Hadera Paper Ltd
Form 6-K
August 18, 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 August 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 x   Form 40-F o

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:

Yes o   No x

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 August 18, 2011 with respect to the Registrant's results of operations for the quarter ended June 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 June 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 June 30, 2011.

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended June 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: August 18, 2011.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated August 18, 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 Second Quarter and Six Months Ended June 30, 2011

Hadera, Israel, August 18, 2011 - Hadera Paper Ltd. (AMEX:AIP) (the “Company” or “Hadera Paper”) today reported financial results for the second quarter and first six months ended June 30, 2011(the "Reported Period"). The Company, its subsidiaries and associated company – is 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 1,022.2 million, as compared with NIS 489.2 million last year, representing an increase of 109.0%, 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 369.2 million, net of inter-company sales totaling NIS 351.1 million.

Consolidated sales in the second quarter of the year totaled NIS 504.6 million, as compared with NIS 249.2 million in the corresponding quarter last year, representing growth of approximately 102.5%, originating primarily as a result of the consolidation of the sales of Hadera Paper Printing in the sum of NIS 187.1 million, coupled with an increase in the sales of the packaging paper and recycling sector in relation to the corresponding quarter last year and as compared with first quarter sales of NIS 517.6 million this year, representing decrease of approximately 2.5%.

The operating profit totaled NIS 55.3 million during the Reported Period, 5.4% of sales, as compared with NIS 12.6 million, 2.6% of sales, in the corresponding period last year. The increase in gross profit during the Reported Period, in relation to the corresponding period last year, is primarily attributed to non-recurring revenues from the sale of real estate, coupled with the significant growth in the gross profit as a result of the said growth in sales, that was offset as a result of the consolidation of the results of the Hadera Paper Printing segment, starting January 1, 2011, due to an operating loss of NIS 9.9 million in this segment.

Operating profit amounted to NIS 1.5 million in the second quarter of the year, as compared with operating profit of NIS 5.1 million in the corresponding quarter last year. The lower profit in the second quarter originated primarily as a result of the consolidation of the operating loss of Hadera Paper Printing in the amount of NIS 6.9 million as a result of the sharp rise in raw material prices, coupled with specific inefficiency in the manufacture of fine paper.

The net profit attributed to the Company's shareholders amounted to NIS 7.9 million in the Reported Period, as compared with net profit of NIS 42.3 million in the corresponding period last year, representing an decrease of 81.3%. The net profit, net of non-recurring revenues and expenditures during the Reported Period, amounted to NIS 23.6 million, representing a decrease of 44.2% in relation to the corresponding period last year.

The decrease in the net profit attributed to the Company's shareholders during the Reported Period was primarily affected by the non-recurring provision in the amount of NIS 37.2 million that was recorded by the Company as a result of the decisions of the court in Turkey relating to the appeals filed by KCTR pertaining to the demand for tax payment handed down to KCTR in Turkey, that was offset by non-recurring revenues from the sale of real estate on Totzeret HaAretz Street in Tel Aviv , coupled with the improvement in the operating profit at the packaging paper and recycling sector. 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 earnings per share amounted to NIS 1.54 per share ($0.45 per share) in the Reported Period, as compared with basic earnings per share of NIS 8.35 per share ($2.15 per share) in the corresponding period last year.

Basic loss per share amounted to NIS 6.55 per share ($1.92 per share) in the second quarter of the year, as compared with earnings of NIS 3.55 per share ($0.92 per share) in the corresponding quarter last year.

The exchange rate of the NIS in relation to the dollar was revaluated by approximately 3.8% during the Reported Period, as compared with a devaluation of approximately 2.6% during the corresponding 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 6.3% in relation to the corresponding period last year). The changes in exchange rates as mentioned above, affected the results of the various sectors, although the Group's business portfolio, including the investee companies, is practically at equilibrium in terms of foreign currency and consequently, the exposure of the Group to sharp fluctuations in currency exchange rates is low.

The inflation rate during the Reported Period amounted to 2.2%, as compared with an inflation rate of 0.7% in the corresponding period last year.

The Company estimates that the demand for recycled packaging paper, as a replacement for virgin packaging paper, is continuing in global paper markets. The trend of rising prices for recycled products in the global packaging paper market continued in the second quarter as well, and amounts to a cumulative rise in prices of approximately 15% as compared with the end of 2010. Starting in July 2011, the prices of recycled products are expected to decrease by approximately 3% as a result of a slowdown in the global paper market (source: PPI Germany).

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.

In terms of raw materials, in the Reported Period, the NIS was revaluated in relation to the average dollar and the euro, in relation to last year, by a rate of approximately 6.3% and 1.1%, respectively, leading to savings in terms of inputs and imported products denominated in dollars or euro, in the principal sectors of operation of the Company, whose prices track import prices in the said currencies. As a result of the said revaluation, the relative price of natural gas denominated in dollars, decreased by approximately 7.6% in relation to last year and also contributed to savings. These savings were partially offset as a result of the rise in the prices of water during the Reported Period by an average rate of approximately 24%, in relation to the corresponding period last year, along with the increase in the prices of electricity during the Reported Period, in relation to the corresponding period last year, by a rate of approximately 3.7%. In addition, a sharp rise was recorded in the price of fibers, by an average rate of approximately 12% (in dollar terms) in relation to last year.

It should be noted that on May 15, 2011, the Company extended 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 entered into effect on July 1, 2011, for a period of two years.

The financial expenses during the Reported Period amounted to NIS 36.1 million, as compared with NIS 10.8 million in the corresponding period last year. The sharp rise in financing expenses is primarily attributed to the fact that during the corresponding period last year, the financing costs of Machine 8 were capitalized. This capitalization ended at the end of May 2010. Moreover, an increase of NIS 7.8 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 2.2%, as compared with a lower increase of 0.4% 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 3.6 million.

The Company’s share in the losses of associated companies (H-K) totaled NIS 12.7 million during the Reported Period, as compared with a share in profits in the amount of NIS 40.1 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 a provision in the amount of NIS 37.2 million, created by the Company following the decisions of the court in Turkey relating to the appeals filed by KCTR regarding a demand for tax payment handed down to KCTR in Turkey, coupled with the company's share in the earnings of Printing and Writing Paper (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 7.4 million.

