Hadera Paper Ltd
Form 6-K
November 09, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the Month of November 2009

HADERA PAPER LTD.

(Translation of Registrant s Name into English)

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

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

x Form 20-F o Form 40-F

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

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

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

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

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

o Yes x No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant s press release dated November 09, 2009 with respect to the Registrant s results of operations for the quarter ended September 30, 2009.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant s Management Discussion with respect to the Registrant s results of operations for the quarter ended September 30, 2009.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant s unaudited condensed consolidated financial statements for the quarter ended September 30, 2009.

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Hadera Paper Ltd. and subsidiaries with respect to the quarter ended September 30, 2009.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended September 30, 2009.

SIGNATURE

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

HADERA PAPER LTD.
(Registrant)

By: /s/ Lea Katz

Lea Katz
Corporate Secretary

Dated: November 09, 2009.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated November 09, 2009.
2.	Registrant s management discussion.
3.	Registrant s unaudited condensed consolidated financial statements.
4.	Unaudited condensed interim consolidated financial statements of Mondi Hadera Paper Ltd. and subsidiaries.
5.	Unaudited condensed interim consolidated financial statements of Hogla- Kimberly Ltd. and subsidiaries.

Exhibit 1

NEWS

For Release: IMMEDIATE

Hadera Paper Ltd.
Reports Financial Results for Third Quarter and Nine Months

Hadera, Israel, November 9, 2009 Hadera Paper Ltd. (AMEX:AIP) (the Company or Hadera Paper) today reported financial results for the third quarter and first nine months ended September 30, 2009. The Company, its subsidiaries and associated companies is referred to hereinafter as the Group .

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

The aggregate sales during the reported period amounted to NIS 2,409.2 million, as compared with NIS 2,442.5 million in the corresponding period last year, representing a decrease of approximately 1.4%.

The aggregate sales in the third quarter this year amounted to NIS 790.4 million, as compared with NIS 823.9 million in the corresponding period last year, representing a decrease of 4.0% and as compared with NIS 788.8 million in the second quarter of the year.

The aggregate operating profit totaled NIS 186.7 million during the reported period, as compared with NIS 160.5 million in the corresponding period last year, representing growth of approximately 16.3%.

The aggregate operating profit totaled NIS 68.7 million in the third quarter of the year, as compared with NIS 49.2 million in the corresponding quarter last year, representing growth of 39.6% and as compared with NIS 54.1 million in the second quarter of the year.

The Consolidated Data set forth below excluding the results of operation of the associated companies: Mondi Hadera and H-K. Consolidated Data include also the sales turnover of Carmel Containers Systems Ltd. (Carmel) and Frenkel- C.D. Ltd. (Frenkel- C.D.) that were consolidated as of September 2008, as a result of the fact that the company s holding rate in Carmel has increased from 36.2% to 89.3%, and at Frenkel CD, indirectly, from 37.93% to 52.72%.

Commencing January 1, 2009, the company applies IFRS 8, Operating Segments , and has accordingly recognized the packaging products and board segment, which includes the operations of Carmel and Frenkel C.D., as a separate segment. The associated companies H-K and Mondi Hadera were also recognized as independent segments. For further details, see page 4 below.

Consolidated sales in the reported period amounted to NIS 654.4 million, as compared with NIS 447.2 million in the corresponding period last year, representing an increase which was due mainly to the consolidation of the data of Carmel and Frenkel C.D. in the reported period.

Consolidated sales in the third quarter, amounted to NIS 220.4 million, as compared with NIS 171.4 million in the corresponding quarter last year.

The operating profit totaled NIS 15.1 million during the reported period, as compared with NIS 38.0 million in the corresponding period last year. The decrease in operating profits originated from the erosion of selling prices coupled with the quantitative erosion of packaging paper and recycling, as a result of the imports of packaging paper at dumping prices that was offset by the recording of non-recurring revenues of NIS 16.4 million on account of a unilateral dividend.

The operating profit amounted to NIS 1.2 million in the third quarter of the year, as compared with operating profit of NIS 7.9 million in the corresponding quarter last year.

The net profit attributed to the Company s shareholders amounted to NIS 70.2 million in the reported period, as compared with net profit of NIS 59.5 million, that is attributed to the company s shareholders in the corresponding period last year.

The net profit attributed to the Company shareholders during the reported period was affected by the improvement in operating profitability at some of the groups companies in Israel and in Turkey and by the recording of earnings as a result of the distribution of a unilateral dividend on account of the application of a preferred share by an associated Company that generated net revenues of NIS 8.4 million for the company. Moreover, a reduction in the Company s share in the losses on account of the operations in Turkey (KCTR) compared with the corresponding period last year also contributed to the improved profitability.

The net profit for the third quarter this year amounted to NIS 35.4 million, as compared with a net profit of NIS 20.2 million in the corresponding quarter last year.

Revenues from taxes on income amounted to NIS 6.0 million in the reported period, as compared with tax expenses of NIS 4.2 million in the corresponding period last year. The tax revenues originated primarily from the decrease in pretax profits in the amount of NIS 25.7 million, coupled with the change in the tax rates the following years that generated deferred tax revenues in the amount of NIS 9.4 million, that were offset as a result of recording a provision for taxes on account of events that were included the reported period.

The long-term liabilities (including current maturities) amounted to NIS 832.6 million as at September 30, 2009, as compared with NIS 828.2 million as at September 30, 2008. The long-term liabilities increased in relation to last year, primarily as a result of long-term loans that were assumed, designated for the financing of payments on account of Machine 8. This increase was offset as a result of the repayment of the old debenture series, coupled with the repayment of a capital note to an associated company and the cash flows from operating activities.

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Basic earnings per share amounted to NIS 13.86 per share ($3.69 per share) in the reported period, as compared with basic earnings per share of NIS 11.75 per share ($3.44 per share) in the corresponding period last year.

Basic earnings per share amounted to NIS 7.00 per share in the third quarter ($1.86 per share), as compared with earnings of NIS 3.99 per share ($1.17 per share) in the corresponding quarter last year.

