Hadera Paper Ltd
Form 6-K
May 11, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the Month of May 2009

HADERA PAPER LTD.

(Translation of Registrant s Name into English)

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

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

x Form 20-F o Form 40-F

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

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

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

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

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

o Yes x No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant s press release dated May 11, 2009 with respect to the Registrant s results of operations for the quarter ended March 31, 2009.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant s Management Discussion with respect to the Registrant s results of operations for the quarter ended March 31, 2009.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant s unaudited condensed consolidated financial statements for the quarter ended March 31, 2009.

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries with respect to the quarter ended March 31, 2009.

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 March 31, 2009.

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/ Lea Katz

Lea Katz
Corporate Secretary

Dated: May 11, 2009.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated May 11, 2009.
2.	Registrant s management discussion.
3.	Registrant s unaudited condensed consolidated financial statements.
4.	Unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries.
5.	Unaudited condensed interim consolidated financial 5. statements of Hogla- Kimberly Ltd. and subsidiaries.

Exhibit 1

NEWS

For Release: IMMEDIATE

Hadera Paper Ltd.
Reports Financial Results For First Quarter Ended March 31, 2009

Hadera, Israel, May 11, 2009   Hadera Paper Ltd. (AMEX:AIP) (the   Company   or   Hadera Paper) today reported financial results for the first quarter ended March 31, 2009. The Company, its subsidiaries and associated companies are referred to hereinafter as the   Group .

Since the Company s share in the earnings of associated companies constitutes a material component in the company s statement of income (primarily on account of its share in the earnings of Mondi Hadera Paper Ltd. (Mondi Hadera) and Hogla-Kimberly Ltd.(H-K)), before the presentation of the consolidated data below, the aggregate data which include the results of all the companies in the Hadera Paper Group (including the associated companies whose results appear in the financial statements under   earnings from associated companies) is being presented, without considering the rate of holding therein and net of mutual sales

Aggregate sales amounted to NIS 830.0 million during the reported period, as compared with NIS 847.6 million in the corresponding period last year.

Aggregate operating profit totaled NIS 63.9 million during the reported period, as compared with NIS 59.8 million in the corresponding period last year. The growth in aggregate operating profit that was achieved despite the erosion of prices at some of the companies originates from the improved growth and the profits of the Group s operations in the marketing of office supplies, the continuing growth and improved profitability at H-K in Israel and the continuing trend of scaling down the operating loss in Turkey, coupled with non-recurring revenues on account of a unilateral dividend from an associated company.

The Consolidated Data set forth below excluding the results of operation of the associated companies: Mondi Hadera, H-K. Consolidated Data include the sales turnover of Carmel Containers Systems Ltd. (Carmel) and Frenkel- C.D. Ltd. (Frenkel- C.D.) that were consolidated as of September 2008 due to the completion of transaction for the acquisition of Carmel shares.

As of January 1, 2009, the Company has been implementing IFRS8, and has consequently identified the packaging products and cardboard sectors, covering the operations of both Carmel and Frenkel CD as a separate sector.

Consolidated sales in the reported period amounted to NIS 229.9 million, as compared with NIS 142.5 million in the corresponding period last year, representing a 61.3% increase which is primarily due to the consolidation of the data of Carmel and Frenkel CD during the reported period, amounting to approximately NIS 132.5 million, that had not been consolidated last year.

Operating profit totaled NIS 18.5 million during the reported period, as compared with NIS 17.5 million in the corresponding period last year. The improvement in the operating profit despite the erosion of selling prices of packaging paper and recycling, originated from an improvement in the profitability of Graffiti, coupled with the recording of non-recurring revenues of NIS 16.4 million on account of a unilateral dividend that was offset by a certain slowdown in the operations of some of the companies as a result of the global crisis and its local influence.

The net profit attributed to the Company s shareholders in the reported period amounted to NIS 19.1 million, as compared with net profit of NIS 21.3 million in the corresponding period last year, and was affected by improved profitability at some Group companies in Israel due to income recorded from distribution of unilateral dividend in respect of the distribution of preferred shares by an associated company, that resulted in net revenues to the Company amounting to approximately NIS 8.4 million. Furthermore, the reduction in the Company s share of losses from operations in Turkey (KCTR), as compared with the corresponding period last year has also contributed to improved profitability, while net profit decreased due to the recording of an expenditure amounting to NIS 3.0 million from the valuation of the Mondi PUT option.

Basic earnings per share amounted to NIS 3.77 per share ($0.90 per share) in the reported period, as compared with NIS 4.20 per share ($1.18 per share) in the corresponding period last year.

The negative inflation rate during the reported period amounted to -0.1%, as compared with a positive inflation rate of 0.1% in the corresponding period last year.

The USD exchange rate was devalued in the first quarter of this year by 10.1%, as compared with a 7.6% revaluation in the corresponding period last year.

