Hadera Paper Ltd
Form 6-K
May 16, 2011

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 May 2011

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

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

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

x Form 20-F   o Form 40-F

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

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

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

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

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

o Yes x No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's press release dated May 16, 2011 with respect to the Registrant's results of operations for the quarter ended March 31, 2011.

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 March 31, 2011.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant's unaudited condensed consolidated financial statements for the quarter ended March 31, 2011.

Attached hereto as Exhibit 4 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 March 31, 2011.

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: May 16, 2011.

EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 1. | Press release dated May 16, 2011. |
| 2. | Registrant's management discussion. |
| 3. | Registrant's unaudited condensed consolidated financial statements. |
| 4. | 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 First Quarter Ended March 31, 2011

Hadera, Israel, May 16, 2011 - Hadera Paper Ltd. (AMEX:AIP) (the “Company” or “Hadera Paper”) today reported financial results for the first quarter ended March 31, 2010 (the "Reported Period"). The Company, its subsidiaries and associated company – are referred to hereinafter as the "Group".

The Consolidated Data set forth below excludes the results of operation of the associated company Hogla-Kimberly Ltd. ("H-K").

Consolidated sales during the reported period amounted to NIS 517.6 million, as compared with NIS 240.0 million last year, representing an increase of 115.7%, originating primarily from growth in the sales of the packaging paper and recycling sector as compared with the corresponding period last year, coupled with the consolidation of the sales of Hadera Paper - Writing and Printing Ltd ("Hadera Paper Printing"), starting January 1, 2011, in the total sum of NIS 182.1 million, net of inter-company sales totaling NIS 172.6 million.

The operating profit totaled NIS 53.8 million during the reported period, 10.4% of sales, as compared with NIS 7.4 million, 3.1% of sales, in the corresponding period last year. The increase in operating profit during the reported period, in relation to the corresponding period last year, is primarily attributed to non-recurring revenues from the sale of real estate, coupled with the significant growth in the gross profit as a result of the said growth in sales, that was offset as a result of the consolidation of the results of the Hadera Paper Printing sector, starting January 1, 2011, due to an operating loss of NIS -3.0 million in this sector.

The net profit attributed to the Company's shareholders amounted to NIS 41.2 million in the reported period, as compared with net profit of NIS 24.3 million in the corresponding period last year, representing an increase of 69.5%. The net profit, net of non-recurring revenues and expenditures during the reported period, amounted to NIS 19.8 million, representing a decrease of 18.6% in relation to the corresponding period last year.

The net profit attributed to the company's shareholders during the reported period was affected by the improvement in the operating margin at most group companies in Israel and in Turkey as a result of the increase in the volume of operations, that brought about an improvement in the operating profit as mentioned above, coupled with non-recurring revenues from the sale of real estate. In addition the net profit was adversely affected by the increase on the financial expenses in the reported period as compared with the corresponding period last year.

Basic earnings per share amounted to NIS 8.10 per share ($2.33 per share) in the reported period, as compared with basic earnings per share of NIS 4.80 per share ($1.29 per share) in the corresponding period last year.

The exchange rate of the NIS in relation to the dollar was revaluated by approximately 1.9% during the reported period, as compared with a revaluation of approximately 1.6% during the reported period last year (the average exchange rate of the NIS vis-à-vis the dollar was revaluated during the reported period by a rate of approximately 3.6% in relation to the corresponding period last year). The changes in exchange rates as mentioned above, affected the results of the various sectors, although the Group's business portfolio, including the investee companies, is practically at equilibrium in terms of foreign currency and consequently, the exposure of the Group to sharp fluctuations in currency exchange rates is low.

The inflation rate during the reported period amounted to 0.7%, as compared with a negative inflation rate of -0.9% in the corresponding period last year.

The Company estimates that the demand for recycled packaging paper, as a replacement for virgin packaging paper, is continuing in global paper markets. The trend of rising prices of recycled products in the global packaging paper market continued in the first quarter as well, at an average rate of approximately 5.7% (according to publications of PPI Germany). The prices of recycled products are expected to rise by a further 5% starting in May 2011. The said increase in prices and demand, in addition to the prevailing high level of prices, may support the continued growth and expansion in the volumes of operation of the packaging paper sector, 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 during the reported period, this trend 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 sectors of operation.