The inflation rate during the reported period amounted to 3.4%, as compared with an inflation rate of 4.4% in the corresponding period last year.

The financial expenses during the reported period amounted to NIS 14.8 million, as compared with NIS 11.9 million in the corresponding period last year.

The US dollar exchange rate was revaluated by 1.2% during the reporting period, in relation to a revaluation of approximately 11% during the corresponding period last year.

In the course of the reported period, a turnaround has occurred in the intensity of the global and local economic crisis. Following a stability of several months at the low point, in the past several months it was possible to observe a gradual recovery in global economic activity, that was expressed, inter alia, the slowdown in both global and local unemployment, the initial expansion of investments and credit volumes, coupled with an expansion of public and private consumption.

In the global paper and paper products market, we currently see a new trend in terms of prices in the paper industry. Prices in the global packaging paper sector have started to climb sharply last September in Europe.

The Hadera Paper Group manages a relatively wide and diverse portfolio of companies and businesses. This fact is instrumental in dealing with the local and global crisis. The company s sectors of operation focus on consumer goods and basic inputs that were affected in a relatively limited manner by the repercussions of the global economic and financial crisis.

Hadera Paper Group was quick to formulate, at an early stage, an aggressive program for efficiency and savings in purchasing for all its companies, across all sectors of operation. During the reported period, most of the Group companies have met their defined objectives, while rendering it possible to compensate for the lower prices dictated by the global crisis, the local slowdown and the imports of fine paper and packaging paper at dumping prices, primarily from Europe. The group companies also operated in order to intensively manage, in a controlled manner, the operating working capital, while carefully monitoring trade receivables and risk management.

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

The Company s share in the profits of associated companies totaled NIS 63.9 million during the reported period, as compared with NIS 36.6 million in the corresponding period last year.

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

The Company s share in the net income of Mondi Hadera Paper (49.9%) rose by NIS 2.4 million. The increase in profit originated primarily from an increase in the operating profit of Mondi, that grew from NIS 27.4 million last year, to NIS 28.9 million this year.

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The Company s share in the net earnings of Hogla-Kimberly Israel (49.9%) increased by NIS 15.6 million. Hogla-Kimberly s operating profit grew from NIS 126.6 million to NIS 155.0 million this year.

The Company s share in the losses of KCTR (49.9%) was reduced by NIS 7.8 million.

On November 1, 2009, the company announced that it examined the need for a provision for the impairment of the packaging paper sector as a cash generating unit and has arrived at the conclusion that no recognition is necessary of a loss on account of the impairment of fixed assets. The company has also examined the need for a provision for impairment on account of the consolidated subsidiary Carmel and has arrived at the conclusion that no recognition is necessary of a loss on account of the impairment.

As aforementioned, according to IFRS 8, the Company has identified five segments and fields of operation, as follows: (1) The paper and recycling segment generates revenue from the sale of paper products to paper manufacturing companies as well as from the recycling of paper and cardboard. (2) The office supplies marketing segment generates revenue from the sale of office supplies to customers. (3) The packaging and cardboard products segment generates revenue from the sale of packaging and cardboard products to customers. (4) The Hogla Kimberly segment an associated company that generates revenue from the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products, in Israel and in Turkey. (5) The Mondi Hadera Paper segment an associated company that generates revenue from the manufacture and marketing of fine paper.

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.

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Hadera PAPER LTD.
SUMMARY OF RESULTS
(UNAUDITED)

	Nine months ended September 30,	
	NIS IN THOUSANDS (1)	
	except per share amounts	
	2009	2008
Net sales	654,405	447,180
Net earnings attributed to the Company's shareholders	70,161	59,479
Basic net earnings per share attributed to the Company's shareholders	13.86	11.75

	Nine months ended September 30,	
Fully diluted earnings per share attributed to the Company's shareholders	13.86	11.73

	Three months ended September 30,	
	NIS IN THOUSANDS [(1)]	
	2009	2008
Net sales	220,371	171,394
Net earnings attributed to the Company's shareholders	35,445	20,177
Basic net earnings per share attributed to the Company's shareholders	7.0	3.99
Fully diluted earnings per share attributed to the Company's shareholders	7.0	3.98

(1) The representative exchange rate at September 30, 2009 was N.I.S. 3.758=$1.00.

Contact:
Lea Katz, Adv.
Corporate Secretary and Chief of Legal Department
Hadera Paper Ltd. Group
Tel:+972-4-6349408
Leak@hadera-paper.co.il

Exhibit 2

Hadera Paper Ltd.

Update to PART A (Corporate Business Description) of the Information Presented in the Company s Periodical Report As at December 31, 2008

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

1. **Update to chapter A, section 2: Corporate operations and description of development of its business**

   In accordance with IFRS-8, the company has identified the following five sectors and areas of operations:

   a. **Paper and recycling sector** generates its revenues from the sale paper products to producing paper companies as well as from the recycling of paper and board.

b. **Marketing of office supplies sector** generates its revenues from the sale of office supplies to customers.

c. **Packaging products and cardboard sector** generates its revenues from the sale of packaging and board products to customers.

d. **Hogla Kimberly sector** an associated company that generates its revenues from the sale of household paper products, hygiene products, disposable diapers and complementary products for the kitchen, in Israel and Turkey.

e. **Mondi Hadera Paper sector** an associated company that generates its revenues from the sale of fine paper.

2. **Update to chapter A, Section 5: Equity investments in the Company and transactions in its shares**

On November 1, 2009, the company announced that it examined the need for a provision for the impairment of the packaging paper sector as a cash generating unit and has arrived at the conclusion that no recognition is necessary of a loss on account of the impairment of fixed assets. The company has also examined the need for a provision for impairment on account of the consolidated subsidiary Carmel Container Systems Ltd. and has arrived at the conclusion that no recognition is necessary of a loss on account of the impairment. For additional details, see the company s press release dated November 1, 2009 and also see note 3F, to the attached financial statements dated September 30, 2009.

