106.2 thousand tons in the corresponding period last year. Out of the said sales during the reported period,

approximately 50,000 tons were discounted as part of the running in of Machine 8, through to May 31, 2010.

The increase in the sales turnover originated partially from the quantitative increase in sales, of both packaging paper and at Amnir, coupled with the rise in the selling prices during the reported period. It should be noted that a considerable part of the quantitative increase in sales of packaging paper was made to export markets. These markets were characterized by rising prices, that were partially offset as a result of the revaluation of the NIS against other currencies, between the reported periods. An additional increase in prices that is being initiated by the segment starting in October, is expected to hold a positive impact on the results and profitability of the segment over the next several quarters.

The operating profit totaled NIS 31.8 million during the reported period, as compared with an operating loss of NIS 14.5 million in the corresponding period last year. The cost of operating Machine 8, through to May 31, 2010, were capitalized as part of the running-in expenses.

The considerable improvement in operating profit during the reported period, in relation to the corresponding period last year, is primarily attributed to the quantitative increase in sales as a result of the entry of Machine 8 into current operation, starting in June of this year, coupled with the raising of selling prices. The operating profit also included non-recurring income of approximately NIS 17.2 million from the sale of real estate in Bnei-Brak, in light of preparations being made by Amnir for the relocation into the logistic center at Modi'in.

It should be noted that the sales and operating profitability during the period were adversely affected by the timing of the Jewish high holidays that occurred in September and served to decrease - in a relative manner - the output capacity and sales of the segment.

5.Graffiti - Office Supplies Marketing

Graffiti's sales turnover during the reported period amounted to NIS 127.2 million as compared with NIS 108.9 million in the corresponding period last year, representing an increase of 16.8%.

In the reported period, Graffiti recorded an operating profit of NIS 2.4 million, as compared with an operating profit of NIS 2.9 million in the corresponding period last year. The decrease in operating profit during the reported period is primarily attributed to the sharp rise in the fine paper prices, that represent a material component of the operations in the segment.

Graffiti continues to implement its plan for growth in the marketing of office supplies to businesses and institutional clients and is taking several principal courses of action in order to establish its position as a leader in this market:

Graffiti is constantly working to improve the procurement network, with an emphasis on imports from the Far-East that serves to significantly reduce purchasing costs, aiming to improve the gross and operating profitability.

Graffiti, together with other companies in the group, is scheduled to relocate to a modern and efficient distribution center in Modi'in, that would allow to significantly cut operating costs, while enabling continued growth in sales and profit. The relocation is planned to take place in April 2011. Graffiti will continue to operate its existing logistic centers during the transitional period, until the complete stabilization of the new logistic center at Modi'in.

Graffiti has completed the detailed specification of the computerized management systems of the logistic center and is currently working on constructing a detailed transition plan covering the various aspects. These moves will bring about improved savings and growth, as mentioned above.

Graffiti has successfully implemented the assimilation of the Hadera Paper information systems during the reported period. This will allow the company to record accelerated growth and earnings while improving customer service, as modern systems and infrastructure are implemented at the new distribution center.

The above information pertaining to the future savings and growth constitutes forward-looking information as defined in the Securities Law, based on the company's estimates at the date of this report. These estimates may not materialize - in whole or in part - or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as changes in the supply and demand for the company's products in Israel and worldwide.

E. Exposure and Management of Market Risks

1. General

The Company conducts periodical discussions regarding market risks and exposure to exchange rate and interest rate fluctuations, with the participation of the relevant elements, so as to reach decisions in this matter. The individual responsible for the implementation of market risk management policy at the Company is Shaul Glicksberg, the Group's VP of Finance and Business Development.

2. Market Risks to which the Company is Exposed

Description of Market Risks

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

Exchange Rate Risks

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

The Company periodically reexamines the need for hedging on account of these exposures. True to September 30, 2010, the Company entered into hedging transactions in the sum of 4.0 million euro, in order to hedge the cash flows related to payments for the acquisition of fixed assets from equipment vendors for Machine 8.

