

Hadera Paper Ltd
Form 6-K
November 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 November 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:

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

Yes No

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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 16, 2011 with respect to the Registrant's results of operations for the quarter ended September 30, 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 September 30, 2011.

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, 2011.

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, 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: November 16, 2011.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated November 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 Third Quarter and Nine Months Ended
September 30, 2011

Hadera, Israel, November 16, 2011 - 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, 2011 (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 1,541.7 million, as compared with NIS 784.6 million last year, representing an increase of 96.5%, 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 554.0 million, net of inter-company sales totaling NIS 526.3 million.

The consolidated sales in the Third Quarter of the year totaled NIS 519.5 million, as compared with NIS 295.4 million in the corresponding quarter last year, representing growth of approximately 75.9%, originating primarily as a result of the consolidation of the sales of Hadera Paper Printing, in the amount of NIS 184.7 million, coupled with growth in the sales of the packaging paper and recycling sector in relation to the corresponding quarter last year and as compared with second quarter sales this year of NIS 504.6 million, representing growth of approximately 2.96%.

The operating profit totaled NIS 45.8 million during the Reported Period, 3.0% of sales, as compared with NIS 32.7 million, 4.2% of sales, in the corresponding period last year. Net of non-recurring revenues and expenditures during the Reported Period and the corresponding period last year, the operating profit decreased from NIS 19.1 million to NIS 16.4 million. The decrease in the operating profit from current operations during the Reported Period, as compared with the corresponding period last year, originates primarily from the consolidation of the results of the Hadera Paper Printing segment since January 1, 2011, following an operating loss of NIS 13.1 million in this segment. This decrease was offset as a result of a rise in the gross profit of the various segments, in view of the increase in sales.

Operating loss amounted to NIS 9.5 million in the Third Quarter of the year, as compared with operating profit of NIS 20.2 million in the corresponding quarter last year. The transition to a loss in the Third Quarter originated primarily as a result of recording a provision for impairment on account of a cash-generating unit, coupled with the consolidation of the operating loss of Hadera Paper Printing, in the amount of NIS 3.2 million, as a result of a sharp rise in raw material prices, coupled with specific inefficiency in the manufacture of fine paper.

The net loss attributed to the Company's shareholders amounted to NIS 35.7 million in the Reported Period, as compared with net profit attributed to the Company's shareholders of NIS 65.4 million in the corresponding period last year. The net profit, net of non-recurring revenues and expenditures during the Reported Period, amounted to NIS 6.3 million, as compared with NIS 55.8 million in the corresponding period last year, representing a decrease of 88.8%.

The lower net profit attributed to the company shareholders during the Reported Period, was primarily affected by a non-recurring provision of NIS 58.8 million, recorded by the company following the decisions of the Court in Turkey concerning appeals filed by KCTR Turkey (49.9%) ("KCTR") pertaining to a demand for tax payment in Turkey, coupled with the recording of a provision for impairment on account of the Carmel cash-generating unit in the amount of NIS 7.0 million (net of taxes), that was offset from non-recurring revenues from the sale of real estate on Totzeret Ha'Aretz Street in Tel Aviv, the valuation of a Put option, as well as the improved operating profitability of the packaging paper and recycling segment. Moreover, the net profit was adversely affected by the rise in financial expenses during the Reported Period, in relation to the corresponding period last year, following the operation of Machine 8.

Basic loss per share amounted to NIS -7.02 per share (\$-1.89 per share) in the Reported Period, as compared with basic earnings per share of NIS 12.88 per share (\$3.51 per share) in the corresponding period last year.

Basic loss per share amounted to NIS -8.56 per share (\$-2.31 per share) in the Third Quarter of the year, as compared with earnings of NIS 4.53 per share (\$1.24 per share) in the corresponding quarter last year.

The exchange rate of the NIS in relation to the US dollar was devaluated by approximately 4.6% during the Reported Period, as compared with a revaluation of approximately 2.9% 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 6.4% 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 associated 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 2.2%, as compared with an inflation rate of 1.9% 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. Following a slowdown in the global packaging paper market, in terms of virgin products in the Third Quarter, a decrease was recorded in the prices of recycled products. The trend of decreasing recycled product prices in the global packaging paper market - that began in the Third Quarter - amounted to approximately 4% in relation to the second quarter. The Company estimates that this trend will continue in the near future as well.

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 a special emphasis on the implementation of efficiency and cost-cutting measures across all sectors of operation, including an employee retirement agreement, as part of a collective agreement.

On May 15, 2011, the Company signed an extension of the agreement for the purchase of natural gas with the partners in the Yam Tethys Project. The overall financial volume of the agreement is estimated at approximately \$63 million (according to the calculation of the formula at the date of signing the agreement). The new gas agreement will enter into effect on July 1, 2011, for a period of two years. Following the new gas contract, an increase of 190% was recorded in the average price of gas, starting with the first day of the agreement. During the Reported Period water and electricity prices rose by an average rate of 21% and 4.4%, respectively, as compared with the corresponding period last year. In addition, a sharp rise was recorded in the price of paper waste, by an average rate of approximately 35%, in relation to last year. These price increases were offset by a revaluation of the NIS vis-à-vis the US dollar, during the Reported Period compared to last year, by a rate of approximately 6.4%. This revaluation brought about savings in the inputs and imported products denominated in this currency.

The financial expenses during the Reported Period amounted to NIS 61.7 million, as compared with NIS 28.4 million in the corresponding period last year. The growth in financial expenses originated as a result of the capitalization of some of the financing costs of Machine 8 during the corresponding period last year, along with the expansion of Bond Series 5 at the beginning of the Third Quarter that served to increase the financial expenses by approximately NIS 3.1 million. Moreover, an increase of NIS 2.6 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 (Known Index) by approximately 2.7%, as compared with a lower increase of 1.6% in the inflation rate during the corresponding period last year, coupled with the consolidation of the financial expenses of Hadera Paper Printing, starting January 1, 2011, in the sum of NIS 9.1 million, following the entry of Hadera Paper Printing into the consolidated statements.

The Company's share in the losses of associated companies (H-K) totaled NIS 29.1 million during the Reported Period, as compared with a share in profits of NIS 58.5 million in the corresponding period last year. The transition to a loss in the Company's share in the earnings of associated companies, as compared with the corresponding period last year, originates primarily as a result of the Company's share in a provision in the amount of NIS 58.8 million, created by H-K following the rulings by the court in Turkey regarding appeals filed by KCTR, concerning a demand for tax payments in Turkey, coupled with the Company's share in the earnings of Hadera Paper Printing (consolidated in the company's financial statements since January 1, 2011), that were included during the corresponding period last year in the amount of approximately NIS 10.4 million and that were not included in this period (The Hadera Paper Printing results were consolidated within the consolidated financial statements of Hadera Paper in this period).

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 in Israel (49.9%) during the Reported Period amounted to NIS 35.2 million, as compared with NIS 56.0 million in the corresponding period last year. The decrease in the sum of NIS 20.8 million, originated primarily from the decrease in operating profit that fell from NIS 147.3 million to NIS 93.1 million this year. The sharp 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, that grew even worse towards the end of the second quarter as a result of the parallel import of Huggies diapers, coupled with non-recurring expenditures associated with compensation of consumers on account of complaints related to leaks in a new brand of diapers in the first quarter of the year, coupled with a rise in the prices of principal raw materials. These were offset by efficiency measures that were implemented across the company and the lowering of purchasing expenditures in view of the decrease in the average dollar exchange rate by approximately 6.4%. 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 65.9 million, as compared with NIS 5.5 million in the corresponding period last year, representing an increase of approximately NIS 60.4 million. The greater loss, originated primarily as a result of a NIS 58.8 million provision recorded by the company following the decisions of the Court in Turkey concerning appeals filed by KCTR pertaining to a demand for tax payment in Turkey, coupled with an increase in the operating loss, from NIS 10.5 million in the corresponding period last year, to NIS 12.5 million during the Reported Period.

KCTR has informed the Company that it has appealed some of the court decisions in Turkey, while it intends to appeal other court decisions, based on the expert opinion of its legal consultants. However, according to the accounting policy of the company, the actual handing down of the court ruling, even if this can be appealed with high chances of success, creates a presumption whereby it is "more likely than not" that certain sums will be paid on account of these tax requirements. The company has consequently created a provision during the Reported Period on account of its share in these sums.

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)

	2011	2010
Net sales	1,541,733	784,626
Net earnings (loss) attributed to the Company's shareholders	(35,704)	65,354
Basic net earnings(loss) per share attributed to the Company's shareholders	(7.02)	12.88
Fully diluted earnings(loss)per share attributed to the Company's shareholders	(7.02)	12.77

Three months ended September 30,
NIS IN THOUSANDS (1)

	2011	2010
Net sales	519,491	295,435
Net earnings(loss) attributed to the Company's shareholders	(43,560)	23,026
Basic net earnings (loss)per share attributed to the Company's shareholders	(8.56)	4.53
Fully diluted earnings(loss)per share attributed to the Company's shareholders	(8.56)	4.5

(1) The representative exchange rate at September 30, 2011 was N.I.S. 3.712=\$1.00.

Contact:
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Hadera Paper Ltd. Group
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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
As at September 30, 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"

In the course of the reported period, 26,560 option warrants granted as part of the senior executive option plan were exercised, and 3,624 option warrants expired, out of the said option plan. 4,930 shares of the company were issued as a result of the exercise.

2. Update to Chapter B, Section 7 "The General Environment and Impact of External Factors on the Company"

Pursuant to the establishment of a Committee for Increase of Market Competitiveness ("The Committee"), in October 2011, the Committee published its draft recommendations, that include the following recommendations, inter alia: Imposing limitations on the control or holding of a material real corporation and its controlling shareholders over a material financial entity (as these terms are defined in the recommendations), imposing difficulties on the ability to control publicly traded companies possessing a pyramid form, meeting the definition of a "gap company" in the report of the committee, up to the potential loss of control, in parallel to reinforcing the strength of the public shareholders, imposing an obligation on the controlling shareholder to propose a complete tender offer under certain conditions in the said companies, the recommendation to examine the need to expand the limitations on the exposure of an institutional entity to a single corporation and a group of corporations, a recommendation that financing expenses in a corporation would initially be attributed to revenues from dividends obtained from another corporation, where the receiving party is a "material shareholder" in a manner whereby such expenses will not be eligible to be deducted from other revenues in the corporation, along with a recommendation that those bodies responsible for the allocation of public rights and assets will be obligated - under certain circumstances - to take into consideration such matters as competition and centralization of control over crucial infrastructures.

To the best of the Company's knowledge, the Committee intends, subsequent to hearing the reactions of various market players, to publish the final report of its recommendations during December 2011.

The adoption and implementation of the Committee recommendations, and especially those dealing with companies incorporated in a pyramid structure, to the extent that such recommendations are issued, may materially affect the company itself, given the limitations on the structure of its holdings, the limitations imposed on the companies holding it, (inter alia, their ability to acquire or realize holdings in publicly-traded companies and on the value of their holdings in such companies), the limitations imposed on the profitability of distributing dividends from investee companies, including such aspects as taxation aspects, on the economic sectors in which it will operate and so on.

3. Update to Chapter B, Section 7 "The General Environment and Impact of External Factors on the Company"

Pursuant to the eruption of social protests on background of housing prices and the cost of living, and pursuant to the appointment of the Committee for Social Economic Change, headed by Prof. Manuel Trachtenberg, we note that the said committee has submitted its recommendations to the government in September 2011. These include, inter alia: Discontinuing the lowering of the corporate tax rate that was determined in the past, raising the corporate tax rate to a level of 25% starting in 2012 and a recommendation to examine its possible increase to 26% in 2013; an increase in capital gains tax (including taxes on interest and dividends) starting in 2012; cancellation and lowering of customs tariffs; and reinforcing the regulatory instruments that lie at the disposal of the governing authorities in terms of overseeing and supervising monopolies and other powerful players in certain economic sectors.

In October 2011, the government adopted the principal recommendations outlined in the Committee report, decided to work toward their implementation and also approved some of the recommendations concerning taxation, including the raising of the corporate tax rate to 25%, as well as the raising of the capital gains tax starting in 2012. A memorandum of law implementing the principle recommendation concerning taxation, mentioned above, was published in November.

True to the date of the report, there exists no certainty as to which of the Committee's recommendations will be implemented, in what manner and under what schedules and it is consequently not possible to estimate the degree of influence of the aforesaid on the business operations of the Group. Nevertheless, the implementation of the recommendations, if and when this occurs, may materially affect the Company.

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

On March 15, 2011, 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 the generation of electricity using photovoltaic technology. On April 21, 2011, the general meeting of company shareholders approved the said engagement.

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

Pursuant to the immediate report of the company dated April 12, , and dated April 20, 2011, the company announced on July 12, 2011 (, that it had received a permit for discharging wastewater to the Hadera stream. The permit is valid until July 31, 2012, and pursuant to the directives set forth in the permit, including such matters as reporting duties and discharge conditions. In addition, the company was required to provide a document of alternatives regarding the discharging of wastewater into the stream.

6. Update to Chapter D, Section 12 - Fixed Assets, Real Estate and Facilities

Pursuant to the immediate reports 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 gain of NIS 28 million.

7. 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 executives.

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

On July 7, 2011, the general meeting of the shareholders of the Company approved the extension of the appointment of Ms. Atalia Arad, as an external director of the company, for an additional period of three years, commencing July 10, 2011 and terminating July 9, 2014.

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

On November 1, 2011, the Company announced the appointment of Mr. Doron Zilcer as CEO of the subsidiary Carmel Container Systems Ltd., replacing the retiring CEO, Mr. Doron Kempler.

On November 13, 2011, the Company announced the retirement of Ms. Noga Alon, from her position as Director of Organizational Development at the Group.

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

On November 10, 2011, the Company announced that pursuant to the efficiency and cost-cutting measures implemented by the Company (as stated in the Company's press release dated May 16, 2011), and as part thereof, the Company signed an agreement on November 10, 2011, with the union of company employees and with the New General Histadrut Union in the Hadera region, within whose framework it was agreed, inter alia, to update the employment agreements of the Company employees who work under collective agreements, along with an early retirement of 70 employees (hereinafter: "The Agreement").

Subsequent to the assimilation of all of the items detailed in the agreement, the Company estimates that the assimilation should generate annual savings of approximately NIS 17 million in labor expenses for the Company, starting in 2012.

Furthermore, the Company estimates that the cost of the assimilation of the said agreements, and especially the cost of the early-retirement agreement, is expected to amount to the sum of approximately NIS 42 million, on aggregate bases. The Company is expected to make a non-recurring provision amounting to approximately NIS 36 million that will be expressed in the financial statements of the Company for the fourth quarter of 2011.

The Company's estimations regarding the financial data (including data relating to the provision in the financial statements) 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 an essentially different manner, than expected. The major factors that may influence the above-mentioned materialization are, inter alia, changes in wages costs in the market and change in the number of retiring employees.

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

Pursuant to the shelf prospectus published by the Company on May 27, 2011 and its amendment dated June 19, 2011, the Company completed on July 4, 2011 an issue of debentures (extension of bond series 5) at a volume of approximately NIS 218 million. Net of issuing expenses, the Company received net proceeds of approximately NIS 216.3 million. For additional details, see Note 8a to the financial statements of the company dated June 30, 2011. The said bonds were rated by Maalot Standard & Poor's (hereinafter: "Maalot"), while receiving a rating of ilA+. or the rating report, see the company's immediate report dated July 3, 2011.

On October 5, 2011 and on November 6, 2011, Maalot ratified the rating of the Company as "ilA+/Stable". For the Maalot announcement, see the immediate reports of the company dated October 5, 2011 and dated November 6, 2011.

12. 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 it, along with a request for the said lawsuit to be recognized as a class action. The plaintiff alleges that Huggies diapers, manufactured 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 it is approved as a representative class action - at approximately NIS 1.2 billion. At this preliminary stage, is not yet possible to estimate the chances of the request and its impact, although the legal consultants of the company estimate that the chances of rejection of the request to be recognized as a class action are higher than the chances of approval.

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

Pursuant to the information provided by the company in the periodical report for the year 2010, regarding negotiations being conducted by the company concerning 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 parties on July 29, 2005, for the purchase of natural gas ("The Original Agreement") (regarding which the company issued an immediate report on July 31, 2005), will be extended by an additional two 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 cost 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 accordingly preparing efficiency and cost-cutting measures. 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. On August 7, 2011, the Board of Directors of the company was presented with several alternatives regarding the size of the proposed power station. The Board of Directors formed an opinion regarding the alternative that seems to be the most profitable one economically, according to the needs of the company. It was decided that the company would continue to evaluate the project, within whose framework the power station will provide steam and electricity that will serve the manufacturing systems of the company at Hadera, while the surplus electricity will be sold to Israel Electric Company and/or to private customers.