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 25.1 million, as compared with NIS 37.3 million in the corresponding period last year. The decrease in the sum of NIS 12.2 million, originated primarily from the decrease in operating profit that fell from approximately NIS 100.2 million to NIS 63.3 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. 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 6.3%. 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 39.4 million, as compared with NIS 2.9 million in the corresponding period last year, representing an increase of approximately NIS 36.5 million. The greater loss is primarily attributed to the provision in the amount of NIS 37.2 million recorded by the Company as a result of the decisions of the court in Turkey relating to the appeals filed by KCTR regarding a demand for tax payment handed down to KCTR in Turkey, an increase that was offset as a result of the continuing efficiency measures during the Reported Period, that led to the reduction in the operating loss from NIS 6.9 million in the corresponding period last year, to NIS 3.5 million during the Reported Period, as well as a result of recording financing income in the amount of approximately NIS 1.2 million, as compared with financing expenses of NIS 1.0 million during the corresponding period last year.

KCTR announced to the Company that it intends to appeal the decisions of the court, based on the expert opinion of its legal consultants, according to which KCTR possesses valid claims against the requirement and that the chances of success in the said appeal, are greater than 50%. However, 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 demands. Consequently, during the Reported Period, the Company included a provision on account of its share pertaining to the awarded 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

	Six months ended June 30, NIS IN THOUSANDS (1)	
	2011	2010
Net sales	1,022,242	489,191
Net earnings attributed to the Company's shareholders	7,856	42,328
Basic net earnings per share attributed to the Company's shareholders	1.54	8.35
Fully diluted earnings per share attributed to the Company's shareholders	1.54	8.27

	Three months ended June 30, NIS IN THOUSANDS (1)	
	2011	2010
Net sales	504,633	249,206
Net earnings attributed to the Company's shareholders	(33,336)	18,038
Basic net earnings per share attributed to the Company's shareholders	(6.55)	3.55
Fully diluted earnings per share attributed to the Company's shareholders	(6.55)	3.52

(1) The representative exchange rate at June 30, 2011 was N.I.S. 3.415=$1.00.

Contact:
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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 June 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"

During the reported period, 26,560 option warrants that were granted as part of the management option plan, were exercised. 4,930 Company shares were issued following this exercise. On July 1, 2011, a total of 1,812 option warrants have expired, out of the said stock option plan.

2. Update of 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 the shareholders of the Company ratified the said engagement.

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

Pursuant to immediate reports by the Company dated April 12, 2011 , 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 that was obtained is valid until July 31, 2012 and according to the directives stipulated in the permit, covers the terms of said discharge and the relevant reporting obligations. In addition, the Company was required to provide a document of alternatives regarding the discharge of wastewater into the stream.

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

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

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

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

6. 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.

7. 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 the volume of approximately NIS 218 million. Net of issuing expenses, the Company received net proceeds amounting to NIS 216.3 million. For additional details, see Note 8a to the financial statements of the Company dated June 30, 2011. The said debentures received an ilA+ rating from Maalot Standard & Poor's. For the rating report, see the Company's immediate report dated July 3, 2011.

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

On May 2, 2011, the Company announced that Hogla Kimberly Ltd. ("Hogla"), an associated Company in which 49.9% are held, had announced to the Company that on May 2, 2011, a lawsuit was filed against Hogla, along with a request for the said lawsuit to be recognized as a class action. The plaintiff alleges that Huggies diapers, marketed by Hogla, that she had purchased, failed to absorb properly due to a malfunction that occurred on the diaper production line. The plaintiff estimates the volume of the lawsuit - in the event that it is approved as a representative class action - at approximately NIS 1.2 billion. At this preliminary stage, it 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.

9. 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 regarding an agreement for the purchase of natural gas, the Company announced that an agreement was signed on May 15, 2011, between the Company and the partners in the Yam Tethys projects ("The Agreement"). Pursuant to the Agreement , the term of the agreement signed between the 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. Accordingly, an alternative was approved by the Board of Directors as the most profitable economically, according to the needs of the Company. It was decided that the Company will continue to analyze the project, under whose framework the power station will provide steam and electricity that will serve for the manufacturing systems of the Company in Hadera, while the surplus electricity will be sold to Israel Electric Company and/or private customers.

10. Update to Chapter D, section 24 "Investments in Consolidated Companies"

On August 17, 2011 the Company announced that following an immediate report dated February 18, 2011 regarding a report from the Turkish tax authorities that was received at KCTR, the Hogla-Kimberly's Turkish subsidiary, and pursuant to appeals filed by KCTR regarding the said tax demand, and pursuant to the Company report dated August 1, 2011, regarding the decision of the Turkish court regarding some of these appeals, the Company announced that on August 16, 2011, it was informed by KCTR that on August 4, 2011, a decision by the Turkish court was received regarding several additional appeals filed by KCTR pertaining to the said tax demand, pursuant to which KCTR is required to make additional payments to the tax authorities amounting to YTL 2.5 million (approximately USD 1.4 million), that sums up to a total amount of approximately YTL 8.6 million including interest and fines (approximately USD 4.8 million), on account of those issues discussed in the relevant appeals covered by the decision. We note that the level of fines imposed by the court is lower than the fines in the original tax demand.

Consequently, 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 9.1 million (approximately USD 5.1 million), and sums up to a total amount of approximately YTL 33.7 million, including interest and fines (approximately USD 19 million). These decisions relate to appeals concerning a principal sum of YTL 9.1 million (approximately USD 5.1 million), representing approximately 27.6% of the overall principal sum of the tax demand.

The Company included a provision on account of its share in the said sum, in its financial statements dated June 30, 2011.

KCTR has informed the Company that it intends to appeal the decision of the court to a higher instance, based on the expert opinion of KCTR's legal consultants, who maintain that - despite the aforementioned court decision - KCTR possesses strong arguments against the demand and that the chances of success in the said appeal, are greater than 50%.

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 23.9 million (approximately USD 13.4 million) and sums up to approximately YTL 101.6 million (without VAT refund offset), including interest and fines (approximately USD 57.2 million). At this time, the Company does not intend to include a provision on account of these outstanding sums in its financial statements dated June 30, 2011.

-Translation from Hebrew-

August 18, 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 June 30, 2011, reviewing the principal changes in the operations of the company for the months January through June 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

a. 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 manufacturer in Japan (as a result of the natural disaster) coupled with the rise in oil and commodity prices, inter alia as a result of the revolutions in the Middle East region in general and in Libya in particular. The markets responded with decreasing prices against the background of the disappointing economic figures in the United States in the second quarter of 2011, that were expressed by weaker private consumption and negligible growth in the employment figures, all in addition to greater uncertainty regarding the treatment of debt in southern European nations in general and in Greece in particular, given the lower ratings they received.