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

Consumer Price Index Risks

The Company is exposed to changes in the Consumer Price Index, pertaining to the debentures issued by the Company and to net long-term loans, in the total sum of NIS 292.7 million.

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

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

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

Credit Risks

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

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

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

| Sensitive Instruments | Sensitivity to Interest Rates | | | | |
|---|-------------------------------|----------|------------|----------------------------|----------|
| | Profit (loss) from changes | | | Profit (loss) from changes | |
| | Interest | Interest | Fair value | Interest | Interest |
| | rise | rise | as at | decrease | decrease |
| | 10% | 5% | Sep-30-10 | 5% | 10% |
| In NIS thousands | | | | | |
| Debentures - Series 2 | 896 | 450 | (143,071) | (453) | (908) |
| Debentures - Series 3 | 2,679 | 1,347 | (181,232) | (1,364) | (2,743) |
| Debentures - Series 4 | 2,049 | 1,029 | (210,363) | (1,037) | (2,083) |
| Debentures - Series 5 | 3,414 | 1,717 | (201,028) | (1,738) | (3,497) |
| Loan A - fixed interest | 90 | 45 | (17,866) | (45) | (91) |
| Loan B - fixed interest | 1,248 | 627 | (98,666) | (634) | (1,274) |
| Loan C - fixed interest | 138 | 69 | (20,228) | (70) | (140) |
| Long-term loans and capital notes - granted | (200) | (100) | 52,291 | 101 | 202 |

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.

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

| Sensitivity of euro-linked instruments to changes in the euro exchange rate | | | | | |
|---|----------------------------|-----------|------------|----------------------------|----------|
| Sensitive Instruments | Profit (loss) from changes | | | Profit (loss) from changes | |
| | | | Fair value | Decrease | Decrease |
| | Rise in € | Rise in € | as at | in € | in € |
| | 10% | 5% | Sep-30-10 | 5% | 10% |
| | In NIS thousands | | | | |
| Cash and cash equivalents | 4,249 | 2,125 | 42,490 | (2,125) | (4,249) |
| Designated deposits | 902 | 451 | 9,022 | (451) | (902) |
| Other Accounts | | | | | |
| Receivable | 796 | 398 | 7,962 | (398) | (796) |
| Accounts payable and credit balances | (3,975) | (1,988) | (39,755) | 1,988 | 3,975 |
| Forward | 2,361 | 1,364 | 383 | (631) | (1,629) |

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 Sep-30-10 | Devaluation of \$ 5% | Devaluation of \$ 10% |
| In NIS thousands | | | | | |
| Cash and cash equivalents | 3,323 | 1,662 | 33,230 | (1,662) | (3,323) |
| Other Accounts | | | | | |
| Receivable | 1,634 | 817 | 16,343 | (817) | (1,634) |
| Accounts payable and credit balances | (3,562) | (1,781) | (35,620) | 1,781 | 3,562 |
| Liabilities at fair value through the statement of income | (1,370) | (685) | (13,700) | 685 | 1,370 |

Other accounts receivable reflect primarily short-term customer debts

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 Sep-30-10 | Decrease in CPI 1% | Decrease in CPI 2% |
| In NIS thousands | | | | | |
| NIS-CPI forward transactions | 600 | 300 | (277) | (300) | (600) |
| Bonds 2 | (3,625) | (1,812) | (181,232) | 1,812 | 3,625 |
| Bonds 3 | (2,861) | (1,431) | (143,071) | 1,431 | 2,861 |
| Other accounts receivable | 45 | 22 | 2,246 | (22) | (45) |

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 Sep-30-10 | Decrease in the yen 5% | Decrease in the yen 10% |
| In NIS thousands | | | | | |
| Accounts Payable | (352) | (176) | (3,523) | 176 | 352 |