14. Update to Chapter D, Section 24: " Investments in Associated Companies"

On November 2, 2011, the Company announced that pursuant to the company report dated February 18, 2010, regarding a report from the Turkish tax authorities that was received by KCTR, Hogla Kimberly's Turkish subsidiary, and pursuant to the appeals submitted by KCTR regarding the said tax claim, and pursuant to the company reports dated August 1, 2011 and dated August 17, 2011, regarding the resolutions of the court in Turkey regarding some of these appeals (hereinafter: "The Previous Resolutions"), the Company was informed, on November 2, 2011, of the decision of the lower court in Turkey concerning several additional appeals filed by KCTR in objection of the said tax claim, pursuant to which KCTR is required to pay the tax authorities an additional sum of approximately YTL 5.4 million (approx. \$2.9 million), amounting to YTL 20.6 million (approx. \$11.1 million) with interest and fines and prior to offsetting a VAT asset - all on account of the matters discussed in the appeals covered by the decision.

KCTR has informed the Company that it has appealed to a higher court and has filed a request for a stay of execution also in respect of this current resolution of the court, as was done regarding previous decisions, on the basis of the professional opinion of the KCTR legal consultants.

The total sums that KCTR is required to pay according to all of the decisions of the court in Turkey handed down thus far, amount to YTL 14.5 million (approximately USD 8.1 million), and sum up to a total amount of approximately YTL 58.2 million, including interest and fines and prior to offsetting a VAT asset (approximately USD 31.4 million). These decisions relate to appeals representing approximately 43.9% of the overall principal sum of the tax claim. In its financial statements as at September 30, 2011, the company included a provision on account of its share in the sum determined above, amounting to approximately NIS 58.8 million.

It should be noted that the lower court in Turkey is still discussing several additional appeals regarding the outstanding tax demand, concerning which no decision has yet been made. The principal on account of those appeals that have yet to be discussed by the court amounts to YTL 18.5 million (approximately USD 10.0 million) and sums up to approximately YTL 82.9 million, including interest and fines (approximately USD 44.6 million) (without offsetting a VAT refund).

-Translation from Hebrew-

November 15, 2011

MANAGEMENT DISCUSSION

The Board of Directors of Hadera Paper Ltd. ("The Company" or "Hadera Paper") is hereby honored to present the Management Discussion as at September 30, 2011, reviewing the principal changes in the operations of the company for the months January through September 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 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

2.1. Business Environment

Since the beginning of 2011, the level of uncertainty in global financial markets has been increasing. At the beginning of the year, the global economy was affected by the significant damage to industrial manufacture in Japan (as a result of the natural disaster) coupled with the rise in oil and commodity prices. Markets responded with a decline in prices, against the background of the disappointing economic figures in the United States, that were expressed, inter alia, by weak private consumption, negligible growth in the number of jobs and by the lowering of the US credit rating. In parallel, internal European disagreements regarding the handling of the debts of the Southern-European nations, initially regarding Greece and then regarding larger nations (Italy and Spain) resulted in a persistent slump in the capital markets during the past several months, in addition to expectations of a slowdown in global growth, including emerging markets in general and China in particular. A comprehensive plan that was announced in late October by European leaders for handling the debt crisis, includes a write-off of 50% of the Greek debt, increasing the relief fund to one trillion euro and an increase in the capital adequacy rate among European banks. Although these measures did have a positive impact on the markets, the implementation of the declared measures still needs to be proven.

Most of the growth in the Israeli economy was recorded during the first half of the year. The economy remains quite close to full employment, the level of consumer confidence is relatively high and is also supported by growth in investments (primarily residential construction), coupled with moderate growth in private consumption. Industrial exports decreased by 4.3% in the third quarter. In parallel, the stock markets in Israel fell sharply in the third quarter (and in 2011 in general), against the background of the global developments, the growth in geopolitical uncertainty, the deterioration of relations with Turkey and fears concerning an escalation due to the potential recognition of a Palestinian state by the United Nations. The social protests that created pressure on the food companies and retail marketing chains to lower prices and improve the level of competition in the economy, also contributed to a decrease in share prices.

Following the raising of the interest rate from 2% to 3.25% in the first half of 2011, the Bank of Israel once again lowered the prime lending rate to 3% in late September, due to fears of a global slowdown. The Bank of Israel even lowered the growth forecast for the State of Israel to 3.2% in 2012 (down from 3.9%) and presented a second forecast (pessimistic outlook) of more moderate growth of 2.7%, in the event that the global slowdown will be sharper.

In addition, during the reported period there has been a great awakening of the social protest, due to high price levels, including the housing and food sectors which led to changes in the social agenda and creating a committee headed by Prof. Manuel Trachtenberg, that issued recommendations for various reforms in the economy, in the areas of housing, cost of living, social services and taxation. On October 30, the government approved the taxation chapter in the committee recommendations. This chapter will enter into effect starting January 1, 2012, if ratified by the Knesset by the end of 2011. We further note that the social protests, that erupted due to housing prices and the high cost of living, is expected to lead to government reforms that will influence the Israeli economy. For further details, see Section 3 to the Update to Chapter A of the Periodical Report, regarding the recommendations of the Committee for Social Economic Change.

The said social protest has a significant impact on the Company's and its subsidiaries and associated companies' ability to raise prices especially in the household products sector.

Pursuant to Section 2 to the Update to Chapter A of the Periodical Report, regarding the Committee for Increase of Market Competitiveness ("The Committee"), in October 2011, the Committee published its draft recommendations, that include the following recommendations, inter alia: Imposing limitations on the control or holding of a material real corporation and its controlling shareholders over a material financial entity (as these terms are defined in the recommendations), imposing difficulties on the ability to control publicly traded companies possessing a pyramid form, meeting the definition of a "gap company" in the report of the committee, up to the potential loss of control, in parallel to reinforcing the strength of the public shareholders, imposing an obligation on the controlling shareholder to propose a complete tender offer under certain conditions in the said companies, the recommendation to examine the need to expand the limitations on the exposure of an institutional entity to a single corporation and a group of corporations, a recommendation that financing expenses in a corporation would initially be attributed to revenues from dividends obtained from another corporation, where the receiving party is a "material shareholder" in a manner whereby such expenses will not be eligible to be deducted from other revenues in the corporation, along with a recommendation that those bodies responsible for the allocation of public rights and assets will be obligated - under certain circumstances - to take into consideration such matters as competition and centralization of control over crucial infrastructures.

To the best of the Company's knowledge, the Committee intends, subsequent to hearing the reactions of various market players, to publish the final report of its recommendations during December 2011.

The adoption and implementation of the Committee recommendations, and especially those dealing with companies incorporated in a pyramid structure, to the extent that such recommendations are issued, may materially affect the company itself, given the limitations on the structure of its holdings, the limitations imposed on the companies holding it, (inter alia, their ability to acquire or realize holdings in publicly-traded companies and on the value of its holdings in such companies), the limitations imposed on the profitability of distributing dividends from investee companies, including such aspects as taxation aspects, on the economic sectors in which it will operate and so on.

The company estimates that the demand for recycled packaging paper, as a replacement for virgin packaging paper, is continuing in global paper markets. Following a slowdown in the global packaging paper market, in terms of virgin products in the third quarter, a decrease was recorded in the prices of recycled products.

The trend of decreasing recycled product prices in the global packaging paper market - that began in the third quarter - amounted to approximately 4% in relation to the second quarter. The company estimates that this trend will continue in the near future as well.

The above information pertaining to the geopolitical uncertainty, economic changes in the economy, the social protest and 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, the implementation of the Trachtenberg Committee recommendations, 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.

2.2.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 a special emphasis on the implementation of efficiency and cost-cutting measures across all sectors of operation, including an employee retirement agreement, as part of a collective agreement, See collective labor agreement, below.

Sector Operations

In the packaging paper and recycling sector, Machine 8 (the new packaging paper manufacturing array) operated at full capacity during the reported period, as compared with its operation in full capacity in the corresponding period last year, starting in June 2010. This manufacturing array has led to the doubling of operations in the sector. The operation of the new manufacturing array and the growth in the volume of operations have also led to an increase in the sales of new paper types that were developed, such as recycled paper replacing paper based on virgin pulp. Selling prices in the packaging paper sector experienced an upward trend during the first half of the year in Israel, in line with the rise in product prices and paper waste prices globally. In the third quarter of the year however, this trend reversed itself - both globally and locally - as prices started to decline moderately. At the present time, this trend of decreasing prices continued in the fourth quarter of the year, although prices remain high in relation to the prices in 2010. The quantitative growth and the rise in selling prices during the reported period have resulted in a significant improvement in the operating results of the sector, as compared with the corresponding period last year.

Amnir collects paper and cardboard waste, that constitutes the main raw material for the manufacture of packaging paper, from various sources throughout Israel. On March 1, 2011 the Packaging Law entered into effect, and certain provisions regarding the start of collection by the recognized body entered into effect on July 1, 2011. Given the directives of the Packaging Law, the Company cannot at this point assess the impact of the law on its activities, and this depends, among other things, on arrangements to be set by virtue of the law regarding separation at source, and 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.

It should be noted that to this date, there has been a trend of declining prices in cardboard newspaper waste in the world by approximately 30%, which may partially impact the cost of cardboard newspaper waste procurement.

The impact of the packaging law and the price trend of the paper cardboard newspaper waste on the company 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 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.

Competition in the Hadera Paper Printing segment escalated during the reported period, as a result of rising imports at low prices. Consequently, the trend of declining selling prices grew stronger, along with the eroded profitability of products in the sector, which began in the fourth quarter of 2010. This trend has actually grown worse as a result of the continuing revaluation of the shekel vis-à-vis the US dollar. 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. In order to contend with this business environment, the Hadera Paper Printing sector continued to expand its export operations, including penetration into newer markets in the United States, along with widespread efficiency measures. These measures have contributed to reducing the erosion in the profitability of the sector. Furthermore, during the reported period, the sector began to fully operate from the new logistics center in Modi'in, 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 the Hogla Kimberly sector (associated company), a decrease was recorded in the level of profitability, along with a transition to a net loss, primarily due to the tax event as detailed in section 1.7 below in relation to the corresponding period last year. In addition, this decrease is primarily attributed to the erosion of prices as a result of escalating competition in some of the segments of operation and in the diaper segment in particular, due to parallel imports and the consumers' pressure resulting from the social protest as detailed above. Moreover, the profit was eroded as a result of non-recurring costs associated with compensating consumers for complaints concerning a new brand of diapers. In parallel, raw material prices increased. Given the challenging environment wherein the sector operates, the company continued to promote sales campaigns in order to preserve customers and market share. Decisions were handed down by the court in Turkey on July 28, 2011, August 4, 2011 and on November 2, 2011, adversely affecting the company, regarding some of the appeals filed by KCTR (the Turkish subsidiary of the investee company) regarding the demand by the Turkish tax authorities for additional tax payments. Pursuant to the said decisions of the Lower Court for Taxation Matters, as mentioned above, the company created an accounting provision during the reported period that negatively affected the net income of the segment. The company is filing an appeal to the Supreme Court of Taxation regarding the said issues. For further details, see Section 1.7 and Section E (Associated Companies), below.

Collective Labor Agreement

On November 10, 2011, the Board of Directors of the company, pursuant to the efficiency and cost-cutting measures initiated by the company and as part thereof, approved the agreement signed by the company on November 10, 2011, with the union of company employees and with the New General Histadrut Labor Union in the Hadera region, in which it was agreed, inter alia, to update the employment agreements of the company employees who are employed under collective agreements, along with the early retirement arrangement of approximately 70 company employees (hereinafter: "The Agreement").

Subsequent to the assimilation of all of the items detailed in the agreement, the company estimates that the assimilation should generate annual savings of approximately NIS 17 million in labor expenses for the company, starting in 2012.

Furthermore, the company estimates that following the assimilation of the said agreements, and especially the early-retirement agreement, the company is expected to make a non-recurring provision amounting to approximately NIS 35.1 million, that will be expressed, for the most part, in the annual financial statements of the company for the fourth quarter of 2011.

The company estimates outlined above are based on various assumptions on the basis of information available to the company at this date and that may potentially change in the future.

The company estimates that this agreement will lead the company and its employees - who constitute a major resource of the company - towards greater savings and cost-cutting in labor expenses, which constitute a principal component out of the total operating costs of the company.

Raw Materials

On May 15, 2011, the company signed an extension of the agreement for the purchase of natural gas with the partners in the Yam Tethys Project. The overall financial volume of the agreement is estimated at approximately \$63 million (according to the calculation of the formula at the date of signing the agreement). For further details, see Note .4m to the financial statements dated September 30, 2011. The new gas agreement will enter into effect on July 1, 2011, for a period of two years. Following the new gas contract, an increase of 190% was recorded in the average price of gas, starting with the first day of the agreement. During the reported period water and electricity prices rose by an average rate of 21% and 4.4%, respectively, as compared with the corresponding period last year. In addition, a sharp rise was recorded in the price of paper waste, by an average rate of approximately 35%, in relation to last year. These price increases were offset by a revaluation of the NIS vis-à-vis the US dollar, during the reported period compared to last year, by a rate of approximately 6.4%. This revaluation brought about savings in the inputs and imported products denominated in this currency.

In parallel, the company is continuing to evaluate a project for building a new power station at the Hadera site. On August 7, 2011, several alternatives regarding the size of the said power station were presented to the Board of Directors of the company. The Board of Directors formed an opinion regarding the alternative that seems to be the most profitable one economically, according to the needs of the company. It was decided that the company would continue to evaluate the project, within whose framework the power station will provide steam and electricity that will serve the manufacturing systems of the company at Hadera, while the surplus electricity will be sold to Israel Electric Company and/or to private customers.

Impact of Developments in Financial Markets

The developments in global markets, and especially in the euro bloc and in the United States, and the local development described above, that also include volatility in stock prices and in exchange rates in Israel and worldwide, have and may continue to affect the business results of the Company and its investees, their liquidity, shareholders' equity, the value of 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 actual ability to raise financing for operating activities and long-term activities the allocation of their resources as well as the availability and financing terms of financial institutions and banks.

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 US dollar was devaluated by approximately 4.6% during the reported period, as compared with a revaluation of approximately 2.9% 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 6.4% 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 associated 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 2.2%, as compared with an inflation rate of 1.9% 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 products and board 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 1,541.7 million, as compared with NIS 784.6 million last year, representing an increase of 96.5%, 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 554.0 million, net of inter-company sales totaling NIS 526.3 million.

The sales of the packaging paper and recycling sector amounted to NIS 552.6 million during the reported period, or NIS 476.0 million net of inter-company sales, as compared with NIS 341.5 million, or NIS 299.3 million net of inter-company sales in the corresponding period last year, representing an increase of 59.0%.

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 provided an appropriate response for the growth in demand in the domestic market and for continued export sales to Europe. The growth in sales is also attributed to the rise in selling prices in relation to the corresponding period last year.

The sales of the packaging products and cardboard sector during the reported period amounted to NIS 412.4 million, or NIS 400.7 million net of inter-company sales, as compared with NIS 365.1 million, or NIS 359.1 million net of inter-company sales, in the corresponding period last year, representing an increase of approximately 11.6%, originating primarily as a result of the increase in selling prices in relation to the corresponding period last year, coupled with the growth 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 139.7 million, or NIS 138.8 million net of inter-company sales, as compared with NIS 127.2 million last year, or NIS 126.3 million net of inter-company sales, in the corresponding period last year, representing an increase of 9.9% that originated from the quantitative growth in sales, primarily due to increased marketing efforts that have expanded the volume of customers and activity in this sector, coupled with the securing of tenders in the institutional sector.

The consolidated sales in the third quarter of the year totaled NIS 519.5 million, as compared with NIS 295.4 million in the corresponding quarter last year, representing growth of approximately 75.9%, originating primarily as a result of the consolidation of the sales of Hadera Paper Printing, in the amount of NIS 184.7 million, coupled with growth in the sales of the packaging paper and recycling sector in relation to the corresponding quarter last year and as compared with second quarter sales this year of NIS 504.6 million, representing growth of approximately 2.96%.