Mr. Avi Brener, Chief Executive Officer of the Company said that The Group manages an extensive, relatively diversified portfolio of companies and businesses and this fact helps the Group to face the global and domestic crisis. The Company s operating segments are focused on basic consumer goods and inputs, which are relatively less impacted by implications of the global financial and economic crisis. In the first quarter of 2009, the downward trend in input prices continued for fiber, chemicals and commodities as a result of the global crisis, which partially compensates for the slow-down in operations in both domestic and export markets. These savings were partially offset by higher electric utility prices in the first quarter of 2009 and by higher water prices. The NIS devaluation vs. the USD, and the NIS devaluation vs. the Euro have both negatively impacted imported inputs for the Company, while improving the sale prices that have been eroded, as set forth above, in the Company s major operating segments, wherein prices are denominated in USD. The overall business range and currency operations of the Hadera Paper Group, is relatively balanced and the Company s exposure to sharp fluctuations in exchange rates is therefore low. In view of the Company s estimates regarding continued paper imports at dumping prices, in both packaging paper and fine paper, the Company and Mondi Hadera, have appealed to the Supervisor of Anti-dumping Charges and Homogenization Charges at the Ministry of Industry, Trade and Employment (the Supervisor) and has filed a complaint concerning import at dumping of packaging paper from several European countries to Israel. The Supervisor decided to launch an investigation of this issue. There is no certainty that the above complaints would be accepted, and the Company is currently unable to estimate the impact of such acceptance on its business results.

In the reported period, the Company continued to expand the new recycled packaging paper manufacturing network, and construction of the facility at the Hadera site is making progress, in preparation for installation of equipment, which has started arriving on site, toward the planned complete operation of the new machine in early 2010.

Financial expenses during the reported period amounted to NIS 4.6 million, as compared with NIS 6.8 million in the corresponding period last year.

The company s share in the earnings of associated companies totaled NIS 15.0 million during the reported period, as compared with NIS 14.6 million in the corresponding period last year.

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

The Company s share in the net profit of Mondi Hadera (49.9%) decreased by NIS 2.5 million. The decrease in income was primarily due to a decrease in Mondi s operating income, from NIS 9.6 million last year to NIS 5.4 million this year primarily due to price erosion due to the devaluation of the US dollar. The net profit also decreased as a result of a slight increase in financial expenses in the reported period in relation to last year, primarily on account of the impact of the devaluation of the NIS against the dollar.

The company s share in the net profit of H-K Israel (49.9%) increased by NIS 1.7 million. Hogla s operating income increased from NIS 41.1 million to NIS 47.9 million this year. The improved operating profit originated from a quantitative increase in sales, improved selling prices in certain areas of operation, the continuing trend of raising the proportion of some of the premium products out of the products basket, while innovating products and empowering the Company s brands, the lower prices of some of the inputs at the Company in light of the erosion of global commodity prices, the continuing efficiency measures across the company and the savings realized in purchasing have all contributed to the significant improvement in earnings.

The company s share in the losses of KCTR Turkey (formerly Ovisan) (49.9%) has decreased by approximately NIS 2.0 million. The significant decrease in the loss is attributed to the growth in the volumes of operation that led to a significant reduction in the operating loss, from NIS 11.0 million last year to NIS 7.9 million this year. Moreover, due to the increase in the shareholders equity of KCTR through a financial influx from Hogla last year and during the reported period the bank loans were repaid, while significantly reducing the financial expenses, thereby leading to an additional reduction in the net loss.

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

Hadera PAPER LTD.
SUMMARY OF RESULTS
(UNAUDITED)
except per share amounts
Three months ended March 31,
NIS IN THOUSANDS (1)

	2009	2008
Net sales	229,881	142,519
Net earnings attributed to the Company's shareholders	19,079	21,270
Basic net earnings per share attributed to the Company's shareholders	3.77	4.20
Fully diluted earnings per share attributed to the Company's shareholders	3.77	4.20

(1) The representative exchange rate at March 31, 2009 was NIS 4.188=$1.00.

Contact:
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Exhibit 2

Translation from Hebrew

May 10, 2009

MANAGEMENT DISCUSSION

We are honored to present the consolidated financial statements of Hadera Paper Group Ltd. (Hadera Paper or The Company) (formerly - American Israeli Paper Mills - AIPM) for the first three months of 2009. The Company, its consolidated subsidiaries and its associated companies - hereinafter: The Group .

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 and in the marketing of office supplies through subsidiaries. The Company also holds associated companies that deal in the manufacture and marketing of fine paper, in the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products.

The Company s securities are traded on the Tel Aviv Stock Exchange and on American Stock Exchange, AMEX.

2. General

a Principal Current Operations

1. The Business Environment

The local and global economic crisis deepened in the first quarter of this year, as part of the global financial crisis. Growing unemployment in Israel and worldwide, significant cut-backs in investment and in credit have significantly impacted demand and global trading in the finance, services and consumer goods sectors.

During the reported period, global and domestic financial markets continue to be unstable, and steps initiated by governments and countries around the world to inject capital and expand credit should gradually rein in the deepening recession and expand investment, while reducing unemployment and gradually encouraging demand leading to higher consumption by the institutional and private sectors.