The combination of a concern regarding a renewed slowdown in the global economic activity, an insufficient treatment in the debt of additional countries in Europe (Italy and Spain), and especially the concern in the capital markets from the implications of the downgrade of United States by S&P, led to sharp falls in global financial markets during August.

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The Israeli economy launched into 2011 with a continuation of the rapid growth trend that was recorded in 2010. On the other hand, a certain increase was recorded in the inflationary environment, along with the geopolitical developments in several Arab nations that served to increase the level of uncertainty and volatility in the Israeli capital market. The continuation of the instability in the Middle East, inter alia given the possibility that an independent Palestinian state may be declared unilaterally in September 2011, may - under certain scenarios - negatively affect the state of the Israeli economy and the flow of capital for investments. The monetary contraction process in the Israeli economy is continuing at the beginning of 2011 (inter alia as a response to the rapid growth recorded at the beginning of the year, the inflation and the continuing and rapid increase in housing prices and the growth in the volume of housing credit), alongside a similar contractionary process in additional emerging markets worldwide, and the beginning of a similar process in the euro bloc as well. However, Data of the second quarter of 2011 and initial macro data regarding the third quarter of 2011 indicate some moderation in the economic indicators in Israel, following a similar trend worldwide and in the United States in particular. Moreover, increasing signs are apparent regarding slowdown in demand for housing that is expected to serve to slow down the pace of rising inflation rates by the Bank of Israel and perhaps also the pace of rising housing prices. We note that the lately intensified expressions of social protest, due to the high price levels, including food and housing sectors, may lead to reform on the part of the government that may serve to have an impact on the economy.

The company estimates that the demand for recycled packaging paper, as a replacement for virgin packaging paper, is continuing in global paper markets. The trend of rising prices for recycled products in the global packaging paper market continued in the second quarter as well, and amounts to a cumulative rise in prices of approximately 15% as compared with the end of 2010. Starting in July 2011, the prices of recycled products are expected to decrease by approximately 3% as a result of a slowdown in the global paper market (source: PPI Germany).

The above information pertaining to the geopolitical uncertainty, the future trends in the paper market and input prices constitutes forward-looking information as defined in the Securities Law, based on the company's estimates at the date of this report. These estimates may not materialize - in whole or in part - or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as business opportunities that may be offered at the company, dependence upon external factors, development and changes in regulation, changes in global raw material prices, changes in the prices of gas, fuel and energy and changes in the supply and demand of global paper products as well as changes in the geopolitical situation in the Middle East.

b. 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.

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 the running-in period that took place in the corresponding period last year, starting in June. 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 increased the sales of new paper types that were developed, as recycled paper is replacing paper based on virgin pulp. Selling prices in the packaging paper sector experienced an upward trend during the reported period in Israel, in line with the rise in product prices and paper waste prices globally. The quantitative growth and the elevated selling prices 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. The Packaging Law entered into effect on March 1, 2011, 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.

The impact of the packaging law on the company constitutes forward-looking information as defined in the Securities Law, based on the company's estimates at the date of this report. These estimates may not materialize - in whole or in part - or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as arrangements that will be determined by virtue of the law, changes in global raw material prices and changes in the supply and demand of global paper products.

In the Hadera Paper Printing sector, the prices of pulp (the principal raw material in this sector) continued to soar during the reported period in relation to the corresponding period last year. Moreover, following an increase in imports at low prices, the competition in this sector is escalating, as selling prices have been decreasing while eroding the profitability of the products in this sector, starting 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. In order to contend with this business environment, the Hadera Paper Printing sector continued to expand its export operations, including penetration into new 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.

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In the Hogla Kimberly sector (an associated Company), a decrease was recorded in the level of profitability in relation to the corresponding period last year, as a result of price erosion. The said erosion is attributed to the fierce competition that exists in some of the sectors of operation and especially in the diaper sector as a result of parallel imports, coupled with non-recurring increases as a result of the need to compensate consumers regarding complaints concerning a new brand of diapers. In parallel, an increase was reported in the prices of raw materials, that was partially offset by the revaluation of the shekel in relation to the average US dollar during the reported period, as compared with the corresponding period last year, coupled with efficiency measures. Given the challenging environment wherein the sector operates, the company continued to promote sales campaigns in order to preserve customers and market share. According to data from external research entities, Hogla Kimberly managed to preserve the company's market share despite the fierce competition in the diaper sector and in spite of the parallel imports by certain retail marketing chains during the reported period.

Some decisions were handed down by the court in Turkey on July 28, 2011 and on August 4, 2011, regarding some of the appeals filed by KCTR (the Turkish subsidiary of the associated company) regarding the demand by the Turkish tax authorities for additional tax payments. Pursuant to the said decisions of the court, the Company created a provision that negatively affected the net income of the segment. For further details, see Section D1 and Section E (Associated Companies), below.

Raw Materials

In the course of the reported period, the NIS was revaluated in relation to the average dollar and the euro, in relation to last year, by a rate of approximately 6.3% and 1.1%, respectively. This revaluation led to savings in terms of inputs and imported products denominated in dollars or euro, in the principal sectors of operation of the company, whose prices track import prices in the said currencies. As a result of the said revaluation, the relative price of natural gas denominated in dollars, decreased by approximately 7.6% in relation to last year and also contributed to savings. These savings were partially offset as a result of the rise in the prices of water during the reported period by an average rate of approximately 24%, in relation to the corresponding period last year, along with the increase in the prices of electricity during the reported period, in relation to the corresponding period last year, by a rate of approximately 3.7%. In addition, a sharp rise was recorded in the price of fibers, by an average rate of approximately 12% (in dollar terms) in relation to last year.

It should be noted that on May 15, 2011, the company extended 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 additional details see Note 4.m to the financial statements dated June 30, 2011. The new gas agreement entered into effect on July 1, 2011, for a period of two years.

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, 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 as well as the financing terms.

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

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

The exchange rate of the NIS in relation to the dollar was revaluated by approximately 3.8% during the reported period, as compared with a devaluation of approximately 2.6% during the corresponding 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 6.3% in relation to the corresponding period last year).

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

The inflation rate during the reported period amounted to 2.2%, as compared with an inflation rate of 0.7% 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 1,022.2 million, as compared with NIS 489.2 million last year, representing an increase of 109.0%, 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 369.2 million, net of inter-company sales totaling NIS 351.1 million.