In terms of raw materials, in the course of the first quarter, the NIS was revaluated in relation to the average dollar and the euro, in relation to last year, by a rate of approximately 3.6% and 4.8%, respectively. This revaluation led to savings in terms of inputs and imported products denominated in dollars or euro, in the principal sectors of operation of the company, whose prices track import prices in the said currencies. As a result of the said revaluation, the relative price of natural gas denominated in dollars, decreased by approximately 3.7% in relation to last year and also contributed to savings. These savings were partially offset as a result of the rise in the prices of water during the reported period by an average rate of approximately 24%, in relation to the corresponding period last year, along with the increase in the prices of electricity during the reported period, in relation to the corresponding period last year, by a rate of approximately 6.7%. In addition, a sharp rise was recorded in the price of fibers, by an average rate of approximately 19% in relation to last year.

The financial expenses during the reported period amounted to NIS 17.4 million, as compared with NIS 0.9 million in the corresponding period last year. The sharp rise in financial expenses is attributed primarily to the fact that during the corresponding period last year, the cost of financing Machine 8 was capitalized. This capitalization ended in late May 2010. An additional factor consists of expenditures on account of bond series 5, that was issued in May 2010. Moreover, an increase of NIS 3.7 million was recorded in financial expenses in relation to the corresponding period last year, as a result of the higher inflation rate during the reported period, as compared with a lower inflation rate during the corresponding period last year, coupled with the consolidation of the financial expenses of Hadera Paper Printing, starting January 1, 2010, in the sum of NIS 2.9 million.

The company's share in the profits of associated companies totaled NIS 11.1 million during the reported period, as compared with NIS 19.5 million in the corresponding period last year. The decrease is partially attributed to the Company's share in the profits of Hadera Paper Printing (which starting 1, January 2011, is consolidated in the Company's reports).

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 H-K Israel (49.9%) during the reported period, amounted to NIS 11.9 million, as compared with NIS 18.8 million in the corresponding period last year. The decrease in the sum of NIS 6.9 million, originated primarily from the decrease in operating profit that fell from NIS 50.4 million to NIS 29.2 million this year. The decrease in the operating profit is primarily attributed to the erosion of selling prices in certain segments of operation as a result of escalating competition in the market, coupled with non-recurring expenditures associated with compensation of consumers on account of complaints related to leaks in a new brand of diapers. These were offset by efficiency measures that were implemented across the company, the lowering of purchasing expenditures in view of the decrease in the average dollar exchange rate by approximately 3.6%, coupled with empowering the company brands. These factors served to reduce the erosion in profit during the reported period.

- The company's share in the losses of KCTR Turkey (49.9%) during the reported period, amounted to NIS 0.8 million, as compared with NIS 1.2 million in the corresponding period last year, representing a decrease of approximately NIS 0.4 million. The reduced loss, despite the slight decrease in the volume of operations, is primarily attributed to the continuing efficiency measures during the reported period, that led to the reduction in the operating loss from NIS 3.2 million in the corresponding period last year, to NIS 0.2 million during the reported period. The improvement in the operating profit was partially offset by the recording of financial expenditures of NIS 1.4 million, as compared with financial revenues of NIS 0.8 million in the corresponding period last year.

In other matter, the Company announced today that Pursuant to the information provided by the Company in the periodical report for 2010, regarding negotiations being conducted by the Company regarding an agreement for the purchase of natural gas, the Company announced that an agreement was signed on May 15, 2011 between the company and the partners in the Yam Tethys projects ("The Agreement"). Pursuant to the Agreement, the term of the agreement signed between the companies on July 29, 2005, for the purchase of natural gas ("The Original Agreement") (regarding which the Company issued a press release on July 31, 2005), will be extended by an additional 2 years, until June 30, 2013.

The formula for the price of gas set in the Agreement is based on the price of petroleum (Brent barrel) and includes a minimum price for the price of gas. It should be noted, that following the sharp rise in fuel prices that took place since the signing of the Original Agreement, the price of gas in the Agreement is significantly higher than the maximum price that was set in the Original Agreement. This fact could potentially have an impact on the price of gas for the Company, as compared with the cost according to the Original Agreement, by an additional sum of approximately \$19.4 million per annum (according to the calculation of the formula at the date of signing the Agreement, in terms of gross cost, prior to tax shield), the Company is making preparations for a cost-cutting and efficiency plan accordingly. The actual cost of the gas is dependent upon numerous factors, primarily changes in global petroleum prices. The remaining terms of the Original Agreement would remain in force, with the necessary changes.

The overall financial volume of the Agreement is currently estimated at approximately \$63 million (according to the calculation of the formula at the date of signing the Agreement). It should be clarified that the actual volume may change over time as a result of changes in global petroleum prices. In parallel, as stated in previous reports of the Company, the Company is continuing to evaluate a project for building a new power station at the Hadera site.