2. Impact of the business environment on Company operations

Hadera Paper Group manages an extensive, relatively diversified portfolio of companies and businesses and this fact helps the Group to face the global and domestic crisis. The Company s operating segments are focused on basic consumer goods and inputs, which are relatively less impacted by implications of the global financial and economic crisis.

Operations in the paper product segment are in the B2B markets and in B2C markets, are exposed to relatively minor fluctuations in demand during crisis periods, such as the current one; changes in demand for FMCG products, such as paper products and absorbent products, ranges from zero to a 5%-10% decline, with the impact primarily felt in price competition and in customer and consumer preference toward attractively-priced products.

The Company has adopted a multi-year marketing business strategy, for Premium, Value and Economy products, which affords the Company the necessary flexibility to protect market share, while maintaining operational volumes and optimizing profitability

In the packaging paper and recycling sector, the decline in global trade in white appliances, electronics, motor vehicles, textile, furniture and other sectors is leading to lower demand for corrugated cardboard used for packaging such products thereby creating excess supply of packaging paper in Europe and worldwide.

According to Company s estimation, since 2008, the import of these products is conducted at dumping prices, primarily from Europe, and the Company is acting on this issue vis-à-vis the Anti-Dumping Supervisor in order to reduce volumes and raise prices to the price level in the country of origin.

As for fine paper, the impact of the global crisis is most apparent in the advertising industry, and demand for newspaper and fine paper has decreased by 5%-10% globally.

This lower demand is leading to excess supply in Europe and worldwide, and fine paper has been imported to Israel at dumping prices since 2008. The Company is also acting on this issue vis-à-vis the Anti-Dumping Supervisor in order to reduce or stop imports at such price levels.

In the office supplies marketing sector, the crisis has led to reduced purchasing by most companies, as part of their efficiency enhancement processes, but Graffiti has succeeded in applying its strategy for accelerated growth to expand its operations in the office supplies market for the business sector, while improving its profitability.

In summary, the Group s financial robustness and its efficiency on a global scale in terms of manufacturing, energy and supply chain, together with its diversified portfolio focused on basic consumer goods, are allowing the Group to compete in the tough, challenging business environment with relatively limited erosion of its operating volume and net income.

In addition to the aforementioned global financial crisis, Israel s economy saw significant fluctuations in the exchange rates of major currencies vs. the NIS in the first quarter of 2009.

These market developments and fluctuations may potentially have adverse effects on the business results of the Company and its investee companies, including an effect on their liquidity, the value of their assets, the ability to divest assets, the state of their business, their financial indicators and standards, their credit rating, ability to distribute dividends, ability to raise financing for their current operations and long-term plans, as well as on their financing terms.

True to the date of publication of the financial statements, there is no material impact as a result of the continuation of the crisis, on the Company s business results, its financial robustness or the value of its assets.

The above information 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 global crisis in credit and banking markets.

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

In the first quarter of 2009, the downward trend in input prices continued for fiber, chemicals and commodities as a result of the global crisis, which partially compensates for the slow-down in operations in both domestic and export markets. These savings were partially offset by higher electric utility prices in the first quarter of 2009 by an average of 2% and by higher water prices by an average of 7% over the corresponding period last year. The NIS devaluation vs. the USD by a rate of 10.1% in the first quarter, as compared with the corresponding period last year, and the NIS devaluation vs. the Euro by 5.2% have both negatively impacted imported inputs for the Company, while improving the sale prices that have been eroded, as set forth above, in the Company s major operating segments, wherein prices are denominated in USD.

The overall business range and currency operations of the Hadera Paper Group, including its associated companies, is relatively balanced and the Company s exposure to sharp fluctuations in exchange rates is therefore low.

The negative inflation rate during the reported period amounted to -0.1%, as compared with a positive inflation rate of 0.1% in the corresponding period last year.

The USD exchange rate was devalued in the first quarter of this year by 10.1%, as compared with a 7.6% revaluation in the corresponding period last year.

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

3. **Group operations and the business environment**

In view of the global and domestic recession, the Company has accelerated the implementation of its plans for continued efficiency improvement and cost cutting across the various operating segments and companies.

At the same time, the Company has focused its efforts in various areas of purchasing so as to increase cost savings and to maximize the benefit from the downward trend in input and product prices in most of the Group s sectors of operation. The Company has acted to intensively control and manage its operational working capital, and has implemented focused control over customer credit and risk management.

In the first quarter of the year, Group companies have attained their objectives for improved efficiency and cost savings in purchasing, as specified at the end of 2008, and the continued successful implementation of these plans during the year should support Company performance, in spite of the tough business environment.

Along with the above, the Company continued its efforts to locate business opportunities in its core areas in order to accelerate growth and improve profitability in Israel and worldwide.

The Company has intensified its development and innovation operations in the various business segments, to create new products that will provide clear added value for both businesses and consumers.

This effort, focused on the Group s technology center as well as on those of the various companies, has led to launches of new and improved products during the first quarter of the year in both the FMCG and paper segments.