The sales of the packaging paper and recycling sector amounted to NIS 360.3 million during the reported period, or NIS 308.3 million net of inter-company sales, as compared with NIS 189.5 million, or NIS 168.2 million net of inter-company sales in the corresponding period last year, representing an increase of 83.3%.

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 local 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 280.6 million, or NIS 272.6 million net of inter-company sales, as compared with approximately NIS 241.8 million, or NIS 238.1 million net of inter-company sales, in the corresponding period last year, representing an increase of approximately 14.5%, 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 90.8 million, or NIS 90.2 million net of inter-company sales, as compared with NIS 83.5 million last year, or NIS 82.9 million net of inter-company sales, in the corresponding period last year, representing an increase of 8.8% 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.

The consolidated sales in the second quarter of the year totaled NIS 504.6 million, as compared with NIS 249.2 million in the corresponding quarter last year, representing growth of approximately 102.5%, originating primarily as a result of the consolidation of the sales of Hadera Paper Printing in the sum of NIS 187.1 million, coupled with an increase in the sales of the packaging paper and recycling sector in relation to the corresponding quarter last year and as compared with first quarter sales of NIS 517.6 million this year, representing decrease of approximately 2.5%.

The sales of the packaging paper and recycling sector, net of inter-company sales, amounted to NIS 157.4 million in the second quarter of the year, as compared with NIS 94.7 million in the corresponding quarter last year, primarily as a result of the quantitative increase in sales as a result of the continuing growth in demand on the local market, coupled with the recognition of revenues from the sales of Machine 8 during the entire quarter, as compared with the corresponding quarter last year, when these sales were only recognized starting in June.

The sales of the packaging products and cardboard sector, net of inter-company sales, amounted to NIS 126.5 million in the second quarter of the year, as compared with NIS 112.8 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 42.1 million in the second quarter of the year, as compared with NIS 41.8 million in the corresponding quarter last year.

1.2. Cost of sales

The cost of sales amounted to NIS 897.7 million – or 87.8% of sales – during the reported period, as compared with NIS 406.3 million – or 83.1% of sales – in the corresponding period last year. The increase in the cost of sales is primarily attributed to the consolidation of the costs of Hadera Paper Printing in the amount of approximately NIS 351.1 million, starting January 1, 2011, coupled with the sharp rise in the prices of paper waste by approximately 54% as a result of the importing of paper waste, in order to respond to the greater demand. Moreover, an increase was recorded in the manufacturing expenses (primarily energy costs and the use of raw materials, as a result of the operation of Machine 8).

The gross profit totaled NIS 124.6 million during the reported period, approximately 12.2% of sales, as compared with NIS 82.8 million (16.9% of sales) last year, representing growth of 50.5% in relation to the corresponding period last year.

The increase in gross profit in relation to the corresponding period last year is primarily attributed to the growth in sales following the initial recognition of revenues from the sales of Machine 8 at the end of the corresponding period last year, 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, which contributed approximately NIS 18.1 million to the gross profit.

Labor Wages

The labor wages within the cost of sales amounted to NIS 146.8 million during the reported period,14.4% of sales, as compared with NIS 96.1 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 25.1 million, starting January 1, 2011.

The labor wages within the Selling, General and Administrative expenses amounted to NIS 63.8 million during the reported period, approximately 6.2% of sales, as compared with a sum of NIS 46.7 million last year, approximately 9.4% 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 13.2 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 expenses (including wages) and other expenses amounted to NIS 69.3 million in the reported period – or 6.8% of sales – as compared with NIS 70.3 million – or 14.4% of sales – in the corresponding period last year. Net of non-recurring revenues during the reported period, as a result of the sale of real estate in the amount of approximately NIS 35.8 million, the selling, general and administrative expenses amounted to NIS 105.1 million, representing approximately 10.3% of sales. The increase in the selling, general and administrative expenses, totaling NIS 34.8 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 28.0 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 sector, due to preparations for the relocation to the logistics center in Modi'in.

1.4. Operating Profit

The operating profit totaled NIS 55.3 million during the reported period, 5.4% of sales, as compared with NIS 12.6 million, 2.6% of sales, in the corresponding period last year. The increase in gross profit during the reported period, in relation to the corresponding period last year, is primarily attributed to non-recurring revenues from the sale of real estate, as mentioned in Section 1.3, above, coupled with the significant growth in the gross profit as a result of the said growth in sales, that was offset as a result of the consolidation of the results of the Hadera Paper Printing segment, starting January 1, 2011, due to an operating loss of NIS 9.9 million in this segment.

The operating profit of the packaging paper and recycling segment amounted to NIS 65.6 million in the reported period, as compared with an operating profit of NIS 8.0 million in the corresponding period last year. The results in the reported period included non-recurring revenues totaling NIS 35.8 million, as mentioned above. The sharp growth in operating profit 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 cardboard products and board segment amounted to NIS 3.7 million in the reported period, as compared with an operating profit of NIS 2.9 million in the corresponding period last year. The growth in the operating profit of the segment, despite the rise in raw material prices that served to offset part of the growth in sales, is primarily attributed to a decrease in general and administrative expenses in relation to the corresponding period last year.

The operating loss of the office supplies segment amounted to NIS 2.7 million in the reported period, as compared with an operating profit of NIS 2.1 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 anticipated relocation of the company to the logistics center in Modi'in, see Section D5, below.

The Company's operating profit amounted to NIS 1.5 million in the second quarter of the year, as compared with operating profit of NIS 5.1 million in the corresponding quarter last year. The lower profit in the second quarter originated primarily as a result of the consolidation of the operating loss of Hadera Paper Printing in the amount of NIS 6.9 million as a result of the sharp rise in raw material prices, coupled with specific inefficiency in the manufacture of fine paper.

The operating profit of the packaging paper and recycling sector in the second quarter of the year amounted to NIS 9.8 million, as compared with an operating profit of NIS 5.3 million in the corresponding quarter last year, as a result of the growing sales in the sector, as mentioned above.

The operating loss of the packaging and cardboard products sector amounted to NIS 0.3 million in the second quarter of the year, as compared with operating loss of NIS 0.6 million in the corresponding quarter last year.

The operating loss of the office supplies sector amounted to NIS 0.5 million in the second quarter of the year, as compared with operating profit of NIS 0.6 million in the corresponding quarter last year.