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
Three months ended March 31,
NIS IN THOUSANDS (1)

| | 2011 | 2010 |
|---|---|---|
| Net sales | 517,609 | 239,985 |
| Net earnings attributed to the Company's shareholders | 41,192 | 24,290 |
| Basic net earnings per share attributed to the Company's shareholders | 8.10 | 4.80 |
| Fully diluted earnings per share attributed to the Company's shareholders | 8.06 | 4.75 |

(1) The representative exchange rate at March 31, 2011 was NIS 3.481=$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 I
(Description of the Corporation's Business)
of the Information Presented in the Company's Periodical Report
Dated March 31, 2011

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, 26,560 option warrants that were granted as part of the management option plan, were exercised. 4,930 Company shares were issued following this exercise.

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

On March 15, the Company entered into an engagement with Clal P.V. Ltd., a company indirectly held and controlled by the controlling shareholder of the company, for the rental of rooftop areas located at the Company's Hadera plant, for the purpose of establishing facilities for generating of electricity using photovoltaic technology. On April 21, 2011, the general meeting of the shareholders of the Company approved the said engagement.

3. Update to Chapter D, Section 17: "Environmental Protection"

Pursuant to the immediate report of the company dated April 12, 2011, pertaining to the notice from the Water Authority regarding its decision not to issue a permit to the Company, as prescribed by the Water Law - 1969 ("The Law"), for discharging wastewater to the Hadera river, on the basis of the Company's request, and pursuant to the urgent appeal of the Company for obtaining such a permit, the Company announced that on April 17, 2011, the Company received a letter from the (acting) Manager of the Water Authority, pursuant to which a permit was granted for discharging wastewater from the Company to Hadera river for a limited period of time, until an organized discussion is held in this matter. The permit that was obtained is valid until May 30, 2011 and according to the directives stipulated in the letter, covers the terms of said discharge and the relevant reporting obligations.

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

Pursuant to the immediate ports of the company dated May 16, 2010, dated June 2, 2010, dated June 13, 2010, dated July 11, 2010, and dated July 27, 2010, the Company announced on March 27, 2011, that the Company's engagement with Gev-Yam Land Corporation Ltd. and with Amot Investments Ltd. regarding an agreement for the sale of an asset on Totzeret Ha'Aretz Street in Tel Aviv, has been finalized. Pursuant to the finalization of the transaction, the Company has recognized net capital revenues of NIS 28 million.

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

On March 21, 2011, the general meeting of the shareholders of the Company approved the appointment of Ms. Aliza Rotbard as an external director at the Company and has approved a letter of indemnity for Ms. Aliza Rotbard, according to the arrangement existing at the Company, as may be ratified from time to time for the Company's officers.

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

On March 31, 2011, the Company announced that it had submitted a preliminary draft of a shelf prospectus to the Securities Authority and to the Tel Aviv Stock Exchange Ltd., on the basis of the financial statements of the Company as at December 31, 2010. At this stage, there is no certainty whatsoever that the shelf prospectus will be published and that the Company will conduct a public offering based thereupon.

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

On May 2, 2011, the Company announced that Hogla Kimberly Ltd. ("Hogla"), an associated company in which 49.9% are held, had announced to the Company that on May 2, 2011, a lawsuit was filed against Hogla, along with a request for the said lawsuit to be recognized as a class action. The plaintiff alleges that Huggies diapers, marketed by Hogla, that she had purchased, failed to absorb properly due to a malfunction that occurred on the diaper production line. The plaintiff estimates the volume of the lawsuit - in the event that is approved as a representative class action - at approximately NIS 1.2 billion. At this preliminary stage, Hogla announced that it is studying the lawsuit and cannot estimate its chances and repercussions.

8. Update to Chapter D, Section 19: "Material Agreements"

Pursuant to the information provided by the Company in the periodical report for 2010, regarding negotiations being conducted by the Company regarding an agreement for the purchase of natural gas, the Company announced that an agreement was signed on May 15, 2011 between the Company and the partners in the Yam Tethys projects ("The Agreement"). Pursuant to the Agreement, the term of the agreement signed between the companies on July 29, 2005, for the purchase of natural gas ("The Original Agreement") (regarding which the Company issued a press release on July 31, 2005), will be extended by an additional 2 years, until June 30, 2013.