3. **Update to Chapter C, section 9: Paper, recycling and board segment operations**

On September 1, 2009, the company announced that following a complaint filed by the company regarding the importing at dumping prices of packaging paper from several European nations into Israel, the Dumping Supervisor at the Ministry of Employment, Industry and Trade, announced that importing at dumping prices of recycled brown paper products was allegedly taking place, while causing damage to the local production sector. The supervisor therefore decided to impose a temporary levy, for a period of six months, at a level equal to 52-67 euro per ton on the import of recycled brown paper products from manufacturers in the European Union. Some of the manufacturers and importers have filed petitions against this decision.

4. **Update to Chapter D, Section 14: Finance**

On October 5, 2009 rating company Maalot (Standard and Poor s) announced the downgrading to a rating of A+/Negative Outlook for the company s series of debentures.

Regarding the details of the rating report see the Company s press release dated 5.10.09.

5. **Update to Section D Additional Details Regarding the Company , Regulation 26, Appendix G**

On October 1, 2009, the company announced that Discount Investment Company (DIC) ceased being an interested party in the company. This announcement came following the completion of a transaction between Clal Industries and Investments Ltd. (CII) and DIC, pursuant to which the entire holdings of DIC in the company were sold to CII. As a result of this acquisition, the rate of holdings of CII in the company has increased to approximately 59%.

6. **Update to Section D: Additional Details Regarding the Company , Regulation 26, Appendix H**

on October 1, 2009, the company announced that Mr. Ari Bronshtein had ceased to serve as a director at the company.

November 8, 2009

MANAGEMENT DISCUSSION

We are honored to present the consolidated financial statements of the Hadera Paper Ltd. Group for the first nine months of 2009.

The report was edited as defined in the Securities Law (Periodical reports and press releases), assuming that the reader has also the Company s full periodical report for December 31, 2008 (Annual reports). The results presented in the management discussion are attributed to the part of the shareholders of the Company in the results, unless said otherwise.

A. Description of the Company s Business

1. Company Description

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

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

2. General

a. Principal Current Operations

1. Business Environment

In the course of the reported period, a turnaround has occurred in the intensity of the global and local economic crisis. Following a stability of several months at the low point, in the past several months it was possible to observe a gradual recovery in global economic activity, that was expressed, inter alia, the slowdown in both global and local unemployment, the initial expansion of investments and credit volumes, coupled with an expansion of public and private consumption.

In the global paper and paper products market, we currently see a new trend in terms of prices in the paper industry. Prices in the global packaging paper sector have started to climb sharply last September in Europe, and according to reports from research companies covering the paper industry, transactions are currently being closed while recording an increase in prices of between 50 and 60 euro per ton (approximately 20%), why the prices are expected to grow by a cumulative 80-100 euro per ton by the end of the year.

This trend of improvement and the renewed growth in the volumes of operations and in global paper prices will already be expressed in the last quarter of the year and is expected to continue well into 2010.

The anticipated gradual growth in demand will be instrumental in utilizing the full potential of output capacity at the group, so as to better handle the business environment.

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

2. Impact of the Business Environment on Company Operations

The Hadera Paper Group manages a relatively wide and diverse portfolio of companies and businesses. This fact is instrumental in dealing with the local and global crisis. The company s sectors of operation focus on consumer goods and basic inputs that were affected in a relatively limited manner by the repercussions of the global economic and financial crisis.

The company s principal operations in the household paper and absorbent products market (through the Hogla-Kimberly sector), both in the B2B and the B2C markets are exposed to relatively small changes in the volume of demand during crisis periods such as the one currently experienced. The changes in demand for FMCG products, such as paper products and absorbent products, lie in the range between 0% and a 5% decrease, while most of the impact is evident in price competition and in a preference on the part of customers and consumers for attractively priced products.

The company is acting according to a multi-annual business and marketing strategy in terms of Premium products, Value products and Economy products. This fact provides the company with the necessary flexibility in order to protect market share, while preserving the quantitative volume of operations and while optimizing profits.

In light of the above, the company has successfully managed to continue improving its profits despite the challenging business environment in these areas.

In the packaging paper and recycling sector, the anticipated significant increase in prices, ranging between 15% and 25% worldwide, will positively affect the results of the sector, that is currently on the brink of the initial operation of the new Machine 8 for the manufacture of packaging paper, that is expected to effectively double the annual output capacity of the Hadera Paper Group in this sector, from 160,000 tons to 300,000 tons in 2010. These higher prices will be recorded against the background of an improvement in the equilibrium between supply and demand, primarily in Europe, originating from the closure of manufacturing plants and a reduction in supply, as opposed to the renewed global growth in the gradual increase in global commerce. This recovery is expected to influence the reduction in import volumes, so that s together with the gradual recovery in the local market, will bring about improved commercial and economic activity, along with the maximization of future performance.

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The company estimates that since 2008, these products have been imported into Israel at dumping prices, primarily from Europe. The company is working to handle this issue opposite the Dumping Supervisor at the Ministry of Employment, Industry and Trade, who has decided to impose a temporary levy on the importing of packaging paper from Europe, at a rate of 52-67 euro per ton. Some of the manufacturers and importers have filed petitions against this decision.

In the fine paper sector, the impact of the global crisis is evident primarily in the publishing industry. The volume of demand for newsprint paper and fine paper has decreased by a rate of 5% to 10% in the global market.

The reduced demand is creating surplus supply in Europe and worldwide, as fine paper is being imported to Israel at dumping prices since 2008. In this respect, the company is also working opposite the Dumping Supervisor in order to control imports at these prices. In order to provide an appropriate response to this business environment, Mondi Hadera paper is currently expanding its export operations to include a penetration into new and more lucrative markets in the eastern United States, a fact that will render it possible to increase the profit margin in the future export mix, so as to offer a compensation for the higher pulp prices that began to rise in the last quarter.