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at Sep-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 | 86.0 | | 33.3 | 42.5 | | 161.8 |
| Short-term deposits and investments | | | | 9.0 | | 9.0 |
| Other Accounts Receivable | 444.6 | 2.2 | 17.2 | 8.3 | 9.9 | 482.2 |
| Inventories | | | | | 192.4 | 192.4 |
| Investments in Associated Companies | 19.2 | 36.7 | | | 293.4 | 349.3 |
| Deferred taxes on income | | | | | 45.4 | 45.4 |
| Fixed assets, net | | | | | 1,207.8 | 1,207.8 |
| Investment property (real estate) | | | | | 24.5 | 24.5 |
| Intangible Assets | | | | | 24.3 | 24.3 |
| Land under lease | | | | | 25.0 | 25.0 |
| Other assets | | | | | 2.2 | 2.2 |
| Assets on account of employee benefits | 0.7 | | | | | 0.7 |
| Total Assets | 550.5 | 38.9 | 50.5 | 59.8 | 1,824.9 | 2,524.6 |
| Liabilities | | | | | | |
| Short-term credit from banks | 73.8 | | | | | 73.8 |
| Accounts payable and credit balances | 303.4 | 0.3 | 39.1 | 39.8 | | 382.6 |
| Current tax liabilities | 6.6 | | | | | 6.6 |
| Deferred taxes on income | | | | | 69.5 | 69.5 |
| Long-Term Loans | 301.5 | 20.3 | | | | 321.8 |
| Notes (debentures) – including current maturities | 378.1 | 311.3 | | | | 689.4 |
| Liabilities on account of employee benefits | 35.3 | | | | | 35.3 |
| Liabilities at fair value through the statement of income | | | 13.7 | | | 13.7 |
| Shareholders' equity, reserves and retained earnings | | | | | 931.9 | 931.9 |
| Total liabilities and equity | 1,098.7 | 331.9 | 52.8 | 39.8 | 1,001.4 | 2,524.6 |
| Surplus financial assets (liabilities) as at Sep-30-2010 | (548.2) | (293.0) | (2.3) | 20.0 | 823.5 | 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.

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 marginal

On March 8, 2009, the Company's Board of Directors resolved to adopt rules and guidelines for categorizing a transaction of the Company or of one of its consolidated subsidiaries - with a controlling shareholder ("controlling shareholder transaction") - as a negligible transaction as set forth in Regulation 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 criteria 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 is 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 as 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 September 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 outlook is negative. The said rating report is attached as an appendix to the management discussion date June 30, 2010.

1. Sources of Finance

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

J. Dedicated Disclosure to Debenture Holders - Continued

2. Debentures for institutional investors and the public

| Series | Issue Date | Name of 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 Sep-30-10 | Book value of debenture balances as at Sep-30-10 | Book value of interest to be paid at Sep-30-10 |
|-----------------|------------|-----------------|--|----------------------------------|---------------|-----------------|---|---|-----------------------------------|--|--|
| In NIS millions | | | | | | | | | | | |
| Series 2 | 12.2003 | Maalot | A+ | 200,000,000 | Fixed | 5.65% | No | Annual interest December 21 In the years 2004-2013 | 114.3 | 133.8 | 5.9 |
| Series 3 | 7.2008 | Maalot | A+ | 187,500,000 | Fixed | 4.65% | Yes | Annual interest On July 10 In the years 2009-2018 | 166.7 | 178.7 | 1.9 |
| 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 | 196.3 | 196.3 | 3.3 |
| 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 | 3.8 |

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.