The formula for the price of gas set in the Agreement is based on the price of petroleum (Brent barrel) and includes a minimum price for the price of gas. It should be noted, that following the sharp rise in fuel prices that took place since the signing of the Original Agreement, the price of gas in the Agreement is significantly higher than the maximum price that was set in the Original Agreement. This fact could potentially have an impact on the price of gas for the Company, as compared with the cost according to the Original Agreement, by an additional sum of approximately $19.4 million per annum (according to the calculation of the formula at the date of signing the Agreement, in terms of gross cost, prior to tax shield), the Company is making preparations for a cost-cutting and efficiency plan accordingly. The actual cost of the gas is dependent upon numerous factors, primarily changes in global petroleum prices. The remaining terms of the Original Agreement would remain in force, with the necessary changes.

The overall financial volume of the Agreement is currently estimated at approximately $63 million (according to the calculation of the formula at the date of signing the Agreement). It should be clarified that the actual volume may change over time as a result of changes in global petroleum prices.

In parallel, as stated in previous reports of the Company, the Company is continuing to evaluate a project for building a new power station at the Hadera site.

-Translation from Hebrew-

May 15, 2011

MANAGEMENT DISCUSSION

The Board of Directors of Hadera Paper Ltd. ("The Company" or "Hadera Paper", the Company, its consolidated subsidiaries and its associated companies – hereinafter: “The Group”) is hereby honored to present the Management Discussion as at March 31, 2011, reviewing the principal changes in the operations of the company for the months January through March 2011 ("The Period of the Report" or "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, 2010 ("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, manufacture and marketing of fine paper and in the marketing of office supplies – through subsidiaries. The Company also holds associated companies that deal 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. The Business Environment

Whereas 2010 was marked by economic recovery, alongside continued concerns regarding the implications of the financial crisis, primarily in Europe and the United States, since the beginning of 2011, an increase was recorded in the level of uncertainty in global financial markets. This is attributed inter alia to significant geopolitical changes in several Arab nations in the Middle East and North Africa, that led to a rise in petroleum prices, coupled with the earthquake in Japan that damaged nuclear power stations in the country and led to fears concerning damage that would be incurred by the third largest economy in the world, following the sharp rise in 2010 in overall commodity prices and petroleum prices in particular.

In the Israeli economy, the year 2011 started out with the continuation of the rapid growth trend accompanied by a certain rise in the inflationary environment. On the other hand, the said geopolitical developments in several Arab nations served to increase the uncertainty and volatility of the Israeli capital market. The continuation of the geopolitical instability in the Middle East, may - under certain scenarios - negatively affect the situation in the Israeli economy, although its impact on real-term economic activity is limited for the time being. Contractionary monetary measures are continuing in the Israeli economy since the beginning of 2011, alongside a similar process in additional emerging markets worldwide and the beginning of a similar process in the eurobloc as well.

The Company estimates that the demand for recycled packaging paper, as a replacement for virgin packaging paper, is continuing in global paper markets. The trend of rising prices of recycled products in the global packaging paper market continued in the first quarter as well, at an average rate of approximately 5.7% (according to publications of PPI Germany). The prices of recycled products are expected to rise by a further 5% starting in May 2011. The said increase in prices and demand, in addition to the prevailing high level of prices, may support the continued growth and expansion in the volumes of operation of the packaging paper sector, in Israel and worldwide.

The above information pertaining to the geopolitical uncertainty, the 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 business opportunities that may be offered at the company, dependence upon external factors, development and changes in regulation, changes in global raw material prices, changes in the prices of gas, fuel and energy and changes in the supply and demand of global paper products as well as changes in the geopolitical situation in the Middle East.

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 during the reported period, this trend 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 sectors of operation.

Sector Operations

In the packaging paper and recycling sector, Machine 8 entered into full operation during the reported period (the new packaging paper manufacturing array), as compared with the running-in period in the corresponding period last year. This manufacturing array led to the doubling of operations in the sector, which is currently toward the end of the learning curve associated with the machine. The operation of the new manufacturing array has led to a significant increase in the volume of operations. Moreover, Packaging Paper has increased the sales of new paper types that it has developed, recycled paper replacing paper based on virgin pulp. Selling prices in the packaging paper sector are currently on an upward trend in Israel, in line with rising prices globally. The quantitative growth and the high selling prices brought about a significant improvement in the operating results of the sector, as compared with the corresponding period last year.