In the office supplies marketing sector, the crisis has led to a reduction in purchasing volumes by most companies in the economy, as part of their efficiency measures. While purchases have decreased by 15% to 20%, Graffiti has succeeded as part of the implementation of a growth-accelerating strategy to increase its operations in the B2B office supplies marketing sector by exploiting economies of scale in terms of the level of quality offered to customers, it s purchasing capability and the competitive prices in the market. In contrast to the contractionary nature of the market, the company is continuing to gradually increase its volume of operations and its market share.

To conclude, the Group s financial stability, coupled with the fact that it is an efficient company in international terms, in terms of its production lines, energy systems and supply chains, in conjunction with its diverse portfolio consisting primarily of basic consumer goods, are all enabling the company to contend with a difficult and challenging business environment, while growing both its aggregate operating profit, as defined below, and its net profit.

During the reported period, a decrease was recorded in the prices of inputs, primarily in the prices of fibers and chemicals, as a result of the global crisis. These decreases in prices offered partial compensation for the erosion in prices at some of the Group companies. These savings were partially offset as a result of the rising water prices during the reported period by an average rate of 4% in relation to the corresponding period last year and as a result of the devaluation of the NIS in relation to the average dollar in the period by a rate of approximately 13.6% in relation to the corresponding period, that possessed a negative impact on the Company in terms of the imported inputs, while on the other hand, served to improve the selling prices that previously eroded, as mentioned above, in the company s main sectors of operation, whose prices are in line with import prices, in US dollars.

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

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

The above information pertaining to the global trends and their impacts 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 global crisis in credit and banking markets.

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

The US dollar exchange rate was revaluated by 1.2% during the reporting period, in relation to a revaluation of approximately 11% during the corresponding period last year.

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

The inflation rate during the reported period amounted to 3.4%, as compared with an inflation rate of 4.4% in the corresponding period last year.

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

3. The Group s Operations Vis-À-Vis the Business Environment

During the global and local economic crisis , as reflected by a reduction in investments and credit and by a reduction in demand and global commerce, the Hadera Paper Group managed to align its assets in advance in order to correctly contend, in a focused manner, with the sharp change in the business environment.

Hadera Paper Group is financially sound, possessing efficient production lines on a global scale, along with efficient energy systems and supply chains. First and foremost, the group enjoys a wide and diverse portfolio of companies and businesses that are instrumental in contending with the changing business environment.

Hadera Paper Group was quick to formulate, at an early stage, an aggressive program for efficiency and savings in purchasing for all its companies, across all sectors of operation. During the reported period, most of the Group companies have met their defined objectives, while rendering it possible to compensate for the lower prices dictated by the global crisis, the local slowdown and the imports of fine paper and packaging paper at dumping prices, primarily from Europe. The group companies also operated in order to intensively manage, in a controlled manner, the operating working capital, while carefully monitoring trade receivables and risk management.

The group will continue to focus on the successful implementation of efficiency measures, savings in purchasing and the management of operating capital, while continuing to monitor trade receivable risks later on this year, while also devoting management attention to growth-promoting operations.

Hadera Paper Group is conducting initiatives to gradually encourage demand by increasing institutional and private consumption and while focusing on expanding market share so as to return to growth across most of its businesses.

The group has recently devoted efforts to accelerating business development in international markets for its various products, so as to encourage growth and improve profits. (See Section A(2)A (5.4) The Strategic Investment in Turkey below).

The plan for company growth and improving profitability is based on business opportunities in the core sectors in Israel and worldwide and on empowering company operations in terms of development and innovation in the various business sectors, so as to generate new products that will provide a distinct added value for both the businesses and the consumer. These efforts, which are focused on the group s technological center and also on the various companies, have led to the launch of new and upgraded products during the reported period, in both the FMCG and the paper sectors. (See Section A(2)A(5.2) Innovative Development of High-Quality Recycled Paper- below).

In view of the company s estimates regarding the continuing imports of paper at dumping prices primarily from Europe in both packaging paper and fine paper, the company has applied to the Dumping Supervisor at the Ministry of Employment Commerce and Trade (hereinafter: The Supervisor) and has filed a complaint against the dumping imports of packaging paper from several European countries into Israel. Subsequent to an examination of the complaint, the Dumping Supervisor decided to impose a temporary levy on the import of packaging paper from Europe at a rate of between 60-80 euro per ton.

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On February 26, 2009, the company announced that the subsidiary Mondi Hadera Paper an associated company had filed a complaint to the Supervisor, regarding the dumping imports of fine paper from several European nations to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. According to the Company announcement, there is no certainty that the above complaints would be accepted, and the Company is currently unable to estimate the impact of such acceptance on its business results.

The company continued its environmental operations during the reporting period, while upgrading various technological and operating systems in order to expand paper recycling, increase the reuse of processed water and lower noise levels so as to benefit the company employees, the community and to improve the financial results.

The company recorded other income in the amount of NIS 1.5 million, on account of the sale of carbon emission rights for 2008, pursuant to an agreement signed by the company in February 2009 with TEP (Trading Emissions PLC), An investment company registered in the UK, specializing in the trade of carbon emission quotas. The agreement enables TEP to trade in the rights of Hadera Paper to carbon emission quotas starting in 2008 through to 2012. Hadera Paper was rendered eligible for the sale of carbon emission rights as a result of the conversion of the

Group s power station at the Hadera site from fuel oil to environment-friendly natural gas. This move significantly reduces the pollution emitted into the air, while allowing the company to save energy costs and enabling it to enjoy the proceeds of the clean development mechanism.

The company has continued to implement its policy for social responsibility and for contributing to the community. The company s employees and managers at the various sites are all taking an active role in community involvement, in supporting teenagers and primarily in working toward reducing social gaps and in providing equal opportunity for education and for personal accomplishments within the framework of the company and the community.

4. <u>Principal Current Operations</u>

During the reported period, in light of changes in the business environment, the company has maintained its level of aggregate sales, was recording growth in both aggregate operating profit and net profit at most of the Group s subsidiaries and associated companies (hereinafter: The Group Companies), while realizing a quantitative increase in sales in part of the sectors of operation and while in parallel continuing to successfully implement cost-cutting and efficiency measures, as compared with the corresponding period last year.