In view of the Company s estimates regarding continued paper imports at dumping prices, primarily from Europe, in both the packaging paper segment and the fine paper segment, the Company and Mondi Hadera Paper, an associated company, have appealed to the Supervisor of Anti-dumping Charges and Homogenization Charges at the Ministry of Industry, Trade and Employment (hereinafter: the Supervisor) and has filed a complaint concerning import at dumping of packaging paper from several European countries to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. On February 26, 2009, the company announced that the associated company Mondi Hadera Paper had filed a complaint to the supervisor, regarding the dumping imports of fine paper from several European nations to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. According to the Company announcement, there is no certainty that the above complaints would be accepted, and the Company is currently unable to estimate the impact of such acceptance on its business results.

During the reported period, the Company also continued its environmental protection operations, upgrading technological and operational systems to improve paper recycling, expand the reuse of process water and reduce the noise impact on Company staff, community residents as well as for improving financial results.

The Company has continued to implement its policy with regard to social responsibility and contribution to the community, with Company staff and management at its various locations in Israel playing an active role in community involvement to support youth and reduce social inequality, to provide equal opportunity for education and individual achievement in society and in the community.

4. Principal Current Operations

During the reported period, as a result of change in the business environment, aggregate sales decreased slightly by 2.1% as compared with total aggregate sales in the corresponding period last year.

Implementation and Assimilation of Organization-Wide Processes

In the course of the reported period, the Group companies continued to implement and assimilate organization-wide processes that are intended to empower Group-company operations and support continued growth and increased profitability in organizational development, Group purchasing, B2B marketing, development and innovation. The gradual and successful implementation of these plans will enable the company to better deal with the challenging business environment, while improving profitability.

5. Promoting the Strategic Plans

In parallel to the ongoing operations, the Company is working to successfully implement the strategic plans that are intended to lead to continued growth in operations and improved profitability over the coming years:

5.1. Expanding the recycled packaging paper manufacturing network

The investment in the project for the construction of the new manufacturing network, totaling NIS 690 million was approved on October 15, 2007 by the Company s Board of Directors. The Company has selected the most highly advanced technologies in this area, and the leading suppliers in the sector, in order to amplify its competitive advantage and potential for profitability in the long term.

The implementation of the project is advancing as planned and the Company has completed the signing of central agreements in 2008, for the purchasing of the main manufacturing equipment. Construction of the facility at the Hadera site is making progress, in preparation for installation of equipment, which has started arriving on site.

In parallel, the Amnir subsidiary is continuing to expand the collection of cardboard and newspaper waste and is accumulating inventories toward the planned complete operation of the new machine in early 2010.

As part of this project, the company is investing in the reorganization of the principal site in Hadera, including an expansion of the energy system and the adaptation of the traffic routes and upgrading of environmental systems, as required.

5.2. Innovative development of high-quality recycled paper

Over the past year, the packaging paper and recycling division launched the rapid development of paper types based on 100% recycled fibers, whose superior quality would allow them to replace pulp-based packaging paper in the corrugated board industry in Israel and overseas.

The technological and operational development process is currently in advanced stages and is meant to increase the volume of the potential market for packaging paper for the local corrugated board industry, from 170,000 tons per annum at the present time, to approximately 250,000 tons per annum in the coming years.

The development of new paper types is based on the characterization of fibers, developing and implementing new chemical additives and using these advanced manufacturing technologies, both in the existing production lines and in the new production line, will render it possible to gradually launch new products this year and throughout 2010.

According to the plan, the cost of the new paper types will be competitive as compared with the cost of pulp-based paper and will allow for a gradual improvement in the profitability of the sector. According to laboratory tests, the indications from the development process in the production lines and initial markets tests, it appears that the probability for success in this area is relatively high.

During this quarter, the Company started marketing this products to both the domestic and export markets. The expansion of the sales volumes of these products is planned for this year.

The above information pertaining to innovative developments 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 completion of development and other factors that lie outside the control of the company.

5.3. Developing Export Markets for Packaging Paper

The Company worked during the quarter to develop export markets and has reached understandings with several agents active in various countries and in Europe regarding the distribution and marketing of various types of packaging paper. The activity has already begun and will gradually grow throughout the year.

5.4. The Strategic Investment in Turkey

In 2008, Kimberly Clark Turkey (KCTR) a wholly-owned Hogla Kimberly subsidiary (49.9% of which are held by the Company) continued to implement its Global Business Plan (GBP), that was formulated together with the international partner, Kimberly Clark. Corp. The plan is intended to introduce Kimberly Clark s global brands to Turkey, on the basis of local manufacturing. If fully implemented, KCTR is expected to grow to become by 2015 a company, with annual sales in the area of $300 million.

The KCTR turnover amounted to $32.0 million during the reported period, as compared with $27.3 million in the corresponding quarter last year, representing growth of 17.2%.

During the reported period the Company continued to enhance its brands especially the Huggies and KOTEX brands while recording constant growth in market share and in the rising awareness to the Company s products. In parallel, the volume of exports to Kimberly-Clark in various other countries in Europe and Africa also increased.