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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

Exhibit 3

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

HADERA PAPER LTD

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

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HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

| | Note | September 30 2010 (Unaudited) | 2009 | December 31 2009 |
|---|------|-------------------------------------|------------------|---------------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | | 161,826 | 22,312 | 26,261 |
| Designated deposits | | 9,022 | 113,819 | 127,600 |
| Accounts receivable: | | | | |
| Trade receivables | | 357,947 | 308,797 | 323,882 |
| Other receivables | | 124,180 | 101,750 | 98,897 |
| Inventory | | 192,419 | 155,392 | 175,944 |
| Total Current Assets | | 845,394 | 702,070 | 752,584 |
| Non-Current Assets | | | | |
| | | | * | * |
| Fixed assets, net | 5 | 1,207,822 | 1,078,944 | 1,134,234 |
| Investments in associated companies | | 349,346 | 337,840 | 340,975 |
| Deferred tax assets | | 45,403 | 30,776 | 29,745 |
| Prepaid expenses in respect of an operating lease | | 24,964 | * 30,336 | * 29,756 |
| Other intangible assets | | 24,266 | 28,085 | 27,084 |
| Investment property | 2C | 24,500 | - | - |
| Other assets | | 2,158 | 2,336 | 1,298 |
| Employee benefit assets | | 730 | 824 | 649 |
| Total Non-Current Assets | | 1,679,189 | 1,509,141 | 1,563,741 |
| Total Assets | | 2,524,583 | 2,211,211 | 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.

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

| | Note | 2010 September 30 (Unaudited) | 2009 December 31 2009 |
|---|------|-------------------------------------|-----------------------------|
| Liabilities and Equity | | | |
| Current Liabilities | | | |
| Credit from banks and others | | 73,752 | 91,803 |
| Current maturities of long-term bonds and long term loans | | 165,917 | 141,093 |
| Trade payables | | 267,426 | 228,595 |
| Account payables and accrued expenses | | 115,214 | 108,645 |
| Short term employee benefit liabilities | | 20,494 | 19,729 |
| Financial liabilities at fair value through profit and loss | | 13,700 | 13,540 |
| Current tax liabilities | | 6,617 | 1,316 |
| Total Current Liabilities | | 663,120 | 604,721 |
| Non-Current Liabilities | | | |
| Loans from banks and others | | 250,932 | 187,245 |
| Bonds | | 594,372 | 504,244 |
| Deferred tax liabilities | | 69,452 | 61,307 |
| Employee benefit liabilities | | 14,829 | 17,595 |
| Total Non-Current Liabilities | | 929,585 | 770,391 |
| Capital and reserves | | | |
| Issued capital | | 125,267 | 125,267 |
| Reserves | | 310,621 | 306,795 |
| Retained earnings | | 469,627 | 378,071 |
| Capital and reserves attributed to shareholders | | 905,515 | 810,133 |
| Non-controlling interests | | 26,363 | 25,966 |
| Total capital and reserves | | 931,878 | 836,099 |
| Total Liabilities and Equity | | 2,524,583 | 2,211,211 |

Z. Livnat

Chairman of the Board of Directors

O. Bloch

Chief Executive Officer

S. Gliksberg

Chief Financial and Business
Development Officer

Approval date of the interim financial statements: November 7, 2010.

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

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HADERA PAPER LTD

CONDENSED CONSOLIDATED INCOME STATEMENTS
(NIS in thousands)

| | Note | Nine months ended September 30 | | Three months ended September 30 | | Year ended December 31 |
|-------------------------------------|------|-----------------------------------|-----------|------------------------------------|---------|------------------------------|
| | | 2010 | 2009 | 2010 | 2009 | 2009 |
| | | (Unaudited) | | (Unaudited) | | |
| Revenue | | 784,626 | 654,405 | 295,435 | 220,371 | 891,995 |
| Cost of sales | | 661,045 | 561,608 | 254,697 | 188,413 | 765,677 |
| Gross profit | | 123,581 | 92,797 | 40,738 | 31,958 | 126,318 |
| Selling and marketing expenses | | 63,532 | 52,822 | 22,878 | 17,840 | 71,998 |
| General and administrative expenses | | 43,897 | 43,172 | 14,922 | 13,255 | 58,967 |
| Other income, net | | (16,584) | (18,346) | (17,226) | (381) | (20,234) |