<u>Implementation and Assimilation of Organization-Wide Processes</u>

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

5. <u>Promoting the Strategic Plans</u>

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

5.1. <u>Expanding the recycled packaging paper manufacturing network</u>

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

The implementation of the project is progressing as planned and subsequent to the signing of the central agreements for the acquisition of the principal equipment for production systems last year, the construction of the machine s building is nearing completion in 2009 at the Hadera site, along with the installation of the equipment.

The new production lines are scheduled to begin operating at full capacity in early 2010, after a running-in period of several months. Based on the working assumptions that were defined regarding the learning curve of the machine s operation, the new production lines together with the machines that are currently active, are expected to produce 290,000 tons of paper in 2010, representing growth of approximately 80% in relation to the existing output capacity.

In parallel, the Amnir Recycling subsidiary is continuing to expand the collection of cardboard and newspaper waste and is continuing to accumulate inventories toward the planned operation of the new machine by the beginning of 2010. The company is preparing for increasing the proportion of paper recycling in Israel from the currently low 26% up to 45% within several years, as part of the demand for raw materials for the new manufacturing system.

As part of this project, the company is investing in the reorganization of the principal site in Hadera, including an expansion of the energy system and the adaptation of the traffic routes and upgrading of environmental systems, as required. Within the central building of the machine, a visitors center is also being built, that will serve as the Israeli Educational Center for paper recycling and is intended to educate Israeli youth in the areas of recycling and the environment.

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5.2. Innovative Development of High-Quality Recycled Paper

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

The technological and operational development process is currently in advanced stages and is intended to significantly expand the volume of the potential market of the packaging paper division, both locally and in international markets.

The development of the new paper types is based on fiber characterization, the development and implementation of various chemical additives and the use of advanced manufacturing technologies, both in the existing manufacturing lines and in the new production line. The initial products that emerged from these innovative developments have already been sold during the reported period both in Israel and overseas and have gained customer satisfaction.

According to the plan, the cost of the new paper types will be competitive as compared with the cost of pulp-based paper and will allow for a gradual improvement in the profitability of the sector. According to laboratory results, indications from the development processes at the production lines and initial responses from customers who have already tried to products that have already been launched and their commitment to future purchasing volumes in 2010,the probability of success of this venture appears to be relatively high.

During the reported period, the company has started to market these products in the local market as well as in export markets. The new products are competitive in terms of their use, in relation to pulp-based products in the continuing expansion of the sales volumes of these products is planned to take place within the current year.

The above information pertaining to the innovative developments in the paper market constitutes forward-looking information as defined in the Securities Law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company.

5.3. Development of Export Markets for Packaging Paper

The significant increase in the output capacity of recycled packaging paper by Hadera Paper Group, upon the operation of the new manufacturing system, will allow for an expansion of the Division s operations both in Israel and overseas. The process of developing pulp-replacement packaging paper products on the basis of 100% recycled fibers, as mentioned above, will enable the division to expand the sale of such products for the first time, as a substitute for pulp-based packaging paper in international markets. The new products create an improved profit potential and are planned to be sold at a significant price supplement per ton of paper, as compared with the selling prices of basic paper types.

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The development of new paper products, that began in 2008, is enabling the division to create international business relations for the first time with a network of distributors and marketers, while formulating long-term agreements with international clients.

During the reported period, the company has acted to develop export markets and has reached preliminary agreements with several agents operating in various countries and in Europe for the distribution and marketing of various types of packaging paper. This operation has already started and will expand gradually in the course of the year.

Initial reactions overseas as regards the quality of the types of paper provided are good and it appears that this significant business and technological development will render it possible to diversify the division s portfolio of products and markets.

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

5.4. The Strategic Investment in Turkey

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

The sales turnover of KCTR totaled NIS 380.3 million during the reported period, as compared with NIS 313.6 million in the corresponding period last year, representing growth of 21.3%.

During the reported period, the Company continued to empower its international brands on the local market. This was especially expressed in the power of the Huggies brand in the diaper sector and the Kotex brand in the feminine hygiene sector, while realizing constant growth in market share and rising awareness toward the company s products. In parallel, the volume of exports to Kimberly-Clark in various other countries in Europe and Africa also increased. The Company s advanced manufacturing site in Turkey serves as a regional Kimberly-Clark diaper manufacturing center, whose products are exported to 22 different countries throughout Europe and the Middle East.

During the reported period, the company received two Effie awards for marketing in Turkey, serving as an indication of marketing capability in the launch and build up of the brands.

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

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

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

In parallel, the company is continuing to expand the marketing of its products to BIM, the largest supermarket chain in Turkey.

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

All of the expenses detailed above associated with the penetration of products, advertising, expansion of the distribution network and more are regularly recorded as an expenditure in the KCTR statements of income. KCTR recorded an operating loss of approximately NIS 12.2 million (approximately $3.2 million) in the reported period, as compared with NIS 29.4 million (approximately $8.4 million) in the corresponding period last year.

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

The above information pertaining to the KCTR business plans and their implementation constitutes forward-looking information as defined in the securities law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as market conditions, legislation and various costs.

5.5. New Power Plant

The new power plant project, intended to supply steam and electricity to the production system in Hadera and to sell surplus electricity to Israel Electric Company (IEC) and/or to private consumers, is on hold, awaiting the business stabilization of potential gas sources in order to conclude the contract to acquire the required gas at a price range that would allow the Company to be competitive with expected IEC rates. Due to the delay in finalizing the engagement for the purchase of gas as mentioned above, is not possible to meet the milestones set in the contingent production license held by the company. During this waiting stage, the company has decided not to request an extension of the license and will instead acts to renew the license once progress is made in the purchase of gas for the power plant.

The company is conducting negotiations with the gas suppliers in order to reach a long-term agreement at economically feasible prices.

The discovery of natural gas at the Tamar 1 and especially at the Dalit 1 sites off the coast of Hadera, along with the progress being made with the Egyptian gas franchise holder (EMG) and with the additional franchise holder Yam-Tethys all serve to increase the probability of the signing of a gas supply agreement and the reawakening of the project.