Amnir collects paper waste, which constitutes the main raw material for the manufacture of packaging paper, from various sources throughout Israel. The Packaging Law entered into effect on March 1, 2011, and certain provisions regarding the start of collection by the recognized body will enter into effect on July 1, 2011. In light of the directives of the Packaging Law, the Company cannot at this point assess the impact of the law on its activities, and this depends, inter-alia, on arrangements to be set by virtue of the law regarding separation at source, in the matter of collection and removal of waste, and on the method by which the recognized body established by power of the law operates. The company is examining the situation and is working toward adapting its paper collection operations. For additional details regarding the packaging law, see the detailed explanation in the periodical report dated December 31, 2010, in Section 24.1.24.5.

The impact of the packaging law on the company 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 arrangements that will be determined by virtue of the law, changes in global raw material prices and changes in the supply and demand of global paper products.

In the Hadera Paper Printing sector, the prices of pulp (the principal raw material in this sector) continued to soar during the reported period in relation to the corresponding period last year. Moreover, the trend of decreasing selling prices for products in this sector, that began in the fourth quarter of 2010, continued during the reported period in light of escalating competition as a result of imports at low prices and as a result of the rising shekel against the dollar. In order to contend with this business environment, the Hadera Paper Printing sector continued to expand its export operations, including penetration into newer and more lucrative markets in the United States. These measures served to decrease the erosion in the profitability of the sector. Furthermore, during the reported period, the sector began to operate from the new logistics center in Modiin, while improving the level of customer service as compared with the period prior to the relocation. This relocation serves to improve the logistic capabilities of the company and is expected to support the continuing growth and expansion of the company.

In Hogla Kimberly (an associated company), a decrease was recorded in the level of profitability in relation to the corresponding period last year as a result of non-recurring expenditures that were related to compensation provided to consumers on account of complaints concerning leaks in a new brand of diapers, coupled with the erosion of prices following the fierce competition that characterizes some of the areas of operations. The company continues to promote special sales campaigns in order to retain customers and market share. In parallel, an increase was reported in the prices of raw materials, that was partially offset by the revaluation of the shekel in relation to the average US dollar during the reported period, as compared with the corresponding period last year, coupled with efficiency measures. These measures provided the company with the necessary flexibility in order to protect and even increase market share and preserve optimized profitability in a competitive business environment. Furthermore, it should be noted that the sector operations in the Turkish market were at equilibrium and even contributed positive cash flows to the sector.

Raw Materials

In the course of the first quarter, the NIS was revaluated in relation to the average dollar and the euro, in relation to last year, by a rate of approximately 3.6% and 4.8%, respectively. This revaluation led to savings in terms of inputs and imported products denominated in dollars or euro, in the principal sectors of operation of the company, whose prices track import prices in the said currencies. As a result of the said revaluation, the relative price of natural gas denominated in dollars, decreased by approximately 3.7% in relation to last year and also contributed to savings. These savings were partially offset as a result of the rise in the prices of water during the reported period by an average rate of approximately 24%, in relation to the corresponding period last year, along with the increase in the prices of electricity during the reported period, in relation to the corresponding period last year, by a rate of approximately 6.7%. In addition, a sharp rise was recorded in the price of fibers, by an average rate of approximately 19% in relation to last year.

It should be noted that on May 15, 2011, the Company signed an extinction agreement for purchasing natural gas with the partners in the Yam Tethys project. For additional details see Note 8d to the Financial statements dated March 31, 2011.

Impact of Developments in Financial Markets

The developments in global markets, and especially in the euro bloc and in the United States, that also include volatility in local and global securities rates and exchange rates, have and may continue to affect the business results of the Company and its investees, their liquidity, shareholders' equity and assets and the ability to realize these assets, the state of their business (including the demand for the products of the Company's investees), their financial benchmarks and covenants, credit ratings, ability to distribute dividends and even their ability to raise financing for operating activities and long-term activities as well as the financing terms.

The above information - pertaining to the impact of global trends in the paper industry, selling prices and input prices - on the company constitutes forward-looking information as defined in the securities law, based on the company's estimates at the date of this report. These estimates may not materialize - in whole or in part - or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as the crisis in global credit and banking markets, changes in global raw material and energy 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 in relation to the dollar was revaluated by approximately 1.9% during the reported period, as compared with a revaluation of approximately 1.6% during the reported period last year (the average exchange rate of the NIS vis-à-vis the dollar was revaluated during the reported period by a rate of approximately 3.6% in relation to the corresponding period last year).

The changes in exchange rates as mentioned above, affected the results of the various sectors, although the Group's business portfolio, including the investee companies, is practically at equilibrium in terms of foreign currency and consequently, the exposure of the Group to sharp fluctuations in currency exchange rates is low.