Two Effie awards were received during the last quarter for marketing in Turkey and serve as an indication of professional marketing in launching the brands and enhancing them.

The company s continuing marketing and advertising operations are being felt in the gradual strengthening of the brands, as expressed by consumer studies that are being conducted regularly, alongside consistent growth in sales, while curtailing the operating loss and a considerable reduction in the Company s net loss.

As part of the strategic plan, the Company intends to continue its marketing and sales promotion efforts, while launching new products that will support the establishment of the brands and the creation of customer loyalty.

In the course of the reported period, the Company continued to promote the collaboration with Unilever and expanded the number of points of sale in the Turkish market that sell KCTR products.

In parallel, the Company has started the marketing of products to BIM Turkey s largest supermarket chain.

The continuing high level of competition in the markets where the company is working to introduce and penetrate its brands calls for regular and significant investments in advertising and sales promotion.

All of the expenses detailed above associated with the penetration of products, advertising, expansion of the distribution network and more are regularly recorded as an expenditure in the KCTR statements of income. The KCTR operating loss in the reported period amounted to NIS 7.9 million (approx. $2.0 million), as compared with NIS 11 million (approx. $3.0 million) in the corresponding period last year.

The implementation of the strategic business plan, while strengthening the brands and recording a gradual growth in the Unilever distribution and sales platforms, in combination with increased exports and continuing cost reductions at the diaper plant rendered it possible to maintain the trend of improving operating margins while reducing the operating loss for the eighth consecutive quarter as mentioned above.

The above information pertaining to the KCTR business plans and their implementation 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 market conditions, legislation and various costs.

5.5. New Power Plant

The new power plant project, intended to supply steam and electricity to the production system in Hadera and to sell surplus electricity to Israel Electric Company (IEC) and/or to private consumers, is on hold, awaiting the business stabilization of potential gas sources in order to conclude the contract to acquire the required gas at a price range that would allow the Company to be competitive with expected IEC rates. Due to the pending finalization of the gas purchasing contract as set forth above, it is not possible to comply with the milestones set forth in the Company s contingent production license. The Company has elected not to apply for an extension of the license during this holding phase, and will act to renew the license as progress is made on completion of gas purchasing for the station.

The discovery of natural gas deposits at the TAMAR 1 and mainly at the DALIT 1 drill sites in proximity to Hadera beach and progress in negotiations with the Egyptian gas franchisee (EMG) are both increasing the likelihood of renewed negotiations and project kick-off.

The above information pertaining to trends in the energy sector, based on natural gas, 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 size of the actual gas reservoir, as well as changes in gas prices worldwide.

B. Analysis of the Company s Financial Situation

Starting September 1, 2008, the financial statements of Carmel Container Systems Ltd. (Carmel) and Frenkel- CD Ltd. (Frenkel- C.D.) (an associated company of Carmel s and of the company), are being consolidated within the company s financial statements, as a result of the fact that the holding rate in Carmel has increased from 36.2% to 89.3%, and at Frenkel CD, indirectly, from 37.93% to 52.72% (for details see Note 15 to the financial statements as at December 31, 2008). As of January 1, 2009, the Company has been implementing International Financial Reporting Standard IFRS8: Sectors of Operation and has consequently identified the packaging products and cardboard sectors, covering the operations of both Carmel and Frenkel CD as a separate sector (for further details, see Note 9 to the Financial Statements). The analysis of the financial statements, as described above, is affected by the implementation of this standard.

The cash and cash equivalents item rose from NIS 7.3 million on March 31, 2008 to NIS 9.4 million on March 31, 2009.

The designated deposits item decreased from NIS 113.3 million on March 31, 2008 to NIS 81.8 million on March 31, 2009. The decrease in deposits served for acquiring equipment and fixed assets for the Machine-8 project.

Trade receivables in the packaging paper and recycling sector decreased from NIS 119.3 million as at March 31, 2008 to NIS 80.3 million as at March 31, 2009. This decrease is primarily due to lower prices in USD and to a certain quantitative decrease in sales. In the packaging and cardboard product segment, trade receivables as at March 31, 2009 amounted to NIS 195.9 million. In the office supplies marketing sector, trade receivables increased from NIS 42.6 million as at March 31, 2008, to NIS 47.7 million as at March 31, 2009 as a result of increased operating volumes.

Other accounts receivable in the packaging paper and recycling sector increased from NIS 95.8 million as at March 31, 2008, to NIS 125.9 million as at March 31, 2009. This increase is primarily due to an increase in the debt of associated companies in respect of dividends receivable amounting to NIS 21.0 million. In the packaging and cardboard product segment, total receivables as at March 31, 2009 amounted to NIS 5.3 million. In the office supplies marketing sector, other accounts receivable increased from NIS 3.0 million on March 31, 2008 to NIS 4.8 million on March 31, 2009.