The above information pertaining to trends in the energy sector, based on natural gas, constitutes forward-looking information as defined in the Securities Law, based on the Company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as the size of the actual gas reservoir, as well as changes in gas prices worldwide.

B. Report of the Results of Operation

1. Aggregate Data

Regarding the consolidated data, see Section C(5), below.

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

The aggregate sales during the reported period amounted to NIS 2,409.2 million, as compared with NIS 2,442.5 million in the corresponding period last year, representing a decrease of approximately 1.4%.

The aggregate sales in the third quarter this year amounted to NIS 790.4 million, as compared with NIS 823.9 million in the corresponding period last year, representing a decrease of 4.0% and as compared with NIS 788.8 million in the second quarter of the year.

The aggregate operating profit totaled NIS 186.7 million during the reported period, as compared with NIS 160.5 million in the corresponding period last year, representing growth of approximately 16.3%.

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The aggregate operating profit totaled NIS 68.7 million in the third quarter of the year, as compared with NIS 49.2 million in the corresponding quarter last year, representing growth of 39.6% and as compared with NIS 54.1 million in the second quarter of the year.

The growth in the aggregate operating profit, despite the erosion of selling prices at some of the companies, originates from the improved growth and profits in the group operations in packaging products, the continued growth and improved profitability at Hogla Kimberly in Israel and the continuing reduction in the operating loss in Turkey. In the current quarter, for the first time since 2004, a transition was made to operating profitability coupled with non-recurring income on account of a unilateral dividend at an associated company.

For the operations in Turkey see also Section C(5)7 below Company s share in the earnings of associated companies.

2. Details of the Various Operations

1. **Hogla-Kimberly (Household Products)**

The sales turnover of Hogla-Kimberley Israel amounted to approximately NIS 924.7 million in the reported period, as compared with approximately NIS 914.8 million in the corresponding period last year, representing an increase of 1.1%.

The increase in sales over the corresponding period last year was primarily attributed to a quantitative increase, resulting from the ongoing expansion of market shares alongside the market growth, which was partly offset by the decrease in selling prices and the reduced market share in certain categories of premium products.

The sales in the third quarter this year amounted to NIS 298.7 million, as compared with NIS 306.7 million in the corresponding quarter last year and as compared with NIS 302.1 million in the second quarter of the year.

The operating profit of Hogla-Kimberly Israel amounted to approximately NIS 155.0 million in the reported period, as compared with approximately NIS 126.6 million in the corresponding period last year, representing an increase of 22.4%.

The improvement in the operating profit in comparison to last year was due to the aforesaid increase in the quantities sold and the implementation of efficiency measures, alongside a significant increase in the output of some of the company s manufacturing facilities, coupled with the global decrease in input prices. As an importer of both inputs and finished products, the Hogla Kimberly Israel results were adversely affected during the reported period, in relation to last year, on account of the devaluation in the average NIS exchange rate against the dollar between the periods.

The operating profit in the third quarter this year amounted to NIS 52.7 million, as compared with NIS 41.5 million in the corresponding quarter last year, representing growth of 27% and as compared with NIS 54.4 million in the second quarter of the year.

The sales turnover of KCTR, Hogla-Kimberly s subsidiary operating in Turkey, amounted to approximately NIS 380.3 million (approximately $95.3 million) in the reported period, as compared with approximately NIS 313.6 million (approximately $89.3 million) in the corresponding period last year, representing an increase of 21%.

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 and to bring about the resulting increase in sales and enhancement of the Huggies and Kotex brands.

See also section A(2)a(5.4) above with respect to the strategic investment in Turkey.

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

The sales of fine paper amounted to 137.6 thousand tons in the reported period as compared with 140.2 thousand tons the corresponding period last year, representing a decrease of 1.9%. Sales amounted to 45.3 thousand tons in the third quarter, as compared with 46.3 thousand tons in the third quarter last year and as compared with 43.5 thousand tons in the second quarter of 2009.

The sales turnover of fine paper amounted to NIS 511.9 million in the reported period, as compared with NIS 573.2 million in the corresponding period last year, representing a decrease of 10.7%. The sales turnover of fine paper in the third quarter of 2009 amounted to NIS 168.3 million, as compared with NIS 190.0 million in the corresponding period last year, representing a decrease of 11.4%, and as compared with NIS 161.6 million in the second quarter of 2009, representing an increase of 4.1%.

The operating profit of Mondi Hadera amounted to NIS 28.9 million in the reported period, as compared with an operating profit of NIS 27.4 million in the corresponding period last year. In the third quarter of 2009, the company s operating profit amounted to NIS 13.0 million, as compared with an operating profit of NIS 9.8 million in the corresponding quarter last year, representing an increase of 32.7% and as compared with operating profit of NIS 10.5 million in the second quarter of 2009.

The increase in operating profit in the third quarter in relation to the corresponding quarter last year, despite the aforementioned decrease in sales, originated primarily from the 29% decrease in pulp prices, coupled with the improvement in the gross profitability of the sales of purchased paper by Mondi (15% in the third quarter as compared with 13% in the corresponding period last year), the focused and successful implementation of an efficiency program and savings in purchasing that serve to offset the impact of the erosion of selling prices by approximately 10%.

3. **Carmel Container Systems Packaging and Board Products**

The aggregate sales turnover of Carmel Container Systems (including Frenkel C.D.) amounted to NIS 356.7 million in the first nine months of 2009, as compared with NIS 394.8 million in the corresponding period last year. A decrease of 9.6%.

During the reported period, the consolidated sales turnover of Carmel Container Systems Ltd. amounted to NIS 283.4 million, as compared with NIS 316.5 million in the corresponding period last year. A decrease of 10.5%.