The sales of the packaging paper and recycling sector, net of inter-company sales, amounted to NIS 167.7 million in the third quarter this year, as compared with NIS 131.1 million in the corresponding quarter last year, both as a result of higher selling prices, as well as due to the quantitative increase in sales as a result of the continued growth in demand on the local market.

The sales of the packaging and cardboard products sector, net of inter-company sales, amounted to NIS 128.1 million in the third quarter of the year, as compared with NIS 120.9 million in the corresponding quarter last year. This growth is attributed primarily to the rise in selling prices as mentioned above.

Sales of the office supplies marketing sector amounted to NIS 48.5 million in the third quarter of the year, as compared with NIS 43.4 million in the corresponding quarter last year.

1.2. Cost of Sales

The cost of sales amounted to NIS 1,361.3 million – or 88.3% of sales – during the reported period, as compared with NIS 661.0 million – or 84.2% of sales – in the corresponding period last year. The growth in the cost of sales originated primarily as a result of the consolidation of costs of Hadera Paper Printing, in the amount of NIS 524.9 million, starting January 1, 2011, coupled with the sharp rise in the prices of paper waste by a rate of 35%, as a result of the importing of paper waste, in order to meet the growth in demand. Moreover, an increase was recorded in the manufacturing expenses (primarily energy costs including gas and electricity) as well as in the use of raw materials, as a result of the operation of Machine 8.

The gross profit totaled NIS 180.4 million during the reported period, 11.7% of sales, as compared with NIS 123.6 million, 15.8% of sales, last year, representing growth of 46.0% in relation to the corresponding period last year.

The growth in gross profit in relation to the corresponding period last year is primarily attributed to the growth in sales following the initial recognition of revenues from the sales of Machine 8 throughout the entire reported period last year, as expressed only since June, coupled with a rise in selling prices as mentioned above, as well as the consolidation of the results of Hadera Paper Printing, starting January 1, 2011, that contributed approximately NIS 29.0 million to the gross profit. This growth was offset as a result of a sharp rise in the prices of raw materials and inputs.

Labor Wages

The labor wages within the cost of sales amounted to NIS 217.1 million during the reported period (14.1% of sales), as compared with NIS 153.8 million last year (19.6% 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 37.2 million, starting January 1, 2011.

The labor wages within the Selling, General and Administrative expenses amounted to NIS 94.4 million during the reported period (approximately 6.1% of sales), as compared with a sum of NIS 71.1 million last year (approximately 9.1% 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 18.8 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.Selling, General and Administrative and Other Expenses

The selling, general and administrative (including wages) and other expenses amounted to NIS 134.6 million in the reported period – or 8.7% of sales – as compared with NIS 90.8 million – or 11.6% of sales – in the corresponding period last year. Net of nonrecurring revenues during the reported period, as a result of the sale of real estate in the amount of approximately NIS 35.8 million and the valuation of a put option in the amount of NIS 2.4 million and net of a provision for impairment at the Carmel cash-generating unit, in the amount of approximately NIS 8.8 million, the selling, general and administrative expenses amounted to NIS 164.0 million, representing approximately 10.6% of sales, as compared with expenses during the corresponding period last year, net of nonrecurring revenues from the sale of real estate in the amount of NIS 18.6 million and a bonus to the retiring general manager, amounting to NIS 104.4 million. The increase in the selling, general and administrative expenses, totaling NIS 59.6 million, in relation to the corresponding period last year, originates primarily from the consolidation of the expenses of Hadera Paper Printing, starting January 1, 2011, in the sum of approximately NIS 42.2 million, coupled with an increase in the selling and transportation expenses as a result of the growth in the volumes of operation on the local market in various sectors as well as opposite export markets of the packaging paper and recycling sector, along with double storage expenses of the office supplies marketing sector, due to preparations for the relocation to the logistics center in Modi'in.

1.4.Operating Profit

The operating profit totaled NIS 45.8 million during the reported period (3.0% of sales), as compared with NIS 32.7 million (4.2% of sales) in the corresponding period last year. Net of non-recurring revenues and expenditures during the reported period and the corresponding period last year, as mentioned in Section 1.3 above, the operating profit decreased from NIS 19.1 million to NIS 16.4 million. The decrease in the operating profit from current operations during the reported period, as compared with the corresponding period last year, originates primarily from the consolidation of the results of the Hadera Paper Printing segment since January 1, 2011, following an operating loss of NIS 13.1 million in this segment. This decrease was offset as a result of a rise in the gross profit of the various segments, in view of the increase in sales.

The operating profit of the packaging paper and recycling segment amounted to NIS 60.4 million in the reported period, as compared with an operating profit of NIS 26.8 million in the corresponding period last year. The results in the reported period included non-recurring revenues and expenses of NIS 29.4 million, as compared with non-recurring revenues of NIS 18.6 million in the corresponding period last year, as mentioned above. The growth in operating profit from current operations is attributed to the continuing increase in the sales of this segment as a result of the operation of Machine 8, on the one hand, coupled with the improved operational efficiency on the other hand, in relation to the corresponding period last year, when the machine was undergoing its running-in process and its expenditures were capitalized to the machine until June.

The operating profit of the packaging and board products segment amounted to NIS 2.0 million in the reported period, as compared with an operating profit of NIS 3.9 million in the corresponding period last year. The decrease in the operating profit of the segment originates primarily from the rise in raw material prices, that was by the growth in sales, coupled with the decrease in general and administrative expenses in relation to the corresponding period last year.

The operating loss of the office supplies marketing segment amounted to NIS 2.5 million in the reported period, as compared with an operating profit of NIS 2.4 million in the corresponding period last year. Part of this loss consists of non-recurring expenditures related to double rental fees and storage expenses, associated with the relocation of the company to the logistics center in Modi'in, see Section D(5), below.

The Company's operating loss amounted to NIS 9.5 million in the third quarter of the year, as compared with operating profit of NIS 20.2 million in the corresponding quarter last year. The transition to a loss in the third quarter originated primarily as a result of recording a provision for impairment on account of a cash-generating unit, as mentioned in Section 1.3 above, coupled with the consolidation of the operating loss of Hadera Paper Printing, in the amount of NIS 3.2 million, as a result of a sharp rise in raw material prices, coupled with specific inefficiency in the manufacture of fine paper.

The operating loss of the packaging paper and recycling sector in the third quarter of the year amounted to NIS 5.2 million, as compared with an operating profit of NIS 18.8 million in the corresponding quarter last year, as a result of the higher raw material costs and inputs - primarily paper waste, electricity and gas, that served to offset the rise in sales as well as from provision for impairment in the amount of approximately NIS 8.8 million as mentioned in section 1.3 above.

The operating loss of the packaging and board products sector amounted to NIS 1.7 million in the third quarter of the year, as compared with operating profit of NIS 1.0 million in the corresponding quarter last year.

The operating profit of the office supplies marketing sector amounted to NIS 0.2 million in the third quarter of the year, as compared with operating profit of NIS 0.3 million in the corresponding quarter last year.

1.5. Financial expenses

The financial expenses during the reported period amounted to NIS 61.7 million, as compared with NIS 28.4 million in the corresponding period last year.

The growth in financial expenses originated as a result of the capitalization of some of the financing costs of Machine 8 during the corresponding period last year, along with the expansion of Bond Series 5 at the beginning of the third quarter, that served to increase the financial expenses by approximately NIS 3.1 million. Moreover, an increase of NIS 2.6 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 (Known Index) by approximately 2.7%, as compared with a lower increase of 1.6% in the inflation rate during the corresponding period last year, coupled with the consolidation of the financial expenses of Hadera Paper Printing, starting January 1, 2011, in the sum of NIS 9.1 million, following the entry of Hadera Paper Printing into the consolidated statements.

1.6. Taxes on Income

Tax revenues of NIS 4.6 million were recorded during the reported period, as compared with tax revenues totaling NIS 2.5 million in the corresponding period last year. The growth in tax revenues during the reported period, as compared with the corresponding period last year, originates primarily from the recording of tax revenues on the difference between the expected tax rates on the realization of current losses and the expected tax rates for reversing the deferred tax liabilities, on account of the accelerated depreciation of Machine 8, that were offset as a result of recording tax expenses in the amount of NIS 7.7 million on account of the sale of real estate, as mentioned in Section 1.3, above.

1.7. Company's Share in Profits of Associated Companies

The company whose earnings are reported under this item (according to Hadera Paper's holdings therein), is primarily Hogla Kimberly.

The company's share in the losses of associated companies totaled NIS 29.1 million during the reported period, as compared with a share in profits of NIS 58.5 million in the corresponding period last year. The transition to a loss in the company's share in the earnings of associated companies, as compared with the corresponding period last year, originates primarily as a result of the Company's share in a provision in the amount of NIS 58.8 million, created by Hogla Kimberly following the rulings by the court in Turkey regarding appeals filed by KCTR, concerning a demand for tax payments in Turkey. (For additional details, see Section E below - Associated Companies), coupled with the company's share in the earnings of Hadera Paper Printing (consolidated in the company's financial statements since January 1, 2011), that were included during the corresponding period last year in the amount of approximately NIS 10.4 million and that were not included in this period. (The Hadera Paper Printing results were consolidated within the consolidated financial statements of Hadera Paper in this period).

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 Hogla Kimberly in Israel (49.9%) during the reported period amounted to NIS 35.2 million, as compared with NIS 56.0 million in the corresponding period last year. The decrease in the sum of NIS 20.8 million, originated primarily from the decrease in operating profit that fell from NIS 147.3 million to NIS 93.1 million this year. The sharp 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, that grew even worse towards the end of the second quarter as a result of the parallel import of Huggies diapers, coupled with non-recurring expenditures associated with compensation of consumers on account of complaints related to leaks in a new brand of diapers in the first quarter of the year, coupled with a rise in the prices of principal raw materials. These were offset by efficiency measures that were implemented across the company and the lowering of purchasing expenditures in view of the decrease in the average dollar exchange rate by approximately 6.4%. These factors served to reduce the erosion in profit during the reported period. See also the social protest impact, section 2.1 above

-The Company's share in the losses of KCTR Turkey (49.9%) during the reported period amounted to NIS 65.9 million, as compared with NIS 5.5 million in the corresponding period last year, representing an increase of approximately NIS 60.4 million. The greater loss, originated primarily - as mentioned above - as a result of a NIS 58.8 million provision recorded by the company following the decisions of the Court in Turkey concerning appeals filed by KCTR pertaining to a demand for tax payment in Turkey. For additional details, see Section E below - Associated Companies, as well as Note 4k to the financial statements dated September 30, 2011, coupled with an increase in the operating loss, from NIS 10.5 million in the corresponding period last year, to NIS 12.5 million during the reported period.

KCTR has informed the Company that it has appealed the court decisions in Turkey, based on the expert opinion of its legal consultants. However, according to the accounting policy of the Company, the actual handing down of the court ruling, even if this can be appealed with high chances of success, creates a presumption whereby it is "more likely than not" that certain sums will be paid on account of these tax requirements. The company has consequently created a provision during the reported period on account of its share in these sums.

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

The net loss attributed to the Company's shareholders amounted to NIS 35.7 million in the reported period, as compared with net profit attributed to the Company's shareholders of NIS 65.4 million in the corresponding period last year. The net profit, net of non-recurring revenues and expenditures during the reported period, amounted to NIS 6.3 million, as compared with NIS 55.8 million in the corresponding period last year, representing a decrease of 88.8%.

The lower net profit attributed to the Company shareholders during the reported period, was primarily affected by a non-recurring provision of NIS 58.8 million, recorded by the Company following the decisions of the Court in Turkey concerning appeals filed by KCTR pertaining to a demand for tax payment in Turkey. For additional details, see Section 1.7 below, as well as Section E - Associated Companies, as well as Note 4.k to the financial statements dated September 30, 2011, coupled with the recording of a provision for impairment on account of the Carmel cash-generating unit in the amount of NIS 7.0 million (net of taxes), that was offset from non-recurring revenues from the sale of real estate on Totzeret Ha'Aretz Street in Tel Aviv, the valuation of a Put option, as well as the improved operating profitability of the packaging paper and recycling segment. Moreover, the net profit was adversely affected by the rise in financial expenses during the reported period, in relation to the corresponding period last year, following the operation of Machine 8.

Basic loss per share amounted to NIS -7.02 per share (\$-1.89 per share) in the reported period, as compared with basic earnings per share of NIS 12.88 per share (\$3.51 per share) in the corresponding period last year.

Diluted loss per share amounted to NIS -7.02 per share (\$-1.89 per share) in the reported period, as compared with diluted earnings per share of NIS 12.77 per share (\$3.49 per share) in the corresponding period last year.

Basic loss per share amounted to NIS -8.56 per share (\$-2.31 per share) in the third quarter of the year, as compared with earnings of NIS 4.53 per share (\$1.24 per share) in the corresponding quarter last year.

Diluted loss per share amounted to NIS -8.56 per share (\$-2.31 per share) in the third quarter of the year, as compared with earnings of NIS 4.50 per share (\$1.23 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 161.8 million on September 30, 2010, to NIS 161.9 million on September 30, 2011. The cash and cash equivalents balance originates primarily from funds that were raised at the beginning of the third quarter as an expansion of bond series 5, for the repayment of bank loans and bond series that were raised in order to finance Machine 8, as well as to acquire control over Hadera Paper Printing. The cash balance includes the cash consolidated during the reported period from Hadera Paper Printing, in the sum of NIS 7.8 million.
- The designated deposits in the sum of NIS 9.0 million on September 30, 2010, were utilized entirely in the course of 2010 for payments on account of the construction of Machine 8.
- The increase in the accounts receivable item is primarily attributed to the consolidation of the accounts receivable balances of the Hadera Paper Printing segment, that amounted to approximately NIS 215.6 million as at September 30, 2011. In the packaging paper and recycling sector, an increase was recorded from NIS 108.3 million on September 30, 2010, to NIS 154.4 million on September 30, 2011. This increase is attributed both to quantitative growth in activity while recording a change in the distribution of sales in the form of an expansion in the local market at the expense of export markets, that led to an increase in the days of credit, coupled with an increase in selling prices between the two periods. In the packaging and cardboard products sector, an increase was recorded in the accounts receivable item, from NIS 186.2 million on September 30, 2010, to NIS 194.0 million on September 30, 2011, as a result of growth in the sales of the sector in light of the increase in the selling prices. Accounts receivable for the office supplies marketing sector rose from NIS 63.4 million as at September 30, 2010, to NIS 66.3 million, as at September 30, 2011, as a result of the continuing growth in the volume of operations.

- Other receivables relating to the packaging paper and recycling segment decreased from NIS 114.6 million as at September 30, 2010, to NIS 65.8 million as at September 30, 2011. This decrease is primarily attributed to the lower credit/debit balances of group companies, as a result of the consolidation of the Hadera Paper Printing segment on December 31, 2010. An additional factor was the other receivables balance that was consolidated on September 30, 2011 and amounted to NIS 1.6 million. Additionally, the decrease was also attributed to revenues to collect that were recorded last year on account of the sale of real estate in Bnei-Brak. Other receivables relating to the packaging products and board sector increased from NIS 4.4 million as at September 30, 2010, to NIS 4.5 million as at September 30, 2011. Other receivables relating to the marketing of office supplies segment decreased from NIS 5.2 million as at September 30, 2010 to NIS 4.1 million as at September 30, 2011.
- The increase in the inventories item originates from the consolidation of the Hadera Paper Printing inventories in the amount of approximately NIS 138.5 million, as at September 30, 2011. In the packaging paper and recycling sector a decrease was recorded from NIS 80.8 million as at September 30, 2010, to NIS 78.0 million as at September 30, 2011. This decrease is primarily attributed to the consumption of paper waste inventories in light of the full operation of the new packaging paper machine in June last year, that was offset as a result of the growth in packaging paper inventories in order to meet the growth in the volume of operations. Inventories of the packaging products and board sector increased from NIS 85.9 million as at September 30, 2010, to NIS 92.9 million as at September 30, 2011. The increase is primarily attributable to an increase in raw material prices, coupled with forecasts in the sector regarding higher demand in the fourth quarter from agriculture, as compared with the corresponding period last year. Inventories in the office supplies marketing segment increased from NIS 25.7 million as at September 30, 2010, to NIS 36.5 million as at September 30, 2011, primarily on account of the continued growth in operations, coupled with the need to manage inventories in two warehouses, in light of the relocation of the company to the logistic center in Modi'in.
- The investment in associated companies decreased from NIS 349.3 million on September 30, 2010, to a sum of NIS 167.1 million on September 30, 2011. The principal components of the decrease in investment between the reported periods, include the consolidation of Hadera Paper Printing for the first time on December 31, 2010, which led to a decrease in investments of NIS 117.6 million, coupled with the company share in the dividend distributed in the amount of NIS 29.9 million from associated companies, as well as the company share in the losses of associated companies in the sum of NIS 29.1 million, that is primarily attributed to a provision for taxes in Turkey, as mentioned in Section 1.7, above.