Inventories in the packaging paper and recycling sector increased from NIS 52.1 million as at March 31, 2008, to NIS 78.0 million as at March 31, 2009. This increase is primarily due to the aforementioned decrease in sales due to the market slow down, the development of export markets and preparations for the availability of paper to be shipped overseas. In the packaging and cardboard products segment, inventories as at March 31, 2009 amounted to NIS 77.0 million. Inventories in the office supplies marketing sector grew from NIS 16.7 million on March 31, 2008 to NIS 22.2 million on March 31, 2009, primarily due to the increased share of products imported from Asia-Pacific for improved profitability, as well as due to acquired inventories in conjunction with the acquisition of the business operations of Yavne Pitango Ltd. in Northern Israel in early August of last year, for the purpose of accelerating Company growth.

Investments in associated companies decreased from NIS 341.3 million on March 31, 2008 to NIS 296.4 million on March 31, 2009. This decrease, despite the Company s share in the earnings of associated companies amounting to NIS 15.6 million, was primarily due to the Company s share of dividends distributed, amounting to NIS 16.3 million, and the Company s share of dividends declared, amounting to NIS 20.8 million, by an associated company which caused a decrease in total investment in the reported period.

Short-term credit decreased from NIS 83.0 million on March 31, 2008 to NIS 37.7 million on March 31, 2009. This decrease was primarily due to the use of part of the proceeds from the issue of debenture series in July-August 2008 for the repayment of short-term credit, as well as to the cash flows from operating activities.

Accounts payable and accruals in the packaging paper and recycling sector increased from NIS 84.2 million as of March 31, 2008 to NIS 92.7 million as of March 31, 2009. This increase is primarily due to an increase in accrued expenses in respect of interest on debentures from issuance during the third quarter of last year. Total payables in the packaging and cardboard product segment as of March 31, 2009 amounted to NIS 18.2 million; other accounts payable in the office supplies marketing sector increased from NIS 3.6 million as of March 31, 2008 to NIS 4.9 million as of March 31, 2009.

The Company s shareholders equity increased from NIS 672.0 million on March 31, 2008 to NIS 783.4 million on March 31, 2009. This change was primarily due to net income attributable to the Company s shareholders between the periods in the sum of NIS 68.0 million, coupled with a capital reserve credit from transition to consolidation amounting to NIS 17.3 million, plus minority interest amounting to NIS 25.9 million.

1. <u>Investments in Fixed Assets</u>

Investments in fixed assets in the reported period amounted to NIS 118.2 million, as compared with NIS 57.9 million in the corresponding period last year, consisting primarily of payments on account of purchases from equipment suppliers for the new packaging paper system (Machine 8), amounting to approximately NIS 103 million. Additional investments included were related to environmental protection (sewage treatment) and current investments in equipment renewal, means of transportation and building maintenance at the Hadera site.

2. <u>Financial Liabilities</u>

Long-term liabilities (including current maturities) amounted to NIS 740.0 million as at March 31, 2009, as compared with NIS 295.1 million as at March 31, 2008. Long-term liabilities grew year-over-year, primarily as a result of the issuing of two debenture series (Series 3 and Series 4) in the third quarter last year, in the total sum of NIS 427 million, coupled with long-term loans assumed intended for financing payments on account of Machine 8 and the consolidation of the loans of Carmel and Frenkel CD, in the total sum of NIS 94.6 million.

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

Series 1 NIS 7.4 million, for repayment until 2009.

Series 2 NIS 157.4 million, for repayment until 2013.

Series 3 NIS 189.2 million, for repayment until 2018.

Series 4 NIS 235.6 million, for repayment until 2015.

Long-term loans NIS 149.3 million.

The outstanding short-term credit totaled NIS 37.7 million as at March 31, 2009, as compared with NIS 83.0 million as at March 31, 2008 and NIS 77.7 million as at December 31, 2008.

3. <u>Financial liabilities at fair value through the statement of income</u>

Put option to the shareholder of an associated company

In conjunction with the agreement dated November 21, 1999 with Mondi Business Paper (hereinafter MBP, formerly Neusiedler AG), Mondi Hadera acquired the Group s fine paper operations and issued 50.1% of its shares to MBP.

As part of this agreement, MBP was granted the option to sell its holdings in Mondi Hadera to the Company at a price 20% lower than its value (as defined in the agreement), or $20 million, less 20% the higher of the two. According to verbal understandings that were reached in proximity to the signing of the agreement, between elements at the company and elements at MBP, the latter will exercise the option only in the most exceptional cases, such as those that paralyze production in Israel for long periods of time.

Due to the extended period of time that has passed since these understandings were reached and in view of recent changes in the management of MBP, the Company has decided to adopt a conservative approach in this respect and to reflect the economic value of the option. The value of the option was calculated according to IFRS and was recognized as a liability that is measured at fair value, with changes in fair value being allocated to the statement of income in accordance with IAS 39.

The difference between the value of the liabilities according to the agreement NIS 54.7 million as compared with the value of the liabilities through fair value NIS 16.9 million amounts to NIS 37.8 million.

The liability on account of the Put option on the associated company shares as at March 31, 2009, March 31, 2008, and December 31, 2008, amounts to NIS 16.9 million, NIS 5.0 million and NIS 13.9 million, respectively.