The volume of quantitative sales in the corrugated board sector amounted to 111.1 million m² (58.6 thousand tons) during the reported period, as compared with 116.3 million m² last year (60.3 thousand tons). The decrease in the quantitative volume of sales is primarily attributed to the downturn in the local market and in the high-tech market as a result of the global crisis and as a result of customer attrition in the boards and slaughterhouse sectors due to competition, that was offset by a quantitative increase in sales to the agricultural sector in relation to the corresponding period last year.

The consolidated operating profit of Carmel Container Systems amounted to NIS 6.9 million in the reported period, as compared with an operating loss of NIS 5.8 million in the corresponding period last year. The improvement in Carmel s operating profit is primarily due to the decrease in input prices and the implementation of an aggressive efficiency program that compensated for the erosion in the quantities sold and in the selling prices.

The aggregate operating profit of Carmel Container Systems (including Frenkel C.D.) amounted to NIS 7.9 million in the reported period, as compared with an operating loss of NIS 4.4 million in the corresponding period last year.

4. **Packaging Paper and Recycling**

The sales turnover of the Packaging Paper and Recycling Division amounted to NIS 250.9 million in the reported period, as compared with NIS 322.1 million in the corresponding period last year. The division s sales turnover in the third quarter totaled NIS 88.7 million, as compared with NIS 107.1 million in the corresponding quarter last year and NIS 81.7 million in the second quarter of the year.

The decrease in the sales turnover was partly due to the quantitative decrease in sales, both as a result of the downturn in the local market and the preparations for the development of new markets overseas, that shifted sales to export, the reduction in selling prices at Amnir and in the packaging paper segment, and the effect of dumping prices of paper imported from Europe (with respect to dumping and counteractions, see Section A(2)a(3), above).

The division concluded the reported period with an operating loss of approximately NIS 14.5 million, as compared with an operating profit of NIS 36.0 million in the corresponding period last year. The division s operating loss in the third quarter of the year amounted to NIS 6.6 million, as compared with an operating profit of NIS 8.8 million in the corresponding quarter last year and an operating loss of NIS 8.1 million in the second quarter of the year.

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The deterioration in the operating profit in the reported period in relation to the preceding year, is primarily attributed to the aforesaid decrease in quantities sold and the reduction in selling prices caused by dumping. Consequently, extensive efficiency measures have been implemented at Amnir, at the packaging paper plant and at the plastic recycling plant, which helped to significantly offset the substantial loss incurred by the packaging paper segment and would lend support to the expected continued improvement this year.

In the third quarter this year, a new trend is evident, originating primarily from the improvement in the quantities sold, that were partially offset by lower selling prices during this quarter in the packaging paper sector.

Prices in the global market are expected to rise by 60-100 euro in the fourth quarter of the year. The sharp rise in packaging paper prices worldwide, that began in September this year, should they continue, are expected to affect the import prices to Israel and will enable the Division to raise prices accordingly and improve the profits, as early as in the coming quarter.

The above mentioned regarding the expected sale prices contains various forecasts that constitute forward-looking statements, as defined in the Securities Law, based upon the Company s estimates at the date of this report. Part of these forward-looking statements or all of them may in fact not be realized, or differ considerably from the present forecasts as a result of factors, which lie outside the control of the Company, such as changes in the global markets as well as changes in demand and supply of paper products in the world.

5. **Graffiti Office Supplies Marketing**

Graffiti s sales turnover during the reported period amounted to NIS 108.9 million as compared with NIS 96.4 million in the corresponding period last year, representing an increase of 13%.

In the reported period, Graffiti recorded an operating profit of NIS 2.9 million, as compared with an operating profit of NIS 2.8 million in the corresponding period last year. The increase in operating profit during the reported period originated primarily from the increase in sales as a result of the acquisition of the Yavne Pitango client portfolio, coupled with a decrease in general and administrative expenses, along with efficiency measures and savings in purchasing.

At the beginning of August 2008, Graffiti purchased the operations of Yavne Pitango 2000 (1994) Ltd., which was also engaged in the marketing of office equipment and supplies to businesses and institutions in Northern Israel. The sales turnover of Yavne Pitango shortly before the execution of the transaction was estimated at NIS 20 million. The additional sales by Graffiti resulting from the operations of Yavne Pitango during the reported period amounted to approximately NIS 14.1 million.

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

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

In 2010, Graffiti, together with other companies in the group, is scheduled to relocate to a modern and efficient distribution center in Modiin, that would allow to significantly cut operating costs, while enabling continued growth in sales and profit.

In the reported period, Graffiti continued the development of the IT platform that will enable the acceleration of growth and profit alongside the improvement of customer service, in complement to the transfer to the new and modern distribution site.

C. UAnalysis of the Company s Financial Situation

Commencing January 1, 2009, the company applies International Financial Reporting Standard (IFRS) No. 8, Operating Segments , and has accordingly recognized the packaging products and board segment, which includes the operations of Carmel Container Systems and Frenkel C.D., as a separate segment. The associated companies Hogla-Kimberly and Mondi Hadera were also recognized as independent segments (for further details, see Note 8 to the financial statements). 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.

Starting September 1, 2008, the financial statements of Carmel and Frenkel CD Ltd. (an associated company of Carmel s and of the Company), are being consolidated within the Company s financial statements, as a result of the fact that the holding rate in Carmel has increased from 36.2% to 89.3%, and at Frenkel CD, indirectly, from 37.93% to 52.72% (for details see Note 15 to the annual financial statements as at December 31, 2008).

The cash and cash equivalents item rose from NIS 5.1 million on September 30, 2008, to NIS 22.3 million on September 30, 2009.

Designated Deposits decreased from NIS 257.1 million as at September 30, 2008, to NIS 113.8 million as at September 30, 2009. The decrease in deposits stems from the company s purchase of equipment and fixed assets for the Machine 8 Project.

Trade receivables relating to the packaging paper and recycling segment decreased from NIS 109.0 million as at September 30, 2008 to NIS 82.9 million as at September 30, 2009. This decrease is due to the erosion of prices as a result of paper imported at dumping prices, a quantitative decrease in sales and the change in the composition of markets in which the company sells its products. In the packaging products and board sector, trade receivables decreased from NIS 191.1 million as at September 30, 2008, to NIS 174.8 million as at September 30, 2009. Accounts receivable for the office supplies marketing sector rose from NIS 45.2 million as at September 30, 2008, to NIS 51.1 million, as at September 30, 2009, as a result of growth in the volume of operations.