- Short-term credit increased from NIS 73.8 million on September 30, 2010, to NIS 195.8 million on September 30, 2011. The growth in this item originates primarily as a result of the consolidation of the credit balances of Hadera Paper Printing, in the amount of NIS 136.4 million as at September 30, 2011, that were offset as a result of the repayment of credit.
- The decrease in the other payables item was recorded despite the consolidation of the Hadera Paper Printing balances, in the amount of NIS 5.6 million, as at September 30, 2011. The packaging paper and recycling sector recorded a decrease from NIS 98.1 million as at September 30, 2010, to NIS 87.0 million as at September 30, 2011. The decrease is primarily attributed to a decrease in expenses payable and employee institutions, coupled with a decrease in the recording of advanced revenues from the sale of real estate and expenses payable between the reported periods. Other accounts payable of the packaging products and board sector increased from NIS 12.1 million as at September 30, 2010, to NIS 12.7 million as at September 30, 2011. The other payables item at the office supplies marketing segment decreased from NIS 5.0 million on September 30, 2010, to NIS 3.9 million on September 30, 2011. This decrease is primarily attributed to the decrease in expenses to pay.
- The company's shareholders' equity decreased from NIS 931.9 million as at September 30, 2010, to NIS 903.3 million as at September 30, 2011. This change is primarily attributed to an increase in a capital reserve from translation differences, in the amount of approximately NIS 24.5 million, between the reported periods.

3. Investments in Fixed Assets

The investments in fixed assets amounted to NIS 59.2 million during the reported period, as compared with NIS 175.4 million in the corresponding period last year. The investments in the reported period included primarily payments on account of investments in environmental compliance (sewage treatment) along with current investments in the renovation of equipment, means of transport and building maintenance at the Hadera site.

4. Financial Liabilities

The long-term liabilities (including current maturities) amounted to NIS 1,020.4 million as at September 30, 2011, as compared with NIS 1,011.2 million as at September 30, 2010 and as compared with NIS 989.6 million as at December 31, 2010. The long-term liabilities grew in relation to last year primarily as a result of the expansion of Series 5 during the reported period, by a sum of approximately NIS 218 million, coupled with the consolidation of the long-term loans of Hadera Paper Printing in the amount of NIS 10.0 million, that were offset by the repayment of bond series (Series 2, Series 3, and Series 4) and long-term loans, as well as the cash flows from operating activities.

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

Series 2 – NIS 103.8 million, for repayment until 2013.

Series 3 – NIS 161.0 million, for repayment until 2018.

Series 4 – NIS 158.3 million, for repayment until 2015.

Series 5 – NIS 396.7 million, for repayment until 2017.

Long-term loans – NIS 200.7 million.

- The balance of short-term credit, as at September 30, 2011, amounted to NIS 195.8 million, as compared with NIS 73.8 million as at September 30, 2010. Most of the growth originates from the consolidation of the Hadera Paper Printing balances in the amount of NIS 136.4 million, that were offset as a result of the repayment of credit.
- The net debt as at September 30, 2011, net of the balance of deposits and cash, amounted to NIS 1,054.3 million. Net of the net debt originating from the consolidation of Hadera Paper Printing, in the amount of NIS 138.6 million, the net debt totals a sum of NIS 915.7 million, as compared with net debt of NIS 914.1 million as at September 30, 2010.
- On July 4, 2011, the company expanded bond series 5 and raised a gross sum of NIS 218 million from institutional investors and from the public. Part of the proceeds will serve the company primarily for reinforcing its liquidity and for the recycling of the debt.

In July 2010, the Supervisor of the Capital Market, Insurance and Savings at the Ministry of Finance ("the Supervisor") published a circular which sets forth the Committee's recommendations for establishing parameters for institutional bodies' investments in non-government bonds. The circular, inter alia, includes provisions regarding the formulation of internal policies by institutional bodies prior to investing in bonds, the information required by such bodies to review and monitor investment in bonds, the mechanisms for cooperation between institutional bodies on certain matters relating to investment in bonds, the provisions that should be included in the bond documents as a condition for institutional bodies' investment therein and the requirement of institutional bodies to establish an investment policy (including with respect to rights to call in loans which would be included in the bonds), which addresses contractual criteria for the bonds and their various issuers. Most of the directives of the circular entered into force in October 2010.

The memorandum of the Supervisor and the manner by which the recommendations are adopted as they appear in the report of the Committee, 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 reports the Company is yet unable to identify these influences.

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 17a to the consolidated financial statements dated December 31, 2010.

Liabilities on account of the Put option to a shareholder at an associated company (investee until December 31, 2010), as at September 30, 2011 and as at September 30, 2010 and as at December 31, 2010, is presented in the sum of NIS 29.1 million, NIS 13.7 million and NIS 31.5 million, respectively.

On account of the Put option, an associated company recorded other revenues of NIS 2.4 million during the reported period, as compared with other expenses of NIS 1.7 million in the corresponding period last year.

The principal factors responsible for the change originated as a result of an agreement signed by the company for the acquisition of 25.1% of the shares of the associated company ("Acquisition Agreement") determining the economic calculation of the value of the option and its blocking for three years (as at September 30, 2011, the option is blocked for two and a quarter years). Regarding additional agreements arising from the transaction agreement and their potential impact on the terms of the option, see Note 17 to the financial statements dated December 31, 2010.

C.

Liquidity

Cash Flows

The cash flows from operating activities totaled NIS 68.0 million during the reported period, as compared with NIS 126.8 million in the corresponding period last year. The decrease in cash flows from operating activities during the reported period, as compared with the corresponding period last year, originated primarily from the growth in working capital, that amounted to NIS 44.1 million during the reported period, as compared with growth of NIS 3.3 million in the corresponding period last year, coupled with a decrease in profit from current operations and a decrease in the company share in dividends from associated companies. The increase in working capital during the reported period originated primarily from the growth in accounts receivable balances as a result of the growth in the volume of operations. This growth was partially offset by the growth in accounts payable balances.

D.

Details of Operations in the Various Sectors

1.Hogla-Kimberly (Household Products)

The sales turnover of Hogla-Kimberly Israel amounted to approximately NIS 909.5 million in the reported period, as compared with approximately NIS 917.0 million in the corresponding period last year, representing a decrease of 0.8%.

The ability to relatively preserve the level of sales during the reported period, despite the erosion of prices in light of the continuing escalation of competition in the market - primarily in the baby and infant sector - originated primarily from the increase in quantitative sales in other sectors, that served to reduce the impact of competition on sales.

The operating profit of Hogla-Kimberly Israel amounted to approximately NIS 93.1 million in the reported period, as compared with approximately NIS 147.3 million in the corresponding period last year, representing a decrease of approximately 36.9%.

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, as mentioned above, that grew more fierce in the past several months, primarily in the diaper segment, coupled with the rise in the prices of the principal raw materials, that was partially offset by efficiency measures that were implemented by the company, the raising of prices in the household paper segment, as well as the decrease in the average US dollar exchange rate vis-à-vis the NIS, by a rate of approximately 6.4%, in relation to the corresponding period last year, that served to lower the raw material costs and some of the products. Moreover, the decrease in the operating profit during the reported period, in relation to the corresponding period last year, was also attributed to expenditures associated with compensation provided to consumers, on account of complaints regarding leaks in a new brand of diapers.

The operating profit in the third quarter of the year amounted to NIS 29.8 million, as compared with NIS 47.1 million in the corresponding quarter last year and as compared with NIS 34.1 million in the second quarter of the year, as a result of the escalating competition in the second and third quarters that led to an erosion of prices, as mentioned above. In addition it should be noted that the increase in social protest has an impact on the change in selling prices, see section 2.1 above.

The sales turnover of KCTR, Hogla-Kimberly's subsidiary operating in Turkey, amounted to approximately NIS 310.6 million (approximately \$88.1 million) in the reported period, as compared with approximately NIS 375.4 million (approximately \$99.2 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.

The operating loss of KCTR in the reported period amounted to NIS 12.5 million, as compared with NIS 10.5 million in the corresponding period last year. KCTR enjoys positive cash flows from operating activities.

2.Hadera Paper - Printing and Writing Paper (Formerly Mondi Hadera Paper)

The sales of Hadera Paper Printing amounted to 141.3 thousand tons in the reported period, as compared with 133.3 thousand tons in the corresponding period last year, representing an increase of 6.0%. Sales amounted to 46.8 thousand tons in the third quarter, as compared with 45.0 thousand tons in the third quarter last year and as compared with 49.3 thousand tons in the second quarter of 2011.

The sales turnover of fine paper amounted to NIS 554.0 million in the reported period, as compared with NIS 553.5 million in the corresponding period last year, representing an increase of 0.1%. The sales turnover of fine paper in the third quarter of 2011 amounted to NIS 184.7 million, as compared with NIS 196.0 million in the corresponding period last year, representing a decrease of 5.8%, and as compared with NIS 187.1 million in the second quarter of 2011, representing a decrease of 1.3%.

The preservation of the sales level during the reported period originated primarily from the quantitative increase in sales to export markets, an increase that amounted to approximately 17.6%. This growth was offset as a result of the decrease in average selling prices by a rate of approximately 5.7%, originating both from a lower level of prices and from the revaluation of the shekel vis-à-vis the US dollar. The revaluation of the shekel also led to escalating competition from low-priced imports and to a lowering of selling prices on the local market during the reported period.

Moreover, the prices of pulp (a principal raw material traded in US dollars), that decreased by 3.3% in the third quarter, in relation to the second quarter, served to reduce the rise in prices during the reporting period to 0.4% (in NIS terms), as compared with the corresponding period last year. The above adversely affected the business results of Hadera Paper Printing during the reported period, despite the strengthening of the NIS vis-à-vis the US dollar by 4.6% during the reported period.

The operating loss of Hadera Paper Printing amounted to NIS 13.1 million in the reported period, as compared with operating profit of NIS 30.4 million in the corresponding period last year, representing a decrease of 143.1%. In the third quarter of 2011, the company's operating loss amounted to NIS 3.2 million, as compared with an operating profit of NIS 7.2 million in the corresponding quarter last year and as compared with an operating loss of NIS 6.9 million in the second quarter of 2011.

The transition to an operating loss in relation to the corresponding period last year, is attributed to the trend of prices described above, the global surplus in paper that led to the lowering of import prices to Israel, the lower efficiency of the manufacture of paper during the reported period that was caused by several factors related to the quality of raw materials and other technical malfunctions, as well as a result of non-recurring expenditures associated with the relocation to the new logistics center - with the aim of providing optimal customer service during the transition period and to shorten the learning curve. True to the date of publication of this report, a significant improvement was recorded in manufacturing efficiency. Moreover, the logistics center has started to service customers at a level that exceeds the level of service provided prior to the relocation.

The following are principal data regarding a highly material valuation that is attached to the financial statements as at September 30, 2011: The net operating assets of Hadera Paper Printing in the company books, as at September 30, 2011, amounted to NIS 325 million. The valuation was performed by the valuator Vadim Portnoy, of Vadim Portnoy Business Consulting Ltd. (Vadim Portnoy possesses 13 years of professional experience as an employee of the Securities Authority and Swary Eichman Ltd. and since 2004 - as an independent consultant. Vadim Portnoy Business Consulting Ltd. specializes in valuations, transaction consulting, preparation of economic and financial expert opinions, mergers and acquisitions and additional diverse economic projects) who estimated the derived utilization value of Hadera Paper Printing at approximately NIS 369.0 million, as at this date. The valuator employed the DCF model in its valuation. The valuator used a discount rate of 9.5% and a permanent growth rate of 1.5%. The residual value as a percentage of the total value set in the valuation is equal to 66.4%.

The above information pertaining to the output capacity and improved profitability of Hadera Paper Printing 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 local and global raw material prices, selling prices and changes in the supply and demand of fine paper in Israel and more.

3.Carmel Container Systems - Packaging and Board Products

The aggregate sales turnover of Carmel Container Systems, including the sales of Frenkel CD, amounted to NIS 412.4 million during the reported period, as compared with NIS 365.1 million last year, representing an increase of 13.0%.

During the reported period, the consolidated sales turnover of Carmel Container Systems Ltd. amounted to NIS 323.3 million, as compared with NIS 283.4 million in the corresponding period last year, representing an increase of 14.1%.

The increase in the sales turnover is attributed to a slight quantitative growth, coupled with an increase in selling prices. Furthermore, growth was recorded in the sales turnover of the Triwall subsidiary.

The consolidated operating loss of Carmel Container Systems amounted to NIS 0.9 million in the reported period, as compared with an operating profit of NIS 1.2 million in the corresponding period last year. The decrease in the operating profit at Carmel is primarily attributed to the sharp rise in input prices, by a rate of 24%, an increase that was compensated for only partially by the said rise in selling prices.

The aggregate operating profit of Carmel (including Frenkel CD) amounted to NIS 2.0 million in the reported period, as compared with an operating profit of NIS 3.9 million in the corresponding period last year.

The following are principal data regarding a highly material valuation that is attached to the financial statements as at September 30, 2011: The net operating assets of Carmel in the company books, as at September 30, 2011, amounted to NIS 237.8 million. The valuation was performed by the valuator Fahn Kanne Consulting Ltd. (Fahn Kanne Consulting Ltd. is a subsidiary of CPA firm Fahn Kanne & Associates, one of the six leading CPA firms in Israel. Fahn Kanne Consulting Ltd. specializes in valuations, due diligence examinations, transaction consulting, preparation of economic and financial expert opinions, mergers and acquisitions and other diverse economic projects, through its economic and financial consulting services department, that provides consulting services in a wide range of economic topics, to large private and public companies in the market, as well as to the government and institutional sector), that valued the derived utilization value of Carmel at this date at the sum of NIS 229.1 million. Stemming from the fact that the value of Carmel is lower than its book value, the company has recorded a provision for impairment on account of the Carmel cash generating unit in the amount of NIS 8.8 million. This stems primarily from the fact that as part of the valuation, the valuator relied on the tax rates as determined in the government ratification, dated October 30, 2011, of the recommendations of the Taxation Chapter by the Trachtenberg Committee, where it was resolved to cease the lowering of income tax rates for individuals and for corporate taxes, as determined in the Law for Economic Encouragement of 2009. Starting with the tax year 2012, the corporate tax rate would be increased to 25%. Accordingly, the valuator utilized a tax rate of 25%. The valuator employed the DCF model in its valuation. The valuator used a discount rate of 9.5% and a permanent growth rate of 2.0%. The residual value as a percentage of the total value set in the valuation is equal to 69.2%.

The above information in the valuation 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 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 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 Division amounted to NIS 552.6 million in the reported period, as compared with NIS 341.5 million in the corresponding period last year, representing an increase of approximately 61.8%. (The sales in the corresponding period last year appear subsequent to the discounting of sales in the sum of approximately NIS 70 million, as part of the running in process of Machine 8. The running in of the machine was completed on May 31, 2010).

The quantitative sales of packaging paper amounted to 224.9 thousand tons during the reported period, as compared with 189.1 thousand tons in the corresponding period last year. Out of the said sales last year, approximately 49.8 thousand tons were discounted toward the running in of Machine 8, as mentioned above.

The sharp increase in the sales turnover originated for the most part from the quantitative increase in sales of packaging paper (including the influence of the discounting last year), coupled with an increase in selling prices between the reported periods. This increase was offset by the lower average dollar exchange rate between the two reported periods, by a rate of approximately 6.4%, that tends to affect a large part of the export sales.

The operating profit of the division amounted to NIS 29.3 million during the reported period, as compared with NIS 31.8 million in the corresponding period last year. Net of non-recurring profit from the sale of real estate in the sum of NIS 17.2 million, the operating profit from current operations amounted to NIS 14.6 million in the corresponding period last year, representing an increase of approximately 100.7%. The cost of operating Machine 8, up to May 31, 2010, were discounted as part of the running-in expenses during the corresponding period last year. In the third quarter of 2011, the operating profit amounted to NIS 6.3 million, as compared with an operating profit of NIS 21.1 million and net of the said non-recurring profit, the operating profit from current operations amounted to NIS 3.9 million in the corresponding quarter last year and as compared with operating profit of NIS 8.6 million in the second quarter of 2011.