On account of the Put option, other expenses grew by NIS 3.0 million in the reported period, as compared with growth of NIS 1.1 million in the corresponding period last year.

The principal factors responsible for the change in fair value during the reported period include the change in the risk-free interest rate and the change in the standard deviation of the Hadera Paper share that serve for calculating the value of the option.

C. Results of Operations

1. Aggregate Data

Since the Company s share in the earnings of associated companies constitutes a material component in the company s statement of income (primarily on account of its share in the earnings of Mondi Hadera Paper Ltd. [Mondi Hadera] and Hogla-Kimberly Ltd.), before the presentation of the consolidated data below, we also present the aggregate data which include the results of all the companies in the Hadera Paper Group (including the associated companies whose results appear in the financial statements under earnings from associated companies), without considering the rate of holding therein and net of mutual sales.

Regarding the consolidated data, see Section (3) below.

Aggregate Data

The aggregate sales amounted to NIS 830.0 million during the reported period, as compared with NIS 847.6 million in the corresponding period last year, representing decrease of 2.1%.

The aggregate operating profit totaled NIS 63.9 million during the reported period, as compared with NIS 59.8 million in the corresponding period last year, representing growth of 6.9%. The growth in aggregate operating income that was achieved despite the erosion of prices at some of the companies originates from the improved growth and the profits of the Group s operations in the marketing of office supplies, the continuing growth and improved profitability at Hogla-Kimberly in Israel and the continuing trend of scaling down the operating loss in Turkey, coupled with non-recurring revenues on account of a unilateral dividend from an associated company.

For the operations in Turkey see Section C7 below Company s share in the earnings of associated companies.

2. **<u>The net profit and the earnings per share attributed to the Company s shareholders</u>**

The net profit attributed to the Company s shareholders in the reported period amounted to NIS 19.1 million, as compared with net profit of NIS 21.3 million in the corresponding period last year, representing a decrease of 10.3%.

The net profit attributable to shareholders of the Company in the reported period was affected by improved profitability at some Group companies in Israel due to income recorded from distribution of unilateral dividend in respect of the distribution of preferred shares by an associated company, that resulted in net revenues to the Company amounting to approximately NIS 8.4 million. Furthermore, the reduction in the Company s share of losses from operations in Turkey (KCTR), as compared with the corresponding period last year (see above for strategic investment in Turkey, as well as section C(7) below) has also contributed to improved profitability, while net profit decreased due to the recording of an expenditure amounting to NIS 3.0 million from the valuation of the Mondi PUT option.

Basic earnings per share amounted to NIS 3.77 per share ($0.90 per share) in the reported period, as compared with NIS 4.20 per share ($1.18 per share) in the corresponding period last year.

Diluted earnings per share amounted to NIS 3.77 per share ($0.90 per share) in the reported period, as compared with NIS 4.20 per share ($1.18 per share) in the corresponding period last year.

3. **<u>Analysis of Operations and Profitability</u>**

The analysis set forth below is based on the consolidated data.

1. **<u>Sales</u>**

Consolidated sales in the reported period amounted to NIS 229.9 million, as compared with NIS 142.5 million in the corresponding period last year, representing a 61.3% increase which is primarily due to the consolidation of the data of Carmel and Frenkel CD during the reported period, amounting to approximately NIS 132.5 million, that had not been consolidated last year as set forth above.

Sales of the packaging and recycling sector amounted to NIS 62.6 million in the reported period, as compared with NIS 109.5 million in the corresponding period last year.

The decrease in the sales turnover in the packaging paper and recycling sector was due both to a decrease in packaging and recycling sales due to the erosion of sale prices, which had not been compensated for by an increase in NIS-denominated prices (segment sales are impacted by USD-denominated import prices). as well as to a quantitative decrease in sales, due to the import of packaging paper at dumping prices from Europe, coupled with the reduced operations of corrugators, in view of the impact on export operations, primarily due to a non-recurring inventory reduction by corrugators for improvement of their cash flows from operating activities.

The sales of the packaging product and recycling sector in the reported period amounted to NIS 130.8 million.

Sales of the office supplies marketing sector in the reported period amounted to NIS 36.4 million, as compared with NIS 33.0 million in the corresponding period last year, representing a 10.3% increase due to the continued implementation of the strategic growth plan in this sector by expansion of the customer base and by the acquisition of companies in this market.

2. Cost of Sales

The cost of sales amounted to NIS 192.5 million or 83.7% of sales during the reported period, as compared with NIS 106.0 million or 74.4% of sales in the corresponding period last year.

The gross profit totaled NIS 37.4 million during the reported period (16.3% of sales), as compared with NIS 36.5 million (25.6% of sales) in the corresponding period last year, representing growth of 2.5% in relation to the corresponding period last year.

The increase in gross profit in relation to the corresponding period last year was primarily due to the consolidation of Carmel and Frenkel in the reported period, which had not been consolidated last year, despite the price erosion in packaging papers due to the market slow down and the decrease in sales volume, and despite the higher price of electric power, by 2%, and the higher price of water, by 7%, offset by a reduction in the cost of paper collection and raw material purchasing. Additionally, the cost of sales included an amortization of NIS 1.8 million in excess cost, as a result of excess cost recorded from the acquisition of Carmel and Frenkel CD in 2008.