1.5. Financial Expenses

The financial expenses during the reported period amounted to NIS 36.1 million, as compared with NIS 10.8 million in the corresponding period last year.

The sharp rise in financing expenses is primarily attributed to the fact that during the corresponding period last year, the financing costs of Machine 8 were capitalized. This capitalization ended at the end of May 2010. Moreover, an increase of NIS 7.8 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 2.2%, as compared with a lower increase of 0.4% 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 3.6 million.

1.6. Taxes on Income

Tax expenditures of NIS 1.4 million were recorded during the reported period, as compared with tax expenditures totaling NIS 0.4 million in the corresponding period last year. The growth in tax expenditures during the reported period, in relation to the corresponding period last year, is primarily attributed to the recording of tax expenses in the amount of approximately NIS 7.7 million on account of the sale of real estate, as mentioned in Section 1.3 above, that was offset from the recording of tax revenues on the difference between the anticipated tax rates on the realization of current losses and the anticipated tax rates relating to the reversal of deferred tax liabilities on account of the accelerated depreciation of Machine 8.

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 12.7 million during the reported period, as compared with a share in profits in the amount of NIS 40.1 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 a provision in the amount of NIS 37.2 million, created by the Company following the decisions of the court in Turkey relating to the appeals filed by t KCTR regarding a demand for tax payment handed down to KCTR in Turkey. For additional details, see Section D1 below, coupled with the company's share in the earnings of Printing and Writing Paper (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 7.4 million.

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 25.1 million, as compared with NIS 37.3 million in the corresponding period last year. The decrease in the sum of NIS 12.2 million, originated primarily from the decrease in operating profit that fell from approximately NIS 100.2 million to NIS 63.3 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. 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 6.3%. 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 39.4 million, as compared with NIS 2.9 million in the corresponding period last year, representing an increase of approximately NIS 36.5 million. The greater loss is primarily attributed to the provision in the amount of NIS 37.2 million recorded by the Company as a result of the decisions of the court in Turkey relating to the appeals filed by KCTR regarding a demand for tax payment handed down to KCTR in Turkey. For further details, see Section D1 and Section E (Associated Companies), below, as well as Note 4i to the financial statements dated June 30, 2011, an increase that was offset as a result of the continuing efficiency measures during the Reported Period, that led to the reduction in the operating loss from NIS 6.9 million in the corresponding period last year, to NIS 3.5 million during the Reported Period, as well as a result of recording financing income in the amount of approximately NIS 1.2 million, as compared with financing expenses of NIS 1.0 million during the corresponding period last year.

  KCTR announced to the Company that it intends to appeal the decisions of the court, based on the expert opinion of its legal consultants, according to which KCTR possesses valid claims against the requirement and that the chances of success in the said appeal, are greater than 50%. However, 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 demands. Consequently, during the Reported Period, the Company included a provision on account of its share pertaining to the awarded sums.

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

The net profit attributed to the Company's shareholders amounted to NIS 7.9 million in the reported period, as compared with net profit of NIS 42.3 million in the corresponding period last year, representing an decrease of 81.3%. The net profit, net of non-recurring revenues and expenditures during the reported period, amounted to NIS 23.6 million, representing a decrease of 44.2% in relation to the corresponding period last year.

The decrease in the net profit attributed to the company's shareholders during the reported period was primarily affected by the non-recurring provision in the amount of NIS 37.2 million that was recorded by the Company as a result of the decisions of the court in Turkey relating to the appeals filed by KCTR pertaining to the demand for tax payment handed down to KCTR in Turkey. For further details, see Section D1 and Section E (Associated Companies), below, as well as Note 4i to the financial statements dated June 30, 2011, that was offset by non-recurring revenues from the sale of real estate on Totzeret HaAretz Street in Tel Aviv , coupled with the improvement in the operating profit at the packaging paper and recycling sector. 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 earnings per share amounted to NIS 1.54 per share ($0.45 per share) in the reported period, as compared with basic earnings per share of NIS 8.35 per share ($2.15 per share) in the corresponding period last year.

Diluted earnings per share amounted to NIS 1.54 per share ($0.45 per share) in the reported period, as compared with NIS 8.27 per share ($2.13 per share) in the corresponding period last year.

Basic loss per share amounted to NIS 6.55 per share ($1.92 per share) in the second quarter of the year, as compared with earnings of NIS 3.55 per share ($0.92 per share) in the corresponding quarter last year.

Diluted loss per share amounted to NIS 6.55 per share ($1.92 per share) in the second quarter of the year, as compared with earnings of NIS 3.52 per share ($0.91 per share) in the corresponding quarter last year.

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2. Analysis of the Company's Financial Situation

- The cash and cash equivalents item decreased from NIS 245.9 million on June 30, 2010 to NIS 91.5 million on June 30, 2011. The decrease in cash and cash equivalents is primarily attributed to the use of the funds raised last year (Series 5 bonds), for the repayment of loans and bonds series that were raised to finance Machine 8, as well has for the acquisition of 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 17.4 million.

- The designated deposits in the sum of NIS 10.6 million on June 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 attributed to the consolidation of the accounts receivable balances of the Hadera Paper Printing segment, that amounted to approximately NIS 199.7 million as at June 30, 2011. In the packaging paper and recycling sector, an increase was recorded from NIS 108.1 million on June 30, 2010, to NIS 142.8 million on June 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 179.2 million on June 30, 2010, to NIS 197.9 million on June 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 55.5 million as at June 30, 2010, to NIS 62.5 million, as at June 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 87.9 million as at June 30, 2010, to NIS 47.3 million as at June 30, 2011. This decrease is primarily attributed to a decrease in the credit/debit balances at associated companies, as a result of the consolidation of the Hadera Paper Printing sector on December 31, 2010. An additional factor was the other receivables balance that was consolidated on June 30, 2011 and amounted to NIS 1.9 million. Other receivables relating to the packaging products and board sector increased from NIS 3.4 million as at June 30, 2010, to NIS 3.5 million as at June 30, 2011. Other receivables relating to the marketing of office supplies segment increased from NIS 4.4 million as at June 30, 2010 to NIS 4.5 million as at June 30, 2011.