The increase in the operating profit during the reported period, as compared with the corresponding period last year, originated primarily from the quantitative increase in sales, coupled with the improved selling prices as mentioned above. Moreover, the improvement in the operating efficiency of Machine 8, as evident in the improved efficiency of the various manufacturing indexes of the division, also contributed to the greater profit. This growth was offset as a result of the rise in the various input prices.

The decrease in operating profit in the third quarter of the year originated primarily from the rise in energy prices, due to the rise in natural gas prices at the beginning of the third quarter, coupled with the rise in electricity prices, that are seasonally higher.

5.Graffiti - Office Supplies Marketing

Graffiti's sales turnover during the reported period amounted to NIS 139.7 million, as compared with NIS 127.2 million in the corresponding period last year, representing an increase of 9.8%.

In the reported period, Graffiti recorded an operating loss of NIS 2.5 million, as compared with an operating profit of NIS 2.4 million in the corresponding period last year.

The decrease in the operating profit during the reported period is primarily attributed to the eroded profitability as a result of a significant rise in commodity prices, accompanied by a delay in adjusting customer selling prices, coupled with the sharp rise in transportation costs as a result of the rise in fuel prices between the reported periods. Moreover, labor expenses increased by a sum of approximately NIS 2.2 million during the reported period, due to the growth in the sales turnover that was accompanied by a parallel increase in variable expenses, along with a significant increase in personnel due to the company's preparations for the relocation to the logistics center in Modi'in. Furthermore, double expenses of NIS 2.9 million were recorded during the reported period on account of rental fees and maintenance expenses associated with the company's preparations for the relocation to the logistics center in Modi'in.

Graffiti intends to relocate to the Logistics Center in Modi'in in the course of the fourth quarter of 2011. Graffiti is currently testing the logistic systems and supporting information systems (WMS), that will serve as a platform for accelerating growth and profit, while improving customer service.

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 Gliksberg, 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. 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 and CPI-linked balances, in the total sum of NIS 279.2 million.

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.

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 a risk analysis as at the date of the report, as well as on company procedures regarding provisions for doubtful debts in case of arrears.

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at September 30, 2011:

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes		Fair value as at Sept-30-11	Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%		Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Debentures - Series 2	502	252	(110,199)	(253)	(507)
Debentures - Series 3	2,200	1,106	(166,927)	(1,118)	(2,248)
Debentures - Series 4	1,380	693	(171,355)	(698)	(1,400)
Debentures - Series 5	6,160	3,096	(437,994)	(3,129)	(6,290)
Loan A - fixed interest	35	17	(10,642)	(17)	(35)
Loan B - fixed interest	939	472	(86,190)	(476)	(957)
Loan C - fixed interest	132	66	(22,328)	(66)	(133)

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 2011).

Regarding the terms of the debentures and other liabilities – See Note 10 to the annual financial statements dated December 31, 2010.

Sensitivity to the Consumer Price Index

Sensitive Instruments	Profit (loss) from changes		Fair value as at Sept-30-11	Profit (loss) from changes	
	Rise in CPI 2%	Rise in CPI 1%		Decrease in CPI 1%	Decrease in CPI 2%
	In NIS thousands				
Debentures - Series 2	(2,204)	(1,102)	(110,199)	1,102	2,204
Debentures - Series 3	(3,339)	(1,669)	(166,927)	1,669	3,339
Other accounts receivable	23	12	1,162	(12)	(23)
Accounts Payable	(145)	(73)	(7,270)	73	145
Linked loans	(238)	(119)	(11,911)	119	238

See Note 19 d to the financial statements dated December 31, 2010.

Sensitive Instruments	Sensitivity to the Euro Exchange Rate					
	Profit (loss) from changes			Fair value as at Sept-30-11	Profit (loss) from changes	
	Rise in € 10%	Rise in € 5%	Decrease in € 5%		Decrease in € 10%	
	In NIS thousands					
Cash and cash equivalents	391	195	3,907	(195)	(391)	
Other accounts receivable	1,352	676	13,522	(676)	(1,352)	
NIS-€options	62	25	-	-	-	
Accounts Payable	(3,846)	(1,923)	(38,460)	1,923	3,846	

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at September 30, 2011:

Sensitive Instruments	Sensitivity to the US Dollar Exchange Rate					
	Profit (loss) from changes			Fair value as at Sept-30-11	Profit (loss) from changes	
	Revaluation of \$ 10%	Revaluation of \$ 5%	Devaluation of \$ 5%		Devaluation of \$ 10%	
	In NIS thousands					
Cash and cash equivalents	2,527	1,263	25,267	(1,263)	(2,527)	
Other accounts receivable	4,655	2,328	46,555	(2,328)	(4,655)	
Accounts Payable	(14,084)	(7,042)	(140,844)	7,042	14,084	
NIS/US\$ forward transaction	118	62	(7)	(49)	(105)	
NIS- US\$ option	140	85	29	-	-	
Loans from others	(63)	(31)	(626)	31	63	

Other accounts receivable reflect primarily short-term customer debts

Sensitive Instruments	Sensitivity to the exchange rate of the yen					
	Profit (loss) from changes			Fair value as at Sept-30-11	Profit (loss) from changes	
	Rise in the yen 10%	Rise in the yen 5%	Decrease in the yen 5%		Decrease in the yen 10%	
	In NIS thousands					
Accounts Payable	(183)	(92)	(1,832)	92	183	

Sensitive Instruments	Sensitivity to other currencies (GBP)				
	Profit (loss) from changes		Fair value as at Sept-30-11	Profit (loss) from changes	
	Rise of 10%	Rise of 5%		Decrease of 5%	Decrease of 10%
In NIS thousands					
Other accounts receivable	51	25	507	(25)	(51)

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at Sept-30-11:

In NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US\$)	€-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	132.7		25.3	3.9		161.9
Other accounts receivable	633.6	1.2	47.1	13.5	10.9	706.3
Inventories					345.9	345.9
Investments in associated companies	19.2				147.9	167.1
Deferred taxes on income					2.9	2.9
Fixed assets, net					1,328.3	1,328.3
Investment property (real estate)					26.3	26.3
Intangible Assets					24.6	24.6
Financial assets available for sale					2.7	2.7
Other assets					1.1	1.1
Assets on account of employee benefits	0.7					0.7
Total Assets	786.2	1.2	72.4	17.4	1,890.6	2,767.8
Liabilities						
Short-term credit from banks	195.8					195.8
Accounts Payable	328.8	7.3	142.7	38.5	0.1	517.4
Current tax liabilities	13.7					13.7
Deferred taxes on income					42.5	42.5
Long-Term Loans	188.1	12.0	0.6			200.7
Notes (debentures) – including current maturities	558.5	261.1				819.6
Liabilities on account of employee benefits	45.7					45.7
Put option to holders of non-controlling interests	29.1					29.1
Shareholders' equity, reserves and retained earnings					903.3	903.3
Total liabilities and equity	1,359.7	280.4	143.3	38.5	945.9	2,767.8
Surplus financial assets (liabilities) as at Sept-30-11	(573.5)	(279.2)	(70.9)	(21.1)	944.7	0.0
Surplus financial assets (liabilities) as at Dec-31-10	(624.4)	(296.1)	(45.4)	(48.2)	1,014.1	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 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 material tax related issues at KCTR, as detailed in Note 4k to the financial statements dated September 30, 2011. On July 28, 2011, August 4, 2011 and November 1, 2011, decisions were handed down by the court in Turkey as part of the cases under discussion (approximately 43.9% of the principal of the claim), pertaining to the appeals concerning the demand of the tax authorities. The decisions are to the detriment of the company. KCTR has informed the company that it has appealed the decisions of the court to a higher instance, based on the expert opinion of its legal consultants, who maintain that the chances of success in the appeal are higher than 50%. The accounting policy of the company holds that the mere decision of the court creates a situation where it is more likely than not that the company would be obligated to make payments on account of these tax requirements. Consequently, it has created a provision of NIS 58.8 million during the reported period on account of its share in the sums detailed in the said court decision.

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. External Directors

The Company chose not to include in its bylaws the provision with regard to the percentage of external board members.

2. 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.

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

1. On February 8, 2011, the Board of Directors of the company authorized the Audit Committee to also serve as a committee for the examination of the financial statements. It was resolved that it would be called the balance sheet and audit committee and would be charged - on behalf of the Board of Directors - to oversee the completeness of the financial statements and the work of the auditing CPAs and to make recommendations regarding the ratification of the financial statements and a discussion thereof prior to such ratification.

2. The members of the committee are as follows:

Name	External / independent director	Possessing accounting and financial expertise / able to read financial statements	Skills, education and experience	Provided an affidavit
Atalia Arad	External Director	Capable of reading and understanding financial statements	Her education and professional experience (see chapter D, Appendix G of the 2010 periodical report).	P
Aliza Rotbard	External Director	Possesses accounting and financial qualifications	Holds a Bachelor's degree (BSC) in Mathematics and Physics, from the Hebrew University in Jerusalem. Director at several different companies.	P
Amos Mar-Haim		Possesses accounting and financial qualifications	His education and professional experience (see chapter D, Appendix G of the 2010 periodical report).	P

Ms. Atalia Arad serves as chairperson of the committee

3. On November 10, 2011, the Balance Sheet and Audit Committee met to discuss the financial statements of the company for the third quarter of 2011 ("The Financial Statements") and for the purpose of formulating recommendations for the Board of Directors of the company.

4. The position holders, interested parties, family members and/or anyone on their behalf present in the meeting of the committee, include:

Ofer Bloch - CEO, Shaul Glicksberg - VP Finance and Business Development, Yael Nevo - legal counsel, Shmuel Molad - Treasurer, Boaz Simons - Senior VP of Clal Industries and Investments Ltd. (CII) - controlling shareholder of the company, Yehuda Ben-Ezra, VP Finance & Treasurer of CII, Dror Dotan - Assistant to the CII CEO.

5. It should be noted that the auditing CPA also attended the meeting and presented the audit and review process that he performed in relation to the financial statements.

6. In the course of the meeting, the committee examined the material issues related to the financial statements, the crucial estimates and critical valuations implemented in the financial statements, the plausibility of the data, the accounting policy that was implemented and changes therein, and the implementation of the proper disclosure principal in the financial statements and regarding any accompanying information.

The Committee also examined various aspects of control and risk assessment reflected in the financial statements (such as reporting of financial risks).

Upon completing the discussion of the data that was presented, the committee formulated its recommendations to the Board of Directors of the company regarding the ratification of the financial statements, with one specific accounting issue remaining open and subject to holding an additional discussion.

7. The said recommendations were forwarded to the members of the Board of Directors approximately 5 days before the date that was set for the discussion and ratification of the financial statements, excluding one issue that remained open for examination and further discussion, the recommendation of which was handed by the committee during the Board of Directors' meeting.

8. The Board of Directors of the company believes that the recommendations of the committee were transferred to it within a reasonable time, prior to the discussion by the Board of Directors, taking into consideration the scope and complexity of the issues to be discussed in the recommendations. The Board of Directors of the company has accepted the recommendations of the Balance Sheet and Audit Committee regarding the approval of the financial statements.

4. Procedure for classifying transactions as negligible

On March 8, 2009, the Company's Board of Directors resolved to adopt rules and guidelines for categorizing a transaction of the Company or of one of its consolidated subsidiaries - with an interested party - 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 and November 15, 2011, 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 consolidated 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, including cellular communication services and international long-distance services, Call Center services, fuel, pipes, 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 and removal; 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) Upon the acquisition of a fixed asset ("non-current asset") - The volume of the transaction in relation to the total assets (in the report of the financial situation that is included in the company's last consolidated financial statements); (b) Upon the sale of a fixed asset ("non-current asset") - The profit/loss from the transaction in relation to the average annual earnings (i.e.- for four quarters) in the report of the financial situation that is included in the company's last consolidated financial statements), according to the last 12 quarters from which consolidated financial statements of the company have been published. In this respect, the profit/loss from the transaction and the profit/loss

in any quarter will be calculated at their absolute value; (c) Upon assuming a monetary liability - The volume of the transaction in relation to the total liabilities in the report of the financial situation that is included in the last consolidated financial statements; (d) Upon the sale of products (excluding fixed assets) or services - The volume of the transaction in relation to the total revenues from sales and services over the last four quarters for which consolidated financial statements of the company have been published; (e) Upon the acquisition of products (excluding fixed assets) or services - The volume of the transaction in relation to the total operating expenses and costs over the last four quarters for which consolidated financial statements of the company have been published; (f) Regarding multi-annual interested party transactions, the volume of the transaction will be calculated on an annual basis. Thus, for example, in an insurance transaction for several years, the paid annual insurance premiums shall be considered as the volume of the transaction.

In cases where, at the Company's discretion, all the aforementioned quantitative benchmarks are not applicable for evaluation of the negligibility of the transaction with an interested party, the transaction shall be deemed negligible, in accordance with another applicable benchmark to be determined by the Company, provided that the applicable benchmark calculated for said transaction is less than 0.5% and that the volume of the transaction shall not exceed NIS 8 million (with this sum being adjusted according to the rise, from time to time, of the consumer price index in relation to the Known Index since the beginning of 2010).

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

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

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

The Audit Committee of the Company shall annually review the manner of implementation of the instructions in this procedure by the Company, and will conduct sample examinations of interested-party transactions to which the company is a party directly, that were classified 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 shall 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.

The examination of the classification of an interested party transaction as a negligible transaction, as regards the examination of the quantitative threshold, will be performed by the Treasury Department and as regards the examination of the quantitative threshold and for the purpose of immediate reports, by the Secretary of the company in collaboration with legal consulting, as necessary. The Legal Department shall be responsible for documenting the examination and decision-making process.

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, 2011.

I. Dedicated Disclosure to Debenture Holders

For details regarding the rating of debentures, see Note 15 to the periodical report for the year 2010.

On July 3, 2011, Standard & Poor's Maalot granted a rating of iIA+ to the expansion of Bond Series 5 of the company (iIA+/Stable) in the amount of up to NIS 220 million. The said rating report was attached as an appendix to the management discussion dated June 30, 2011.

On October 5, 2011, Standard & Poor's Maalot determined that no immediate change would be made to the company's iIA+/Stable rating, following the lowering of the rating for the IDB Group. The said rating report is attached as an appendix to the management discussion dated September 30, 2011.

On November 6, 2011, Standard & Poor's Maalot determined that no change would be made to the company's iIA+/Stable rating, following the ruling of the lower court in Turkey regarding the tax claim at KCTR, operating in Turkey. The said rating report is attached as an appendix to the management discussion dated September 30, 2011.

1. Financing Sources

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 par value at issue date	Interest type	Stated Interest	Registered for trade on stock exchange (Yes/No)	Interest payment dates	Par value Nominal as at Sept-30-11	Book value of bond balances as at Sept-30-11	Book value of interest payable at Sept-30-11
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	85.7	103.8	4.6
Series 3	7.2008	Maalot	A+	187,500,000	Fixed	4.65%	Yes	Annual interest On July 10 In the years 2009-2018	145.8	161.0	1.7
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	157.0	158.3	2.7
Series 5	5.2010 & 7.2011	Maalot	A+	401,519,000	Fixed	5.85%	Yes	Semi-annual interest On November 30 and May 31 of the years 2010-2017	401.5	396.7	8.0

Comments:

- Series 2 - Linked to the Consumer Price Index (CPI). Principal repaid in 7 annual installments, between Dec-21-2007 and Dec-21-2013.
- Series 3 - Linked to the Consumer Price Index (CPI). Principal repaid in 9 annual installments, between July 2010 and July 2018.
- 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, 2011

HADERA PAPER LTD

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HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

	Note	September 30 2011 (Unaudited)	2010	December 31 2010
Assets				
Current Assets				
Cash and cash equivalents		161,885	161,826	120,992
Designated deposits		-	9,022	-
Trade receivables		630,320	357,947	564,929
Account receivables		76,033	124,180	57,059
Inventory		345,872	192,419	343,519
Total Current Assets		1,214,110	845,394	1,086,499
Non-Current Assets				
Fixed assets, net	5	1,328,273	1,207,822	1,358,619
Investments in associated companies		167,079	349,346	237,498
Deferred tax assets		2,913	* 2,008	2,165
Prepaid expenses in respect of an operating lease	4j	-	24,964	24,836
Other intangible assets		24,619	24,266	35,714
Investment property	2c	26,300	24,500	24,500
Financial assets - available for sale		2,726	-	1,646
Other assets		1,054	2,158	1,364
Employee benefit assets		725	730	793
Total Non-Current Assets		1,553,689	1,635,794	1,687,135
Total Assets		2,767,799	2,481,188	2,773,634

* Reclassified, see note 9.