Labor Wages

The labor wages within the cost of sales amounted to NIS 54.1 million during the reported period (23.6% of sales), as compared with NIS 30.7 million last year (21.5% of sales).

The labor wages within the general and administrative expenses amounted to NIS 22.2 million during the reported period (9.7% of sales), as compared with NIS 17.5 million last year (12.3% of sales).

The Increase in salary costs as compared to the corresponding period last year is primarily attributed to additional salary expenses of NIS 26.7 million resulting from the consolidation of Carmel and Frenkel CD.

Moreover, the labor costs include an increase in labor expenses as detailed in Section 3 below, as a result of expenses derived from the issue of options to executives and the allocation of the expenses thereupon, at an accrued sum of NIS 1.2 million in the reported period, an expenditure that does not involve cash flows.

As part of the alignment with the global economic crisis, the Company s management adopted a policy of mutually-agreed pay cuts for executives. In this capacity, senior executives and managers have mutually agreed to cut their wages by 8% to 10% in 2009, while senior employees have agreed that their wages be cut by 5%. The Company further decided to freeze any raises in employee wages in 2009.

3. Selling, General and Administrative and Other Expenses

The selling, general and administrative (including wages) and other expenses amounted to NIS 18.9 million in the reported period or 8.2% of sales as compared with NIS 19.1 million or 13.4% of sales in the corresponding period last year. Excluding revenues from the distribution of unilateral dividend in respect of preferred shares allocated by an associated company, amounting to NIS 16.4 million, and non-recurring expenses as set forth below, total Selling, General and Administrative expenses amounted to NIS 31.1 million.

The increase in selling, general and administrative and other expenses was primarily attributed to the consolidation of the expenses of Carmel and Frenkel CD in the Company s financial statements, in the amount of NIS 13.6 million, along with the recording of other expenses on account of the valuation of a Mondi PUT option in the sum of NIS 3.0 million, according to IFRS.

4. Operating Profit

The operating profit totaled NIS 18.5 million during the reported period (8.1% of sales), as compared with NIS 17.5 million (12.3% of sales) in the corresponding period last year. The improvement in the operating profit despite the erosion of selling prices of packaging paper and recycling, originated from an improvement in the profitability of Graffiti, coupled with the recording of non-recurring revenues of NIS 16.4 million on account of a unilateral dividend that was offset by a certain slowdown in the operations of some of the companies as a result of the global crisis and its local influence.

The operating profit from the paper and recycling activity totaled NIS 15.1 million during the reported period, as compared with NIS 16.9 million in the corresponding period last year, primarily as a result of the dumping prices on the part of competing imports, coupled with the influence of price erosion, as detailed above. Operating profit was also impacted by recording of a NIS 3.0 million expenditure in respect of a PUT option to an associated company in the first quarter this year.

Operating profit for the packaging and cardboard product segment amounted to NIS 3.9 million, while operating profit for the office supplies segment amounted to NIS 0.9 million, up from NIS 0.6 million in the corresponding period last year.

5. **Financial Expenses**

The financial expenses during the reported period amounted to NIS 4.6 million, as compared with NIS 6.8 million in the corresponding period last year, representing a decrease of 33.1%.

The total average of interest bearing liabilities, net, carried to the company s financial expenses decreased by an average approximately NIS 30 million between the periods 2008-2009. The decrease was primarily due to positive cash flows from operating activities between the periods, offset by current investments in fixed assets.

The interest on the short-term credit decreased by approximately NIS 1.4 million, both as a result of the decrease in the balance of short-term credit and as a result of the lower interest rate between the two periods. The interest expenses in respect of CPI-linked long-term liabilities (debentures) decreased by NIS 2.3 million as compared to the corresponding period last year, due to the decrease in the balance of debentures following redemptions made to the holders of the debentures and as a result of the decrease in the costs of the hedge transactions on the CPI-linked debentures against the increase in the CPI, which amounted to an annual rate of 0.3% in 2008, as compared to 2.6% in 2007, and as a result of the valuation of the hedge transactions to their fair value in accordance with international standards. The actual index decreased by approximately -0.1% in this period.

Moreover, financial expenses of NIS 0.7 million were recorded, primarily on account of the impact of the devaluation against the dollar this year in the rate of 10.1%, as compared with a revaluation of 7.6% last year on the dollar-based asset balances.

6. **Taxes on Income**

Taxes on income amounted to NIS 10.0 million in the reported period, as compared with NIS 4.0 million in the corresponding period last year. The growth is primarily attributed to the recording of a provision for taxes on account of events that were included in the reported period, coupled with the recording of expenses that are not recognized for tax purposes, such as the valuation of a PUT option at Mondi, as described above.

7. **Company s Share in Earnings of Associated Companies**

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

The company s share in the earnings of associated companies totaled NIS 15.0 million during the reported period, as compared with NIS 14.6 million in the corresponding period last year.

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