- The increase in the inventories item originates from the consolidation of the Hadera Paper Printing inventories in the amount of approximately NIS 141.5 million, as at June 30, 2011. Inventories in the packaging paper and recycling sector decreased from NIS 84.2 million as at June 30, 2010, to NIS 78.0 million as at June 30, 2011. This decrease is primarily attributed to utilizing the paper waste inventory as a result of the full operation of the new packaging paper manufacturing machine, starting in June last year. Inventories of the packaging products and board sector increased from NIS 81.9 million as at June 30, 2010, to NIS 82.8 million as at June 30, 2011. This increase is primarily attributed to timing differences in the receipt of raw material inventories in relation to the corresponding period last year. Inventories for the office supplies marketing sector rose from NIS 25.1 million as at June 30, 2010, to NIS 34.4 million, as at June 30, 2011, primarily as a result of the continuing growth in the volume of operations.

- The investment in associated companies decreased from NIS 349.2 million on June 30, 2010, to a sum of NIS 201.8 million on June 30, 2011. The principal components of the said decrease, 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 35.0 million from associated companies, that were offset by the company share in the earnings of associated companies in the sum of NIS 28.3 million, between the reported periods, that led to a decrease in investment between the reported periods.

- Short-term credit increased from NIS 74.1 million on June 30, 2010, to NIS 194.2 million on June 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 122.7 million as at June 30, 2011, that were offset as a result of the repayment of credit.

- The growth in the other payables item originates primarily from the consolidation of the Hadera Paper Printing balances, in the amount of NIS 7.5 million, as at June 30, 2011. The packaging paper and recycling sector recorded a decrease from NIS 88.9 million as at June 30, 2010, to NIS 84.2 million as at June 30, 2011. The decrease originated primarily as a result of the decrease in interest expenses to pay as a result of the repayment of bond series and long-term loans between the two reported periods. Other payables item of the packaging products and board sector increased from NIS 13.9 million as at June 30, 2010, to NIS 14.1 million as at June 30, 2011. The growth in the other payables item at the office supplies marketing segment increased from NIS 4.6 million on June 30, 2010, to NIS 4.9 million on June 30, 2011. This increase is primarily attributed to the growth in expenses to pay.

- The company’s shareholders' equity increased from NIS 901.7 million as at June 30, 2010, to NIS 952.0 million as at June 30, 2011. This change originated primarily from the net profit attributed to the company's shareholders between the reported periods, in the sum of NIS 66.3 million.

3. Investments in Fixed Assets

The investments in fixed assets amounted to NIS 35.6 million during the reported period, as compared with NIS 115.2 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 913.8 million as at June 30, 2011, as compared with NIS 1,079.3 million as at June 30, 2010 and as compared with NIS 989.6 million as at December 31, 2010. Long-term liabilities decreased in relation to last year, primarily as a result of the repayment of bond series (Series 2, Series 3 and Series 4) and long-term loans, coupled with the cash flows from operating activities. This decrease was offset as a result of the consolidation of the long-term loans of Hadera Paper Printing in the amount of NIS 10.6 million.

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

Series 2 – NIS 103.2 million, for repayment until 2013.
Series 3 – NIS 183.7 million, for repayment until 2018.
Series 4 – NIS 196.3 million, for repayment until 2015.
Series 5 – NIS 181.5 million, for repayment until 2017.
Long-term loans – NIS 250.0 million.

- The balance of short-term credit, as at June 30, 2011, amounted to NIS 194.2 million, as compared with NIS 74.1 million as at June 30, 2010. The growth originates primarily from the consolidation of the Hadera Paper Printing balances in the amount of NIS 122.7 million.

- The net debt as at June 30, 2011, net of the balance of deposits and cash, amounted to NIS 1,016.5 million. Net of the net debt originating from the consolidation of Hadera Paper Printing, in the amount of NIS 115.9 million, the net debt totals a sum of NIS 900.6 million, as compared with net debt of NIS 897.0 million as at June 30, 2010.

- Subsequent to the balance sheet date, 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 on 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 7a to the annual 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 June 30, 2011 and as at June 30, 2010 and as at December 31, 2010, is presented in the sum of NIS 29.4 million, NIS 14.0 million and NIS 31.5 million, respectively.

On account of the Put option, an associated company recorded other revenues of NIS 2.1 million during the reported period, as compared with other expenses of NIS 2.0 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 June 30, 2011, the option is blocked for two and a half 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 58.5 million during the reported period, as compared with NIS 63.3 million in the corresponding period last year. The decrease in the cash flows from operating activities during the reported period, as compared with the corresponding period last year, is primarily attributed to the decrease in profit from ordinary operations, that was offset as a result of the increase in working capital during the reported period, that amounted to NIS 30.3 million, as compared with an increase of NIS 17.7 million in the corresponding period last year, along with the company's 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 611.4 million in the reported period, as compared with approximately NIS 612.1 million in the corresponding period last year, representing a decrease of 0.1%.

The ability to preserve the level of sales during the reported period, despite the erosion of prices in light of escalating competition in the market, primarily in the baby and infant sector, originated primarily from the increase in quantitative sales and the higher prices in household paper products, that served to reduce the impact of competition on sales.

The operating profit of Hogla-Kimberly Israel amounted to approximately NIS 63.3 million in the reported period, as compared with approximately NIS 100.2 million in the corresponding period last year, representing a decrease of approximately 36.8%.

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 towards the end of the reported period, 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 6.3%, in relation to the corresponding period last year. Moreover, a decrease was recorded in the operating profit during the reported period, in relation to the corresponding period last year, as a result of expenditures associated with compensation provided to consumers, on account of complaints regarding leaks in a new brand of diapers.

The operating profit in the second quarter of the year amounted to NIS 34.1 million, as compared with NIS 49.8 million in the corresponding quarter last year and as compared with NIS 29.2 million in the first quarter of the year, as a result of the escalating competition in the second quarter that led to an erosion of prices, as mentioned above.

The sales turnover of KCTR, Hogla-Kimberly's subsidiary operating in Turkey, amounted to approximately NIS 240.6 million (approximately $69 million) in the reported period, as compared with approximately NIS 248.9 million (approximately $67.2 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 for the reported period amounted to NIS 3.5 million, as compared with NIS 6.9 million in the corresponding period last year. KCTR enjoys positive cash flows from operating activities.

The net profit of Hogla Kimberly totaled NIS 50.3 million during the reported period, as compared with NIS 74.9 million in the corresponding period last year.