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	September 30 2011 (Unaudited)	2010	December 31 2010
Liabilities and Equity				
Current Liabilities				
Credit from banks and others		195,770	73,752	144,622
Current maturities of long-term bonds and long term loans		158,019	165,917	175,936
Trade payables		408,208	267,426	370,065
Account payables		109,180	115,214	172,295
Employee benefit liabilities		28,019	20,494	27,586
Financial liability at fair value through profit and loss	2d	-	13,700	-
Current tax liabilities		13,694	6,617	19,951
Total Current Liabilities		912,890	663,120	910,455
Non-Current Liabilities				
Loans from banks and others		139,673	250,932	251,283
Bonds		722,673	594,372	562,348
Deferred tax liabilities		42,474	* 26,057	45,302
Employee benefit liabilities		17,639	14,829	19,132
Financial liability with respect to Put option granted to the non-controlling interests	2d	29,137	-	31,512
Total Non-Current Liabilities		951,596	886,190	909,577
Capital and reserves				
Issued capital		125,267	125,267	125,267
Reserves		287,213	310,621	298,258
Retained earnings		471,835	469,627	506,445
Capital and reserves attributed to shareholders		884,315	905,515	929,970
Non-controlling interests		18,998	26,363	23,632
Total capital and reserves		903,313	931,878	953,602
Total Liabilities and Equity		2,767,799	2,481,188	2,773,634

* Reclassified, see note 9.

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

Approval date of the interim financial statements: November 15, 2011.

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
		2011	2010	2011	2010	2010
		(Unaudited)		(Unaudited)		
Revenues		1,541,733	784,626	519,491	295,435	1,121,008
Cost of sales		1,361,315	661,045	463,665	254,697	945,422
Gross profit		180,418	123,581	55,826	40,738	175,586
Selling, marketing, general and administrative expenses						
Selling and marketing expenses		112,457	63,532	38,388	22,878	87,201
General and administrative expenses		53,879	43,897	18,510	14,922	59,603
Other expenses (income), net	4h	(31,756)	(16,584)	8,430	(17,226)	(32,513)
Total expenses		134,580	90,845	65,328	20,574	114,291
Profit from ordinary operations		45,838	32,736	(9,502)	20,164	61,295
Finance income		7,168	5,231	915	2,611	9,314
Finance expenses		68,840	33,662	26,451	20,263	54,079
Finance expenses, net		61,672	28,431	25,536	17,652	44,765
Profit (Loss) after financial expenses		(15,834)	4,305	(35,038)	2,512	16,530
Share in profit (loss) of associated companies, net		(29,100)	58,546	(16,384)	18,490	81,132
Profit (Loss) before taxes on income		(44,934)	62,851	(51,422)	21,002	97,662
Taxes on income	6	(4,605)	(2,461)	(6,028)	(2,085)	(2,950)
Profit (loss) for the period		(40,329)	65,312	(45,394)	23,087	100,612
Attributed to:						
Company shareholders		(35,704)	65,354	(43,560)	23,026	100,728
Non-controlling interests		(4,625)	(42)	(1,834)	61	(116)
		(40,329)	65,312	(45,394)	23,087	100,612
NIS						
Earnings (loss) for regular share of NIS 0.01 par value						

Primary earnings (loss) per share attributed to Company shareholders	(7.02)	12.88	(8.56)	4.53	19.84
Fully diluted earnings (loss) per share attributed to company shareholders	(7.02)	12.77	(8.56)	4.50	19.68
Weighted average number of share used to compute the earning per share					
Primary	5,089,272	5,075,922	5,089,811	5,082,028	5,078,156
Fully diluted	5,089,272	5,116,355	5,089,811	5,114,456	5,118,416

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME
(NIS in thousands)

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December
	2011	2010	2011	2010	31
	(Unaudited)		(Unaudited)		2010
Profit (Loss) for the period	(40,329)	65,312	(45,394)	23,087	100,612
Other Comprehensive Income (loss), net					
Profit (loss) on cash flow hedges, net	-	1,213	-	2,184	1,044
Actuarial profit in respect of defined benefit plan, net	(223)	32	(79)	111	115
Profit from fair value adjustment of financial asset available for sale, net	864	-	174	-	-
Share in Other Comprehensive Income (loss) of associated companies, net	(11,726)	964	(3,757)	4,203	(11,711)
Share in Other Comprehensive Income of associated companies, which allocated to the income statements, net	347	315	347	8	446
Total Other Comprehensive Income (loss) for the period, net	(10,738)	2,524	(3,315)	6,506	(10,106)
Total Comprehensive Income (loss) for the period	(51,067)	67,836	(48,709)	29,593	90,506
Attributed to:					
Company shareholders	(46,433)	67,857	(46,866)	29,470	90,605
Non-controlling interests	(4,634)	(21)	(1,843)	123	(99)
	(51,067)	67,836	(48,709)	29,593	90,506

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

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

	Share capital	Share Premium	Share payments reserves	Capital reserves resulting from tax benefit on Share based employee options	Capital reserve from revaluation of step acquisition	Cash Flows Hedging reserves	Foreign currency reserves	Capital reserve from revaluation of financial asset available for sale	Retained earnings	Total for Company shareholders	Non-controlling interests
Balance - January 1, 2011	125,267	306,851	7,988	3,397	12,420	1,123	(33,521)	-	506,445	929,970	23,632
For the Nine months ended September 30, 2011:											
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(12,415)	-	-	(12,415)	-
Cash flow hedges transactions	-	-	-	-	-	1,036	-	-	-	1,036	-
Actuarial loss from defined benefit plan	-	-	-	-	-	-	-	-	(214)	(214)	(9)
Profit from fair value adjustment of financial asset available for sale	-	-	-	-	-	-	-	864	-	864	-
Loss for the period	-	-	-	-	-	-	-	-	(35,704)	(35,704)	(4,625)
Total Comprehensive	-	-	-	-	-	1,036	(12,415)	864	(35,918)	(46,433)	(4,634)

Income (loss)												
for												
the period												
Depreciation of												
capital												
from												
revaluation												
from												
step												
acquisition to												
retained												
earnings	-	-	-	-	(1,308)	-	-	-	1,308	-	-	-
Share based												
payment	-	-	778	-	-	-	-	-	-	778	-	778
Conversion of												
employee												
options into												
shares	*-	1,694	(1,694)	-	-	-	-	-	-	-	-	-
Balance –												
September												
30, 2011	125,267	308,545	7,072	3,397	11,112	2,159	(45,936)	864	471,835	884,315	18,998	900,000

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

HADERA PAPER LTD

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

	Share capital	Share Premium	Share payments reserves	employee options	Capital reserves resulting from tax benefit on Share based payments	Capital reserve from revaluation of employee acquisition step	Cash Flows Hedging reserves	Foreign currency reserves	Retained earnings	Total for Company shareholders	Non-controlling interests	Total
Balance - January 1, 2010	125,267	301,695	10,531	3,397	14,164	517	(22,872)	402,936	835,635	26,384	862,019	
For the Nine months ended September 30, 2010:												
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	1,476	-	1,476	-	1,476	
Cash flow hedges transactions	-	-	-	-	-	998	-	-	998	18	1,016	
Actuarial loss from defined benefit plan	-	-	-	-	-	-	-	29	29	3	32	
Profit (Loss) for the period	-	-	-	-	-	-	-	65,354	65,354	(42)	65,312	
Total Comprehensive Income (loss) for the period	-	-	-	-	-	998	1,476	65,383	67,857	(21)	67,836	
Depreciation of capital from revaluation from	-	-	-	-	(1,308)	-	-	1,308	-	-	-	

step
acquisition to
retained
earnings

Share based
payment

-	-	2,023	-	-	-	-	-	-	2,023	-	2,023
---	---	-------	---	---	---	---	---	---	-------	---	-------

Conversion of
employee
options

into shares

*-	5,106	(5,106)	-	-	-	-	-	-	-	-	-
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Balance

– September 30,

2010	125,267	306,801	7,448	3,397	12,856	1,515	(21,396)	469,627	905,515	26,363	931,878
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* Represents an amount less than NIS 1,000.

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

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HADERA PAPER LTD

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

	Share capital	Share Premium	Share payments reserves	Capital reserves resulting from tax benefit on Share based employee options	Capital reserve from revaluation of step acquisition	Cash Flows Hedging reserves	Foreign currency translation reserves	Capital reserve from revaluation of financial asset available for sale	Retained earnings	Total for Company shareholders	Non-controlling interests	Total
Balance - July 1, 2011	125,267	308,545	7,039	3,397	11,548	1,410	(41,777)	690	515,029	931,148	20,841	951,989
For the Three months ended September 30, 2011:												
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(4,159)	-	-	(4,159)	-	(4,159)
Cash flow hedges transactions	-	-	-	-	-	749	-	-	-	749	-	749
Actuarial loss from defined benefit plan	-	-	-	-	-	-	-	-	(70)	(70)	(9)	(79)
Profit from fair value adjustment of financial asset available for sale	-	-	-	-	-	-	-	174	-	174	-	174
Loss for the period	-	-	-	-	-	-	-	-	(43,560)	(43,560)	(1,834)	(45,394)
Total Comprehensive Income (loss) for the period	-	-	-	-	-	749	(4,159)	174	(43,630)	(46,866)	(1,843)	(48,713)

Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(436)	-	-	-	436	-	-	-
Share based payment	-	-	33	-	-	-	-	-	-	33	-	33
Balance – September 30, 2011	125,267	308,545	7,072	3,397	11,112	2,159	(45,936)	864	471,835	884,315	18,998	900,000

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

HADERA PAPER LTD

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

	Share capital	Share Premium	Share payments reserves	employee options	Capital revaluation step acquisition	Cash Flows Hedging reserves	Foreign currency reserves	Retained earnings	Total for Company shareholders	Non-controlling interests	Total
Balance - July 1, 2010	125,267	306,801	6,858	3,397	13,292	(415)	(25,810)	446,065	875,455	26,240	901,695
For the Three months ended September 30, 2010:											
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	4,414	-	4,414	-	4,414
Cash flow hedges transactions	-	-	-	-	-	1,930	-	-	1,930	51	1,981
Actuarial profit from defined benefit plan	-	-	-	-	-	-	-	100	100	11	111
Profit for the period	-	-	-	-	-	-	-	23,026	23,026	61	23,087
Total Comprehensive Income for the period	-	-	-	-	-	1,930	4,414	23,126	29,470	123	29,593
Depreciation of capital from revaluation	-	-	-	-	(436)	-	-	436	-	-	-

step
acquisition
to retained
earnings

Share based payment	-	-	590	-	-	-	-	-	590	-	590
Balance – September 30, 2010	125,267	306,801	7,448	3,397	12,856	1,515	(21,396)	469,627	905,515	26,363	931,878

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

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HADERA PAPER LTD

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

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on Share based payments	Capital reserve from employee acquisition	Cash Flows Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Non-controlling interests	Total
Balance - January 1, 2010	125,267	301,695	10,531	3,397	14,164	517	(22,872)	402,936	835,635	26,384	862,019
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	(10,649)	-	(10,649)	-	(10,649)
Cash flow hedges transactions	-	-	-	-	-	606	-	-	606	18	624
Actuarial loss from defined benefit plans, net	-	-	-	-	-	-	-	(80)	(80)	(1)	(81)
Profit (loss) for the year	-	-	-	-	-	-	-	100,728	100,728	(116)	100,612
Total Comprehensive Income (loss) for the Year	-	-	-	-	-	606	(10,649)	100,648	90,605	(99)	90,506
Share purchase from non-controlling interests in subsidiary	-	-	-	-	-	-	-	1,117	1,117	(17,498)	(16,381)
	-	-	-	-	-	-	-	-	-	14,845	14,845

Entry into consolidation												
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(1,744)	-	-	1,744	-	-	-	-
Share based payment	-	-	2,613	-	-	-	-	-	2,613	-	-	2,613
Conversion of employee options into shares	*-	5,156	(5,156)	-	-	-	-	-	-	-	-	-
Balance – December 31, 2010	125,267	306,851	7,988	3,397	12,420	1,123	(33,521)	506,445	929,970	23,632	-	953,600

* Represents an amount less than NIS 1,000.

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December
	2011	2010	2011	2010	31
	(unaudited)		(unaudited)		2010
Cash flows – operating activities					
Profit (Loss) for the period	(40,329)	65,312	(45,394)	23,087	100,612
Taxes on income recognized in profit and loss	(4,605)	(2,461)	(6,028)	(2,085)	(2,950)
Finance expenses, net recognized in profit and loss	61,672	28,431	25,536	17,652	44,765
Capital profit on disposal of fixed assets	(37,482)	(19,444)	(23)	(17,973)	(19,556)
Gain from revaluation of prior holding at fair value due to achieving control	-	-	-	-	(5,760)
Share in loss (profit) of associated company	29,100	(58,546)	16,384	(18,490)	(81,132)
Dividend received from associated company	17,465	52,854	-	22,914	70,319
Depreciation and amortization	94,131	64,224	37,447	25,412	88,047
Income from fair value adjustment of investment property	(94)	(151)	(94)	(151)	(151)
Share based payments expenses	679	1,623	9	481	2,104
	120,537	131,842	27,837	50,847	196,298
Changes in assets and liabilities:					
Increase in trade and other receivables	(70,373)	(40,935)	(31,279)	(26,064)	(51,546)
Increase in inventory	(6,164)	(16,475)	(9,584)	(1,241)	(5,926)
Increase in trade payables and account payables	32,458	54,130	27,076	41,751	47,999
Increase (Decrease) in financial liability	(2,375)	1,718	(266)	(328)	872
Increase (Decrease) in employee benefit liabilities	(1,479)	(2,371)	(2,944)	(1,550)	6,678
	(47,933)	(3,933)	(16,997)	12,568	(1,923)
Payments Taxes	(4,603)	(1,149)	(1,382)	-	(1,293)
Net cash generated by operating activities	68,001	126,760	9,458	63,415	193,082

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

	Note	Nine months ended		Three months ended		Year ended
		September 30		September 30		December
		2011	2010	2011	2010	31
		(Unaudited)		(Unaudited)		2010
Cash flows – investing activities						
Acquisition of fixed assets and Prepaid expenses in respect of a financing lease	5	(59,213)	(175,417)	(23,646)	(60,226)	(219,124)
Acquisition of subsidiary	4f	(48,506)	-	-	-	13,111
Acquisition of other assets		(186)	(1,223)	-	(3)	(2,956)
Proceeds from disposal of fixed assets and from sale of assets under an operating lease	4j	57,944	8,656	528	6,102	18,277
Decrease in designated deposits		-	116,334	-	1,777	127,600
Interest received		3,647	1,317	1,171	594	1,829
Granting of loans to an associated company		-	(978)	-	(162)	(978)
Net cash used in investing activities		(46,314)	(51,311)	(21,947)	(51,918)	(62,241)
Cash flows – financing activities						
Proceeds from issuing bonds (less issuance expenses)		216,326	179,886	216,326	-	179,886
Short-term bank credit – net		51,148	(57,820)	1,583	(349)	(79,802)
Long term loans received		626	83,500	626	6,200	93,500
Repayment of Long term loans		(132,151)	(43,240)	(49,975)	(16,904)	(56,804)
Interest Paid		(49,005)	(40,319)	(24,151)	(22,599)	(58,538)
Repayment of bonds		(62,358)	(61,322)	(62,358)	(61,322)	(94,994)
Dividend paid to non-controlling interests		(4,273)	-	-	-	-
Share purchase from non-controlling interests in subsidiary		(702)	-	-	-	(15,703)
Net cash generated by (used in) financing activities		19,611	60,685	82,051	(94,974)	(32,455)
Increase (Decrease) in cash and cash equivalents		41,298	136,134	69,562	(83,477)	98,386
Cash and cash equivalents – beginning of period		120,992	26,261	91,534	245,875	26,261
Net foreign exchange difference		(405)	(569)	789	(572)	(3,655)
		161,885	161,826	161,885	161,826	120,992

Cash and cash equivalents – end
of period

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

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HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

A. Description Of Business

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

B. For further information read these concise reports in connection with the Company's annual financial statements as of December 31, 2010 and the year then ended, as were published in the shelf prospectus on May 26, 2011, and the accompanying notes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of preparation

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

In the preparation of these interim financial statements the Group applied identical accounting policy, presentation rules and calculation methods to those that were applied in the preparation of its financial statements as of December 31, 2010 and the year then ended, except for changes in the accounting policy that arose from the implementation of standards, amendment to standards and new interpretations that became effective on the date of the financial statements as specified in Sections c, d and note 3 below.