The inflation rate during the reported period amounted to 0.7%, as compared with a negative inflation rate of -0.9% in the corresponding period last year.

## B. Explanation of the Results of Operation

### 1. Analysis of Operations and Profitability

The Company applies International Financial Reporting Standard (IFRS) No. 8, “Operating Segments”, and has accordingly recognized the packaging and cardboard products segment, which includes the operations of Carmel Container Systems and Frenkel CD, as a separate segment. The Hadera Paper - Writing and Printing Paper segment ("Hadera Paper Printing") - formerly Mondi Hadera Paper was also recognized as an independent segment (starting December 31, 2010 - a consolidated subsidiary). The associated company Hogla Kimberly was also identified as an independent segment (for details, see Note 21 to the financial statements dated December 31, 2010). Please note 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 517.6 million, as compared with NIS 240.0 million last year, representing an increase of 115.7%, originating primarily from growth in the sales of the packaging paper and recycling sector as compared with the corresponding period last year, coupled with the consolidation of the sales of Hadera Paper Printing, starting January 1, 2011, in the total sum of NIS 182.1 million, net of inter-company sales totaling NIS 172.6 million.

The sales of the packaging paper and recycling sector amounted to NIS 176.0 million during the reported period, or NIS 150.8 million net of inter-company sales, as compared with NIS 86.0 million, or NIS 73.5 million net of inter-company sales in the corresponding period last year, representing an increase of 105.2%.

The growth in the sales turnover of the packaging paper and recycling sector originates from quantitative growth in the sales of packaging paper and recycling as a result of the operation of Machine 8, as mentioned above. The growth in the output of Machine 8 served to increase exports to Europe and offered a response for the growth in demand from the domestic market. The growth in sales is also attributed to the rise in selling prices in relation to last year.

The sales of the packaging and cardboard products sector during the reported period amounted to NIS 150.6 million, or NIS 146.1 million net of inter-company sales, as compared with NIS 127.4 million, or NIS 125.4 million net of inter-company sales, in the corresponding period last year, representing an increase of approximately 16.5%, originating primarily as a result of the increase in the volume of operations of the companies in this sector.

The sales of the office supplies marketing sector during the reported period, amounted to NIS 48.4 million, or NIS 48.1 million net of inter-company sales, as compared with NIS 41.4 million last year, or NIS 41.1 million net of inter-company sales, representing an increase of 17.0% 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 sector.

### 1.2. Cost of Sales

The cost of sales amounted to NIS 445.7 million – or 86.1% of sales – during the reported period, as compared with NIS 196.6 million – or 81.9% of sales – in the corresponding period 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), coupled with the consolidation of expenses of Hadera Paper Printing, in the total sum of approximately NIS 172.4 million, starting January 1, 2011.

The gross profit totaled NIS 72.0 million during the reported period (13.9% of sales), as compared with NIS 43.4 million (18.1% of sales) last year, representing growth of 65.9% in relation to the corresponding period last year.

The increase in gross profit in relation to the corresponding period last year is primarily attributed to the quantitative growth in sales following the initial recognition of revenues from the sales of Machine 8 in June last year, coupled with the consolidation of the results of Hadera Paper Printing, starting January 1, 2011, which contributed approximately NIS 9.7 million to the gross profit, and from the continuing expansion of operations at the various companies. The growth in gross profit is also attributed to the decrease in prices of some of the raw materials, see Section A2, above.

Labor Wages

The labor wages within the cost of sales amounted to NIS 70.7 million during the reported period,13.7% of sales, as compared with NIS 48.4 million last year, 20.2% of sales. The increase in labor expenses in relation to last year originates primarily from the growth in the number of employees as a result of the higher volume of operations, both in the office supplies segment and in the packaging paper and recycling segment, coupled with the consolidation of labor expenses of Hadera Paper Printing, in the amount of approximately NIS 12.4 million, starting January 1, 2011.

The labor wages within the Selling, General and Administrative expenses amounted to NIS 33.1 million during the reported period, 6.4% of sales, as compared with NIS 26.2 million last year, 10.9% of sales.

The increase in the cost of labor in relation to the corresponding period last year, originated primarily as a result of the consolidation of the labor expenses of Hadera Paper Printing, in the sum of approximately NIS 6.3 million, starting January 1, 2011.

The sharp drop in the proportion of labor expenses as a percentage of sales is attributed to the significant increase in the volume of operations and sales, primarily at the packaging paper and recycling sector.

1.3.