In the reported period, the Company recorded for KCTR a net loss of NIS 39.4 million, as compared with a part in a net loss of approximately NIS 2.9 million in the corresponding period last year. The greater loss is attributed to the non-recurring provision in the second quarter, in the amount of NIS 37.2 million, that was recorded by the Company as a result of the decisions of the court in Turkey, regarding the appeals filed by KCTR, pertaining to the demand for tax payments on account of the taxation of capital influx from Hogla Kimberly Ltd. to KCTR. KCTR announced to the Company that it intends to appeal the decision in high court based on the expert opinion of its legal consultants, who believe that the chances of success in the appeal are greater than 50% (for details regarding the said demand, including developments in this matter, see also Note 4i to the financial statements dated June 30, 2011).

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

The sales of Hadera Paper Printing amounted to 94.5 thousand tons in the reported period, as compared with 88.3 thousand tons in the corresponding period last year, representing an increase of 7%. Sales amounted to 49.3 thousand tons in the second quarter, as compared with 42.9 thousand tons in the second quarter last year and as compared with 45.2 thousand tons in the first quarter of 2011.

The sales turnover of Hadera Paper Printing amounted to NIS 369.2 million in the reported period, as compared with NIS 357.5 million in the corresponding period last year, representing an increase of 3.3%. The sales turnover of Hadera Paper Printing in the second quarter of 2011 amounted to NIS 187.1 million, as compared with NIS 184.8 million in the corresponding period last year, representing an increase of 1.2%, and as compared with NIS 182.1 million in the first quarter of 2011, representing an increase of 2.7%.

The growth in sales during the reported period originated primarily from the quantitative increase in sales to export markets, an increase that amounted to approximately 70%. This growth was offset as a result of the decrease in average selling prices by a rate of approximately 3.6%, 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 second quarter, as compared with the first quarter of 2011.

Moreover, the prices of pulp (a principal raw material traded in US dollars), that rose by 8.1% (in NIS terms) during the reported period in relation to the corresponding period last year, and increased by 0.8% in relation to the first quarter of the year, also served to negatively impact the business results of Hadera Paper Printing during the reported period, despite the strengthening of the NIS vis-à-vis the dollar by 3.8% during the reported period.

The operating loss of Hadera Paper Printing amounted to NIS 9.9 million in the reported period, as compared with an operating profit of NIS 23.2 million in the corresponding period last year. In the second quarter of 2011, the company’s operating loss amounted to NIS 6.9 million, as compared with an operating profit of NIS 14.6 million in the corresponding quarter last year and as compared with an operating loss of NIS 3 million in the first 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, so as 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.

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 280.5 million during the reported period, as compared with NIS 241.8 million last year, representing an increase of 16%.

During the reported period, the consolidated sales turnover of Carmel Container Systems Ltd. amounted to NIS 223.5 million, as compared with NIS 189.0 million in the corresponding period last year, representing an increase of 18.3%.

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

The consolidated operating profit of Carmel amounted to NIS 2.3 million in the reported period, as compared with an operating profit of NIS 1.6 million in the corresponding period last year, representing an increase of 45%. The increase in the operating profit of Carmel is primarily attributed to the quantitative growth, coupled with a sharp rise in selling prices as mentioned above, that was mostly offset by the sharp rise in the prices of inputs.

The aggregate operating profit of Carmel (including Frenkel CD) amounted to NIS 3.7 million in the reported period, as compared with an operating profit of NIS 2.9 million in the corresponding period last year, representing an increase of 28%.

Following below are principal data regarding a material valuation: The value of Carmel in the company books as at June 30, 2011, amounted to NIS 145.8 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 valuated the derived utilization value of Carmel at this date at the sum of NIS 244.6 million. This value, minus the net financial liabilities, amounts to NIS 148.0 million. 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 evaluation is equal to 69%.

The above information pertaining to the output capacity and improved profitability of Carmel constitutes forward-looking information as defined in the Securities Law, based on the company's 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 360.3 million in the reported period, as compared with NIS 189.5 million in the corresponding period last year, representing an increase of approximately 90.1%. (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 149.1 thousand tons during the reported period, as compared with 119.9 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 6.3%, that tends to affect a large part of the export sales.

The operating profit of the division totaled NIS 23.0 million during the reported period, as compared with NIS 10.7 million in the corresponding period last year, representing growth of 115%. 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 second quarter of 2011, the operating profit amounted to NIS 8.6 million, as compared with an operating profit of NIS 6.7 million in the corresponding quarter last year and as compared with operating profit of NIS 14.4 million in the first quarter of 2011.

The improvement 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. The higher profit was achieved despite the rise in the various input prices, as a result of the significant improvement in the operational efficiency of Machine 8, as evidenced by the improvement recorded in the various manufacturing indexes at the division.

5. Graffiti - Office Supplies Marketing

Graffiti's sales turnover during the reported period amounted to NIS 90.8 million as compared with NIS 83.5 million in the corresponding period last year, representing an increase of 8.6%.

During the reported period, Graffiti recorded an operating loss of NIS 2.7 million, as compared with an operating profit of NIS 2.1 million in the corresponding period last year, representing a decrease of 228.5%.

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 2.0 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 1.7 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 Glicksberg, the Group's VP of Finance and Business Development.

2. Market Risks to which the Company is Exposed

Description of Market Risks

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

Exchange Rate Risks

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

The Company periodically reexamines the need for hedging on account of these exposures. 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 314.6 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.

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

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value as at Jun-30-11	Interest decrease 5%	Interest decrease 10%
		In NIS thousands			
Series 2 Debentures	598	300	(108,496)	(301)	(604)
Series 3 Debentures	2,283	1,148	(194,186)	(1,160)	(2,333)
Series 4 Debentures	1,504	755	(210,368)	(761)	(1,527)
Series 5 Debentures	2,945	1,480	(196,061)	(1,496)	(3,009)
Loan A - fixed interest	46	23	(12,439)	(23)	(47)
Loan B - fixed interest	1,012	508	(93,393)	(513)	(1,032)
Loan C - fixed interest	161	81	(26,311)	(81)	(163)

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 Euro Exchange Rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in € 10%	Rise in € 5%	Fair value as at Jun-30-11	Decrease in € 5%	Decrease in € 10%
	In NIS thousands				
Cash and cash equivalents	260	130	2,605	(130)	(261)
Other accounts receivable	1,558	779	15,585	(779)	(1,558)
Accounts Payable	(5,463)	(2,732)	(54,632)	2,732	5,463