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

C. Measuring fair value of investment property in the interim financial statements

The Company bases its measurement of the fair value of investment property on a valuation that is performed annually by an independent appraiser. In addition, at every interim reporting date, the Company reviews the need to update the fair value of its investment property relative to the fair value that was determined on the last valuation date, in order to assess whether this is a reliable estimate of the fair value as of the interim reporting date. This assessment is made by reviewing changes in the relevant real estate market, in the property's lease contracts and in the macroeconomic environment of the property, as well as new information on material transactions that were made in the environment of the property and similar assets, which might indicate changes in the fair value of the property. If, in the Company's opinion, there are indicators, that the fair value at the interim reporting period is materially different than the fair value measured on the last valuation date, with respect to certain properties, the Company measures the fair value of these properties as of the interim reporting date, by using an external appraiser.

At September 30, 2011, the company estimated the fair value of investment property (real estate) through an external assessor. According to the valuation that was received, the fair value of the investment property, as at September 30,

2011, was estimated at approximately NIS 26,300 thousands.

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HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

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

D. Taxes on income in the interim financial statements

Tax expenses (income) in the relevant periods include total current taxes as well as changes in deferred tax balances, except for deferred taxes arising from transactions carried directly to equity, and business combination transactions.

Current tax expenses (income) in the interim periods are accrued using the average annual effective income tax rate. To calculate the effective income tax rate, losses for tax purposes in respect of which deferred tax assets were not recognized are deducted, which is expected to reduce the tax liability in the reporting year.

E. Exchange Rates and Linkage Basis

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

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

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

As of:	Representative exchange rate of the dollar (NIS per \$1)	Representative exchange rate of the Euro (NIS per €1)	CPI "in respect of" (in points) (*)
September 30, 2011	3.712	5.044	216.27
September 30, 2010	3.665	4.987	210.11
December 31, 2010	3.549	4.738	211.67
Increase (decrease) during the:	%	%	%
Three months ended September 30, 2011	8.70	2.01	0.00
Three months ended September 30, 2010	(5.42)	4.82	1.23
Nine months ended September 30, 2011	4.59	6.46	2.17
Nine months ended September 30, 2010	(2.94)	(8.36)	1.90
Year ended December 31, 2010	(5.99)	(12.94)	2.70

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

NOTE 3 - RECENTLY PUBLISHED IFRS AND INTERPRETATIONS:

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

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

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HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

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

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

§IAS 34 Revised "Interim Financial Reporting"

The amendment emphasizes the principles laid out in IAS 34 that the purpose of the information presented in the interim financial statements regarding events and transactions which are essential in understanding changes in the financial position and in the entity's performance since the last annual reporting date, is to update the information relating thereto in the last annual financial statements. In addition, the amendment clarifies the implementation of this principle with respect to financial instruments, and certain disclosure requirements have been added. The Amendment is implemented retroactively for annual accounting periods commencing on or after January 1, 2011.

§For information regarding the standards, interpretations and amendments to the standards set forth below, see notes 3b and 3c to the Company's financial statements for the year ended December 31, 2010.

§ Amendment to IFRS 3 (Revised) "Business Combinations" (regarding measurement of non-controlling interests).

§ Amendment to IAS27 (Revised) "Consolidated and Separated Financial Statements".

§ Amendment to IFRS 7 "Financial Instruments: Disclosure" (regarding the nature and extent of risks arising from financial instruments).

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

§Amendment to IAS 12 "Taxes on Income"

Within the framework of the amendment, it was stipulated that investment property measured at fair value according to IAS 40, will be considered as assets whose carrying amount will be recovered through sale. Accordingly, deferred taxes will be computed in accordance with the tax bases and rates applicable as at the sale of the asset. The presumption can be rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time, not through sale but by way of use. The effective date of the amendments is for annual periods beginning on or after 1 January 2012. Early adoption is permitted.

The Company's management estimates that the effect of implementing the Amendment on its financial position and results of operations is not expected to be significant.

§IFRS 10 "Consolidated Financial Statements"

The standard determines the following provisions on the subject of consolidated financial statements:

§

The existence of control by one entity in another entity is to be determined on the basis of a uniform model, which is independent of whether the other entity is "a special purpose entity". In this capacity, the interpretation of SIC 12 "Consolidation of entities for special purposes" has been cancelled.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

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

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

§IFRS 10 "Consolidated Financial Statements"(cont.)

§ Control by an investor in another entity (hereinafter: "The investee entity") exists where the investor has power in relation to the investee entity, it has an exposure to the variable returns from its involvement in the investee entity and the ability to make use of its power in order to affect the level of the return.

§ The standard determines provisions for testing for the existence of "practical control" where the entity holds less than half of the voting rights in another entity. For this purpose, inter alia, the investor's holding rate in the investee entity, the extent of the public's holdings and the degree to which they are dispersed are all to be examined.

§ Potential voting rights in the investee entity are to be taken into account for the purpose of the determination of the existence of control where their terms afford a real ability to direct the relevant activities of the entity in the present.

§ The new standard does not contain a change in the procedures in respect of the consolidation of the financial statements.

This standard is to be implemented retrospectively, except for certain exceptions, as detailed in the standard, in respect of annual reporting periods commencing on January 1, 2013, or thereafter. Earlier implementation is possible, provided that it be implemented in tandem with IFRS 11 "Joint arrangements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 (2011) "Investments in associates and joint ventures".

At this stage the Company's management is not able to assess the impact of the implementation of the standard on its financial position and on the results of its operations.

§IFRS 12 "Disclosure of interests in other entities"

The standard determines disclosure requirements in respect of the entity's rights in consolidated companies, joint ventures, affiliated companies, and structured non-consolidated entities. The objective of the disclosures is to assist in the assessment of the nature of the accompanying risks in connection with the rights in the said entities and the impact of those rights on the financial statements of the reporting entity.

This standard is to be implemented retrospectively in respect of annual reporting periods commencing on January 1, 2013, or thereafter. Earlier implementation is possible, provided that it be implemented in tandem with IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements" and IAS 28 (2011) "Investments in associates and joint ventures". At the same time, entities are entitled to integrate any of the new disclosures into their financial statements before that date.

§IAS 28 (2011) "Investments in associates and joint ventures"

The standard determines the following provisions on the subject of the implementation of the equity method of accounting:

§ The equity method of accounting is to be implemented in respect of both affiliated companies and joint ventures.

§ Where the investment in a joint venture is classified as an investment in an affiliated company, or vice-versa, no re-measurement is to be made of the entity's rights in the investee entity.

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HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

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

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

§IAS 28 (2011) "Investments in associates and joint ventures" (cont.)

§ When there is a decrease in the holding rate in a joint venture or an affiliated company, which does not cause the discontinuation of the implementation of the equity method of accounting, the investor is only to reclassify the proportionate amounts that were previously recognized under other comprehensive income to the statement of income.

§ The part of the investments that is treated under the equity method of accounting is to be classified as a non-current asset that is held for sale, on the assumption that this element meets the conditions for such classification.

This standard is to be implemented retrospectively in respect of annual reporting periods commencing on January 1, 2013, or thereafter. Earlier implementation is possible, provided that it be implemented in tandem with IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements" and IFRS 12 "Disclosures of interests in other entities".

At this stage the Company's management is not able to assess the impact of the implementation of the standard on its financial position and on the results of its operations.

§ Amendment to IAS 1 (Revised) "Presentation of financial statements (on the subject of the presentation of elements of other comprehensive income in the statements of comprehensive income)

The amendment determines that items that are recorded in other comprehensive income are to be separated and presented in one of two groups:

- § Items that are to be classified in the future to the statement of income.
- § Items that are not to be classified in the future to the statement of income.

In addition, the amendment determines that in the event that items recorded under other comprehensive income are presented before the relevant tax effects, the tax effect is to be presented separately in respect of each of the groups. The amendment is to be implemented retrospectively in respect of annual periods commencing on January 1, 2013, or thereafter. Early adoption is permitted.

§ For information regarding commencement dates, transitional provisions and the expected impact on the Company from the standards, amendments to standards and interpretations detailed below see note 3C to the annual financial statements of the Company as of December 31, 2010 and the year then ended:

§IFRS 9: "Financial instruments".

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

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

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

§IFRS 11 "Joint arrangements"

The standard determines that a joint arrangement is an arrangement where two or more parties exercise joint control (as defined in IFRS 10) in it. Additionally, the standard determines the following types of joint arrangements and the accounting treatment in respect thereof:

§ Activity under joint control is a joint arrangement between the parties that exercise joint control, which affords them rights to the assets and undertakings in respect of the liabilities of the activity. An entity that holds joint control in activity under joint control is to recognize its share of the assets, the liabilities, the revenues and the expenses of the activity in its consolidated financial statements.

§ A joint venture is a joint arrangement between parties having joint control in an arrangement, who hold rights in the net assets of the venture. An entity that holds joint control in a joint venture is to present its investment therein under the equity method of accounting in accordance with IAS 28 (2011) "Investments in associates and joint ventures".

This standard is to be implemented retrospectively, except for certain exceptions as detailed in the standard, in respect of annual reporting periods commencing on January 1, 2013, or thereafter. Earlier implementation is possible, provided that it be implemented in tandem with IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 (2011) "Investments in associates and joint ventures".

The Company's management estimates that the implementation of this standard is not expected to affect its financial statements.

§IFRS 13 "Fair value measurement"

The standard replaces the individual fair value measurement provisions in the various International Financial Reporting Standards, with provisions that have been gathered together into a single standard, which will constitute a guide to fair value measurement. Accordingly, provisions have been set for the measurement of fair value for all of the items that are measured at fair value in the statement of financial position or for disclosure purposes.

In accordance with the standard, fair value is defined as the amount that would be received from the sale of an asset or the amount that would be paid on the payment of a liability in the ordinary course of business between market participants at the time of the measurement.

The standard determines the various approaches to the measurement of the fair value and notes that the evaluation technique that makes the maximum use of observed market data is to be used. In respect of non-financial assets, it is determined that in order to measure their fair value their optimal use is to be evaluated, and that the fair value is to be estimated on this basis.

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This standard is to be implemented prospectively for annual periods commencing on January 1, 2013, or thereafter. Early adoption is permitted.

The Company's management estimates that the impact of the implementation of this standard on its financial statements is not expected to be material.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

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

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

§IAS 19 (2011) "Employee benefits"

The standard changes the provisions of IAS 19 "Employee benefits" in its existing format, from the following aspects:

§ Actuarial gains or losses are to be reflected under other comprehensive income and are not to be classified to the statement of income at a later stage. Accordingly, the alternatives of the reflection of the actuarial gains or losses to the statement of income immediately or in accordance with the strip method have been cancelled.

§ Income from interest in respect of plan assets for a defined benefit plan are to be recognized on the basis of discount rate of the commitment and not in accordance with the expected return on the asset.

§ Short-term employee benefits are to include benefits that are expected to be fully cleared within 12 months from the end of the year in which the service that entitles the employee to the benefit was provided.

§ Benefits in respect of severance pay as the result of a proposal to encourage voluntary termination are to be recognized as a commitment at the time at which the reporting entity has no possibility of renegeing on the proposal.

This standard is to be implemented retrospectively, except for certain exceptions as detailed in the standard for annual periods commencing on January 1, 2013, or thereafter. Early adoption is permitted.

The Company's management estimates that the impact of the implementation of this standard on its financial statements is not expected to be material.

§ For information regarding commencement dates and the transitional provisions of the standards, amendments and interpretations detailed below, see note 3D to the annual financial statements of the Company as of December 31, 2010 and the year then ended:

§ Amendment to IFRS 7 "Financial Instruments: Disclosure" (regarding disclosure on the transfer of financial assets).

NOTE 4 - SIGNIFICANT TRANSACTIONS AND EVENTS

a. On January 31, 2011 a dividend in cash, in the amount of NIS 4.6 million, that was declared on December 30, 2010, was received from a former associated company that was first consolidated on 31 December, 2010.

b. On February 23, 2011, an associated company declared a distribution of a dividend in the amount of approximately NIS 30 million out of the retained earnings accumulated as of December 31, 2010. The dividend was paid on June 30, 2011. The Company's share in the dividend is approximately NIS 15 million.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 4- SIGNIFICANT TRANSACTIONS AND EVENTS (cont.)

- c. On March 24, 2011 an associated company paid a dividend that was declared on July 27, 2010, in the amount of NIS 5 million. The Company's share in the dividend is approximately NIS 2.5 million.
- d. On July 26, 2011 an associated company declared the distribution of a dividend in the amount of approximately NIS 30 million from the retained earnings for June 30, 2011. The dividend will be paid during the fourth quarter of 2011. The Company's share in the dividend is approximately NIS 15 million.
- e. On May 27, 2011 the Company published a shelf prospectus that was amended on June 19, 2011 by which the Company issued on July 4, 2011, debentures (Series 5) of the Company, by way of extending a series issued on May 23, 2010. The Company has offered an amount of NIS 220,000 thousands par value of debentures (Series 5) issued in return for NIS 218,020 thousands bearing an interest rate of 5.85%. The principal is payable in five annual equal payments, each on November 30th of the years 2013-2017. The interest is payable half annually each on May 31st and November 30th of the years 2011-2017. The net proceed of the offering net of issue expenses is NIS 216,326 thousands.
- f. On January 5, 2011, the Company paid the entire consideration in the amount of NIS 48.5 million in respect of the acquisition of shares in Hadera Paper –Printing and Writing Paper on December 31, 2010. For additional details see Note 17 in the Company's financial statements as of December 31, 2010
- g. On January 30, 2011 the Ministry for the Protection of the Environment (hereinafter: "the Ministry") held a hearing for the Company regarding suspicion of pollution of water by discharging low quality waste water into the Hadera Stream.

On February 8, 2011 the Company received the summary of the hearing in which it was found, inter alia, that the Company had a duty to improve the quality of the waste water, and a duty of reporting weekly to the Ministry regarding the quality of the treated waste water. The Company has taken and takes actions which resulted in a significant improvement, in the quality of the treated waste water discharged into the river. The company cannot at this stage estimate the impact of the above.

- h. On February 28, the Audit Committee approved and on March 6, 2011 the Board of Directors approved the agreement entered into by the Company, whereby the Company would lease to CLAL PV Projects Ltd. ("CLAL PV"), a private company indirectly held and controlled by CLAL Industries and Investments Ltd. ("CLAL"), the parent company, roofs of buildings at the Company facility in Hadera, with a total area of up to 19,200 m², of which the Company has the option, which has been exercised by it, not to lease part of this space with an area of up to 14,300 m² - for construction of power generating facilities using photo-voltaic technology and its transmission to the power grid during the lease term, pursuant to a generation license to be granted to CLAL PV. The rent would range between NIS 90 thousand and NIS 230 thousand per year, and shall be determined based on the tariff per generated kilowatt/hour of power as set for CLAL PV in its generation license. The agreement also specifies that the Company would be paid additional rent up to NIS 70 thousand per year, with respect to excess power generated (if any), as per provisions of the agreement. The lease term runs from the date of taking possession of the leased property through the 20th anniversary of commercial operation of the leased property (as defined in the agreement); CLAL PV was granted an option to extend the lease, provided that the total lease term would not exceed 24 years and 11 months. The agreement includes customary provisions with regard to circumstances under

which the parties may terminate the agreement, and the Company was granted the option to terminate the agreement should it announce its desire to use the leased property for its own operations which do not allow operation of the facility in the leased property; in such case, CLAL PV committed to vacate the leased property within the time specified, in return for payment of the economic value of the generation facility based on an independent economic valuation. The agreement is subject to certain suspending conditions being met within 15 months from its signing date, including, inter alia, obtaining approvals, permits and licenses for construction of the facility, obtaining approval of the General Meeting of Company shareholders to be convened to approve this contract and other conditions. On March 15, 2011 the aforementioned agreement was signed, and on April 21, 2011 the General Meeting of the company's shareholders approved the contract.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 4- SEGMENTED TRANSACTIONS AND EVENTS (cont.)

i. On March 6, 2011, the Board of Directors of the Company approved incorporation of a foreign entity (hereinafter: "the foreign entity"), wholly-owned by the Company, which is to be incorporated for entering into agreement with an overseas business partner (an unrelated third party) for operations in removal of paper and cardboard waste and recycling operations overseas under a Joint Venture (hereinafter: "JV"). During the second quarter of 2011, The Company recorded the foreign company as aforesaid, and then signed the mentioned agreement with the overseas business partner. The Company's share of this operation is 65%. This operation requires an initial investment, to be made in stages based on JV needs, amounting to USD 5.2 million, by way of owners' loan or guarantee, 80% of which would be invested by the Company. As of the date of the financial statements the company has invested a total amount of NIS 2.5 million by owners' loan.

The agreement includes restrictions on partner rights to transfer their JV shares, grants the foreign entity the right to appoint two thirds of the JV Board members as well as its CEO, grants the Company the right to purchase up to 75% of the paper and cardboard waste collected by JV at market prices, and includes certain non-compete provisions. The JV began to operate in the third quarter of 2011 and is consolidated within the financial statements of the company as at September 30, 2011.

j. On March 27, the sale of a plot of land in the Totseret Ha'Aretz Street in Tel-Aviv has been fulfilled according to agreement that the company signed with Gev-Yam land corporation Ltd ("Gev-Yam"), a company indirectly controlled by IDB Development Company Ltd., The controlling shareholder of the Company, and with Amot Investments Ltd. As a result of the closing transaction, the Company recorded subject to the agreement, during the reporting period, capital gain, of approximately NIS 35.8 million (net of tax - approximately NIS 28 million).

k. During the year of 2009, as part of a formal tax inspection of the Turkish Tax Authorities, the Financial Reports for the years 2004-2008 of KCTR the Turkish subsidiary ("KCTR") of the associated company Hogla- Kimberly Ltd, held by 49.9% were examined.

On February 16, 2010, KCTR received a tax inspection report, following the aforementioned inspection, according to which KCTR is required to an additional tax payment for two matters audited, on the total amount of YTL 153 million (approximately USD 82.4 million) including interest, fines and VAT refund offset.

Regarding one of the matters, which is the essential part of the tax demand (tax on capital injection from Hogla-Kimberly to KCTR), KCTR has filed, based on its tax consultant opinion in Turkey, in 2010, appeals to the court against the demand of the tax authorities.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 4- SEGNIIFICANT TRANSACTIONS AND EVENTS (cont.)

k.(cont.)

On July 28, 2011, on August 4, 2011 and on November 1, 2011, the court handed down its decisions regarding some of the appeals (which reflected 43.9% of the claim's principal amount), pursuant to which KCTR is required to make payments to the tax authorities amounting to YTL 14.5 million, amounting to - with the addition of interest, fines and before VAT asset offset (as at the date of the decision) – approximately YTL 58.2 million (approximately \$31.4 million).

The amount for payment (if and when will be paid) net after offsetting Vat asset, amount to approximately YTL 52.3 million (approximately \$28.1 million).

KCTR appealed the decisions of the court in Turkey, based on the expert opinion of its legal consultants, in spite of the said court's decision, claiming that KCTR possesses valid claims against the requirement and that the chances of success in the said appeal are greater than 50%. In addition, KCTR applied to the Supreme Court to delay implementation of the verdict until the Supreme Court ruling on appeals submitted by KCTR.

It should be noted that the court in Turkey is still discussing several additional appeals regarding the outstanding tax demand, concerning which no decision has yet been made. The principal on account of those appeals that have yet to be discussed by the court amounts to YTL 18.5 million (approximately USD 10.0 million) and sums up to approximately YTL 82.9 million, including interest and fines (approximately USD 44.6 million).

According to the accounting policy of the company, the fact that the decision of the court had been handed down, even if appealable with great chances of success, creates a situation where it is "more likely than not" that payments will be made on account of these tax requirements. Consequently, during the reported period, the associated company included a provision pertaining to the awarded sums, as mentioned above, in which the Company's share amounts to NIS 58.8 million.

Regarding appeals and sums regarding which no ruling has been handed down by the court in Turkey, it is company policy to examine, based on the expert opinion of the KCTR legal consultants, the probability that payments will have to be made on account of these appeals, while taking into consideration all the relevant circumstances.

In light of the fact that the legal consultants of KCTR estimate the probability of success, on finishing all legal proceedings – that is, after submission if required, of another appeal, in the appeals regarding which no ruling has yet been handed down, as being greater than 50%, the company did not include in its financial statements, a provision on account of the potential tax liability that is inherent in those matters regarding which a ruling has not yet been handed down.

For Corporate guarantee issuance relating the tax case please see note 8a.

1. On May 2, 2011 petition was filed against Hogla-Kimberly Ltd an associated company, for the approval of a class action. According to the petition, the plaintiff claimed that Huggies diapers, marketed by Hogla-Kimberly Ltd, which she purchased, did not absorb as was expected due to a fault in the diapers production line. The plaintiff

estimates the scope of the class action to be approximately NIS 1.2 billion.

At this early stage, Hogla-Kimberly's legal advisor opinion is that the probability of the request for approval of a class action lawsuit will be rejected is higher than the probability that it will be approved, and therefore no provision was created in the financial statements as at September 30, 2011, on account of this matter.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 4 - SEGMENT SIGNIFICANT TRANSACTIONS AND EVENTS (cont.)

- m. On May 15, 2011 the company announced that an agreement for purchase of natural gas was signed 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"), 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 USD 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 preparing 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 in its signature date was estimated at approximately USD 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.

- n. In light of indications of impairment that rose as a result of the results of the Carmel cash-generating unit, the Company commissioned an external and independent appraiser to examine the need for a provision for impairment. The evaluation was made on the basis of its use value, based on the capitalized cash flows that are expected to be generated by the company, using a discount rate of 9.5% and it was found that the value of Carmel is lower than its book value by approximately NIS 6,988 thousands. The company consequently recognized a loss on account of impairment that was charged to other expenses, against the write off of a surplus in accounts receivable in the amount of NIS 8,761 thousands and a decrease in the balance of the tax reserve on account of this surplus cost, in the sum of NIS 1,773 thousands.

As part of the valuation, the valuator relied on the tax rates as determined in the government ratification, dated October 30, 2011, of the recommendations of the Taxation Chapter by the Trachtenberg Committee, where it was resolved to cease the lowering of income tax rates for individuals and for corporate taxes, as determined in the Law for Economic Encouragement of 2009. Starting with the tax year 2012, the corporate tax rate would be increased to 25%. Accordingly, the valuator utilized a tax rate of 25%.

- o. In light of indications that rose as a result of the results of the Printing and Writing papers cash-generating unit, the Company commissioned an external and independent appraiser to examine the need for a provision for impairment. The evaluation was made on the basis of its use value, based on the capitalized cash flows that are expected to be generated by the company, using a discount rate of 9.5% and it was found that the value of Printing and Writing papers is actually higher than its book value and no recognition is necessary of a loss on account of impairment.

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As part of the valuation, the valuator relied on the tax rates as determined in the government ratification, dated October 30, 2011, of the recommendations of the Taxation Chapter by the Trachtenberg Committee, where it was resolved to cease the lowering of income tax rates for individuals and for corporate taxes, as determined in the Law for Economic Encouragement of 2009. Starting with the tax year 2012, the corporate tax rate would be increased to 25%. Accordingly, the valuator utilized a tax rate of 25%.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 5 - FIXED ASSETS

During the periods of nine months ended September 30, 2011 and September 30, 2010, the Company purchased fixed assets at a cost of approximately NIS 59,213 thousands and NIS 175,417 thousands, respectively.

Total suppliers' credit from acquired fixed assets amounted to NIS 33,668 thousands as of September 30, 2011 (and NIS 49,129 thousands as of September 30, 2010).

NOTE 6 - INCOME TAX CHARGE

Tax income for the nine months period ended September 30, 2011 amounts to NIS 4.6 million, primarily arising from the differences between tax rates expected to realize current losses and tax rates expected for reversal of deferred tax liabilities, in respect of the accelerated depreciation reduction of Machine 8. The difference derives from the gradual reduction in the corporate tax rate in accordance with Economic Efficiency Law. The tax income was offset as a result of the recognition of tax expenses in the amount of NIS 7.7 million from the sale of real estate as stated in note 4j above.

On October 30, 2011, the government of Israel approved the recommendations of the taxation chapter of the Committee for Changing the Social-Economic Agenda, headed by Prof. Manuel Trachtenberg. In order for the changes to the tax rates that were approved by the government to become effective, supplemental legislative processes must be completed. These have yet to take place, true to the date of approval of the financial statements and as at September 30, 2011. Consequently, the changes to the tax rates that were approved in the said government resolution have no effect on the measurement of deferred tax assets and deferred tax liabilities in the financial statements as at September 30, 2011, since their legislation has not in fact been completed on that date.

In the event that the legislation of the new tax rates had been finalized prior to September 30, 2011, the impact of the change on the financial statements as at September 30, 2011, would have been reflected by an increase in the deferred tax liabilities, net, in the amount of NIS 15 million. An update of the net deferred tax liabilities would have been recognized against deferred tax expenses in the amount of NIS 15 million.

NOTE 7 - SEGMENT INFORMATION

a.General

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

The identified operating segments, according to IFRS8 are:

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

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

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

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

The Printing and writing papers segment – generates revenue from the manufacture and marketing of fine paper.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 7- SEGMENT INFORMATION (cont.)

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

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

	Packaging Paper and recycling		Marketing of office supplies		Packaging and cardboard products		Hogla Kimberly		Printing and writing paper	
	Jan-September	Jan-September	Jan-September	Jan-September	Jan-September	Jan-September	Jan-September	Jan-September	Jan-September	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Sales to external customers	435,637	261,070	138,094	125,450	395,414	351,157	1,194,350	1,282,330	526,258	526,258
Sales between Segments	116,951	80,410	1,571	1,731	17,029	13,979	4,701	4,068	27,696	27,696
Total sales	552,588	341,480	139,665	127,181	412,443	365,136	1,199,051	1,286,398	553,954	553,954
Segment results	**60,420	26,790	(2,535)	2,397	2,018	3,926	80,251	136,730	(13,106)	30,000
Finance expenses, net										
Share in profit (loss) of associated companies, net										
Profit (loss) before taxes on income										

* As of December 31, 2010 the Company consolidates Printing and writing segment in its financial statements.

** Segment results include a one - time income in the amount of NIS 35,765 thousands for the sale of real estate. See note 4h above.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 7- SEGMENT INFORMATION (cont.)

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

	Packaging Paper and recycling		Marketing of office supplies		Packaging and cardboard products		Three months (Unaudited) NIS in thousands		Printing and writing paper*		Adju
	July- September- 2011	July September 2010	July - September 2011	July - September 2010	July - September 2011	July - September 2010	Hogla September 2011	Kimberly September 2010	July - September 2011	July - September 2010	July - September 2011
Sales to external customers	155,546	119,396	48,372	43,203	125,983	118,125	360,946	425,815	175,147	185,994	(360,946)
Sales between Segments	36,763	32,609	467	488	5,834	5,167	927	1,687	9,591	10,011	(39,139)
Total sales	192,309	152,005	48,839	43,691	131,817	123,292	361,873	427,502	184,738	196,005	(400,085)
Segment results	(5,165)	18,750	151	277	(1,684)	1,001	20,408	43,597	(3,209)	7,219	(20,003)
Finance expenses, net											
Share in profit (loss) of associated companies, net											
Profit (Loss) before taxes on income											

* As of December 31, 2010 the Company consolidates Printing and writing segment in its financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 7- SEGMENT INFORMATION (cont.)

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

	Year ended December 31, 2010						Total
	NIS in thousands						
	Packaging Paper and recycling	Marketing of office supplies	Packaging and cardboard products	Hogla Kimberly	Printing and writing paper*	Adjustments to consolidation	
Sales to external customers	393,439	176,580	489,543	1,691,918	691,069	(2,382,986)	1,059,563
Sales between Segments	117,927	2,267	20,102	5,591	37,633	(122,075)	61,445
Total sales	511,366	178,847	509,645	1,697,509	728,702	(2,505,061)	1,121,008
Segment results	50,159	5,127	7,105	186,603	31,072	(218,771)	61,295
Finance expenses, net							(44,765)
Share in profit of associated companies, net							81,132
Profit before taxes on income							97,662

* As of December 31, 2010 the Company consolidates Printing and writing segment in its financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2011

NOTE 8 - SUBSEQUENT EVENTS

- a) On October 17, 2011 the board of directors of the associated company Hogla-Kimberly Ltd. approved an issuance of a corporate guarantee in favor of corporate bank (HSBC) up to the amount of 31.7 million YTL (approximately USD 17.7 million) plus interest and other expenses, to the assurance of future payment by KCTR to Turkish tax authorities if and as ever this payment will be required. See note 4k.
- b) Pursuant to the efficiency and cost-cutting measures implemented by the company, and as part thereof, the Board of Directors of the company approved an agreement signed by the company on November 10, 2011, with the union of company employees and with the New General Histadrut Union in the Hadera region ("The Agreement"), within whose framework it will be agreed, inter alia, to update the collective employment agreements, along with an early retirement plan of an approximately 70 employees of the Company, before December 31, 2011.

Along with the assimilation of the items in the agreement, the company is expected to make provisions in its financial statements during the fourth quarter, to account for the expected retirement costs, amounting to a total of approximately NIS 30.1 million, on account of the employees of the consolidated companies will be opting for early retirement and a sum of approximately NIS 5.0 million, on account of the employees of an associated company who will opt for early retirement. The total anticipated impact in the financial statements of the company for the fourth quarter of 2011 is expected to amount to approximately NIS 35.1 million.

NOTE 9 - RECLASSIFICATION

The Group reclassified an amount of NIS 43,395 thousand from deferred tax assets to deferred tax liabilities in the comparative figures as at September 30, 2010. The re-classification is due to offset of deferred tax assets against deferred tax liabilities, under the terms of offset, in IAS12.

		As of September 30, 2010	
	As was classified in the past	The change NIS in thousands	As classified in these statements
Deferred tax assets	45,403	(43,395)	2,008
Deferred tax liabilities	69,452	(43,395)	26,057

Financial Valuation of the
operations of
Hadera Paper - Printing and
Writing Paper Ltd.
Pursuant to the Directives of IAS 36

To the attention of:
Hadera Paper Ltd.
Hadera Industrial Zone

Dear Sir/Madam:

Re: Financial Valuation of the operations of Hadera Paper - Printing and Writing Paper Ltd.

We have been commissioned by HADERA PAPER Ltd. (hereinafter: "Hadera Paper" or "The Company") to conduct a financial valuation of the operations of Hadera Paper - Printing and Writing Paper Ltd. (hereinafter: "Hadera Paper Printing") The purpose of this professional opinion is to determine the utilization value of the operational assets of Hadera Paper Printing, according to the directives of IAS 36 (Asset Impairment), as at September 30, 2011.

Hadera Paper holds 75% of the shares of Hadera Paper Printing, while Mondi AG (hereinafter: "Mondi") indirectly holds 25% of the shares of the company, following the acquisition of 25.1% of the shares of Hadera Paper Printing from Mondi, that was finalized on December 31, 2010. Mondi possesses a perpetual PUT option (hereinafter: "The Option") for the sale of its holdings in Hadera Paper Printing to Hadera Paper, under predetermined conditions.

In my opinion, in view of the data I received, the enterprise value of Hadera Paper Printing, as at September 30, 2011, is estimated to lie in the range between NIS 366-373 million. The balance of net operating assets, in the financial statements of Hadera Paper Printing, at this date, amounted to approximately NIS 325 million.

This valuation was prepared in the midst of a global financial and economic crisis. The said crisis may have a significant effect on future economic activity globally, and in Israel in particular, and at this point it is impossible to estimate the scope of its effect. True to the date of preparation of this professional opinion, there are increasing signs pointing toward a certain easing up of the crisis in the United States, along with the deepening the crisis in Europe. The main impact of the crisis is reflected in difficulties in raising capital, a decrease in real term demand and an erosion in the profitability of the business sector, inter alia, on account of the social protests that began in 2011 various countries around the world, including Israel. We note that the intensity of the crisis in Israel has thus far been significantly lower than its intensity in other nations.

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We emphasize that this is a crisis that crosses both continents and sectors and it is therefore not possible, at this stage, to estimate neither the depth nor the duration of this crisis. For the purpose of the valuation, it was ass