Sensitivity to the US Dollar Exchange Rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	rise in $ 10%	rise in $ 5%	Fair value as at Jun-30-11	Decrease in $ 5%	Decrease in $ 10%
		In NIS thousands			
Cash and cash equivalents	2,238	1,119	22,375	(1,119)	(2,238)
Other accounts receivable	3,958	1,979	39,578	(1,979)	(3,958)
Accounts Payable	(11,145)	(5,572)	(111,447)	5,572	11,145
NIS/US$ forward transaction	459	118	(35)	(566)	(907)

Other accounts receivable reflect primarily short-term customer debts

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

Sensitivity to the Consumer Price Index

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in CPI 2%	Rise in CPI 1%	Fair value as at Jun-30-11	Decrease in CPI 1%	Decrease in CPI 2%
	In NIS thousands				
Bonds 2	(2,170)	(1,085)	(108,496)	1,085	2,170
Bonds 3	(3,884)	(1,942)	(194,186)	1,942	3,884
Other accounts receivable	21	10	1,047	(10)	(21)
Accounts Payable	307	154	15,352	(154)	(307)

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

Sensitivity to the exchange rate of the yen

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in the yen 10%	Rise in the yen 5%	Fair value as at Jun-30-11	Decrease in the yen 5%	Decrease in the yen 10%
	In NIS thousands				
Accounts Payable	(132)	(66)	(1,323)	66	132

Sensitivity to other currencies (GBP)

Sensitive Instruments	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	Rise of 10%	Rise of 5%	as at Jun-30-11	Decrease of 5%	Decrease of 10%
	In NIS thousands				
Other accounts receivable	44	22	439	(22)	(44)

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at Jun-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	66.5		22.4	2.6		91.5
Other accounts receivable	593.0	1.0	40.0	15.6	10.6	660.2
Inventories					336.7	336.7
Investments in Associated Companies	19.2				182.6	201.8
Deferred taxes on income					3.1	3.1
Fixed assets, net					1,339.1	1,339.1
Investment property (real estate)					24.5	24.5
Intangible Assets					34.2	34.2
Financial assets available for sale					2.5	2.5
Other assets					1.1	1.1
Assets on account of employee benefits	0.7					0.7
Total Assets	679.4	1.0	62.4	18.2	1,934.4	2,695.4
Liabilities						
Short-term credit from banks	194.2					194.2
Accounts Payable	310.9	15.4	112.8	54.6	0.1	493.8
Current tax liabilities	16.4					16.4
Deferred taxes on income					47.3	47.3
Long-Term Loans	235.8	14.2				250.0
Notes (debentures) – including current maturities	377.8	286.0				663.8
Liabilities on account of employee benefits	48.5					48.5
Put option to holders of non-controlling interests	29.4					29.4
Shareholders' equity, reserves and retained earnings					952.0	952.0
Total liabilities and equity	1,213.1	315.6	112.8	54.6	999.4	2,695.4
Surplus financial assets (liabilities) as at Jun-30-11	(533.6)	(314.6)	(50.4)	(36.4)	935.0	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.

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Associated Companies

Hadera Paper is exposed to various risks associated with operations in Turkey, where Hogla-Kimberly is active through its subsidiary, KCTR. These risks originate from concerns regarding economic and political instability, high devaluation and elevated inflation rates that have characterized the Turkish economy in the past and that may recur and harm the KCTR operations.

Hadera Paper is also exposed to tax related issues at KCTR, as detailed in Note 4i to the financial statements dated June 30, 2011.

Decisions were handed down by the court in Turkey on July 28, 2011 and on August 4, 2011, regarding some of the cases under discussion (approximately 27.6% of the total basic demand), pertaining to the appeals regarding the demand of the tax authorities. KCTR announced to the Company that it intends to appeal the decisions in high court based on the expert opinion of its legal consultants, who believe that the chances of success in the appeal are greater than 50%., According to the accounting policy of the company, the fact that the decision of the court had been handed down creates a situation where it is "more likely than not" that payments will be made on account of these tax demands. Consequently, during the Reported Period, the Company created a provision of NIS 37.2 million 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 August 04, 2011, the Balance Sheet and Audit Committee met to discuss the financial statements of the company for the first half 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), as well as those affecting the reliability of the financial statements.

Upon completion of the discussion of data presented, the committee handed down its recommendations to the Board of Directors of the company, regarding the ratification of the financial statements, when a certain accounting issue remained open and is subject to holding another discussion.

7. The said recommendations were forwarded to the members of the Board of Directors approximately 14 days before the date that was set for the discussion and ratification of the financial statements.

   In addition, regarding the accounting issue discussed during the same meeting, the committee requested to re-examine the matter once the Company receives additional details in this regard. The committee held three additional meetings in this matter and transferred its recommendation to the Board of Directors of the Company.

8. The Board of Directors of the company believes that the recommendations of the committee were transferred to it within a reasonable time, and perhaps even more so, 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.

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 June 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 ilA+ to the extension offset Series 5 bonds of the company (ilA+/Stable) in the amount of up to NIS 220 million. The said rating report is attached as an appendix to the management discussion dated June 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 Rating 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 Jun-30-11	Book value of bond the balances as at Jun-30-11	Book value of interest payable as at Jun-30-11	Fair value as at Jun-30-11
						In NIS millions						
Series 2	12.2003	Maalot	A+	200,000,000	Fixed	5.65%	No	Annual interest As at December 21 In the years 2004-2013	85.7	103.2	3.1	108.5
Series 3	7.2008	Maalot	A+	187,500,000	Fixed	4.65%	Yes	Annual interest On July 10 In the years 2009-2018	166.7	183.7	8.3	194.2
Series 4	7-8.2008	Maalot	A+	235,557,000	Fixed	7.45%	Yes	Semi-annual interest On January 10 and July 10 In the years 2009-2015	196.3	196.3	7.3	210.4
Series 5	5.2010	Maalot	A+	181,519,000	Fixed	5.85%	Yes	Semi-annual interest On November 30 and May 31 of the years 2010-2017	181.5	181.5	5.3	196.1

Notes:

1. Series 2 - Linked to the Consumer Price Index (CPI). Principal repaid in 7 annual installments, between Dec-21-2007 and Dec-21-2013.
2. Series 3 - Linked to the Consumer Price Index (CPI). Principal repaid in 9 annual installments, between July 2010 and July 2018.
3. Series 4 - Principal repaid in 6 annual installments, between July 2010 and July 2015.
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 JUNE 30, 2011

HADERA PAPER LTD

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HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

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