Other receivables relating to the packaging paper and recycling segment decreased from NIS 109.3 million as at September 30, 2008 to NIS 93.3 million as at September 30, 2009. Other receivables relating to the packaging products and board sector increased from NIS 5.9 million as at September 30, 2008, to NIS 6.0 million. Other receivables relating to the marketing of office supplies segment decreased from NIS 3.6 million as at September 30, 2008 to NIS 2.5 million as at September 30, 2009.

Inventories of the packaging paper and recycling segment increased from NIS 48.4 million as at September 30, 2008 to NIS 75.5 million as at September 30, 2009. This increase is primarily attributed to the continuing increase in the inventories of wastepaper as part of Amnir s preparation for the transition to the new packaging paper machine and the development of export markets and the securing of paper availability for overseas shipment. Inventories of the packaging products and the board sector decreased from NIS 77.9 million as at September 30, 2008, to NIS 59.8 million as at September 30, 2009. In the office supplies marketing sector, the Inventories item increased from NIS 19.8 million on September 30, 2008, to NIS 20.1 million on September 30, 2009, primarily as a result of the increase in the proportion of products imported from East Asia so as to improve profitability.

The investment in associated companies increased from NIS 314.3 million as at September 30, 2008 to NIS 337.8 million as at September 30, 2009. The principal components of the said increase consists primarily of the company s share in the earnings of associated companies in the amount of NIS 78.6 million between the reported periods, offset by the company s share in distributed dividend in the sum of NIS 37.1 million from an associated company and the company s share in the declared dividend of NIS 9.5 million by an associated company, which led to a change in the total investment between the reported periods.

Short-term credit increased from NIS 36.7 million as at September 30, 2008 to NIS 91.8 million as at September 30, 2009 The increase stems primarily from the credit in the amount of NIS 40 million raised from institutional investors in 2009 and the assuming of short-term bank credit.

Other payables relating to the packaging paper and recycling segment decreased from NIS 87.7 million as at September 30, 2008 to NIS 86.3 million as at September 30, 2009. Other payables in the packaging products and board sector decreased from NIS 24.2 million to NIS 17.6 million as at September 30, 2009. In the marketing of office supplies, other payables decreased from NIS 6.5 million as at September 30, 2008, to NIS 4.7 million as at September 30, 2009.

The Company s shareholders equity increased from NIS 743.0 million as at September 30, 2008 to NIS 836.1 million as at September 30, 2009. This change originated primarily from the net profit attributed to the company s shareholders between the periods, in the sum of NIS 80.4 million.

1. **Investments in Fixed Assets**

Investments in fixed assets amounted to NIS 279.7 million in the reported period, as compared with NIS 178.6 million in the corresponding period last year. The investments this year consisted primarily of payments on account of purchasing from equipment vendors for the new packaging paper machine (Machine 8), in the sum of NIS 260 million (NIS 68 million net of supplier credit). Additional investments included were related to environmental protection (wastewater treatment) and current investments in equipment renewal, means of transportation and building maintenance at the Hadera site.

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With respect to the examination of the need of impairment of assetssee note 3(f) to the financial reports.

2. **Financial Liabilities**

The long-term liabilities (including current maturities) amounted to NIS 832.6 million as at September 30, 2009, as compared with NIS 828.2 million as at September 30, 2008. The long-term liabilities increased in relation to last year, primarily as a result of long-term loans that were assumed, designated for the financing of payments on account of Machine 8. This increase was offset as a result of the repayment of the old debenture series, coupled with the repayment of a capital note to an associated company and the cash flows from operating activities.

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

Series 2 NIS 164.3 million, for repayment until 2013.

Series 3 NIS 197.4 million, for repayment until 2018.

Series 4 NIS 235.6 million, for repayment until 2015.

Long-term loans NIS 234.3 million.

The outstanding short-term credit totaled NIS 91.8 million as at September 30, 2009, as compared with NIS 36.7 million as at September 30, 2008 and as compared with NIS 77.7 million as at December 31, 2008.

Subsequent to the balance sheet date, the company assumed a long-term loan denominated in NIS, from a bank, in the sum of NIS 56.5 million.

3. **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 4b(3) to the annual financial statements dated December 31, 2008.

The difference between the value of the liability according to the agreement NIS 62.7 million as compared with the value of the liabilities through fair value NIS 13.5 million amounts to NIS 49.2 million.

The liability on account of the Put option to the shareholder at the associated company as at September 30, 2009, September 30, 2008, and as at December 31, 2008, amounts to NIS 13.5 million, NIS 9.5 million and NIS 13.9 million, respectively.

On account of the Put option, other income of NIS 0.4 million were recorded during the reported period, as compared with other expenses of NIS 5.6 million in the corresponding period last year.

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

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4. **The net income and the earnings per share attributed to the Company s shareholders**

The net profit attributed to the Company s shareholders amounted to NIS 70.2 million in the reported period, as compared with net profit of NIS 59.5 million, that is attributed to the company s shareholders in the corresponding period last year, representing an increase of 18.0%.

The net profit attributed to the Company shareholders during the reported period was affected by the improvement in operating profitability at some of the groups companies in Israel and in Turkey and by the recording of earnings as a result of the distribution of a unilateral dividend on account of the application of a preferred share by an associated Company that generated net revenues of NIS 8.4 million for the company. Moreover, a reduction in the Company s share in the losses on account of the operations in Turkey (KCTR) compared with the corresponding period last year (see above, Strategic Investment in Turkey, as well as chapter C7, below) also contributed to the improved profitability.

The net profit for the third quarter this year amounted to NIS 35.4 million, as compared with a net profit of NIS 20.2 million in the corresponding quarter last year, representing an increase of approximately 75.2%.

Basic earnings per share amounted to NIS 13.86 per share ($3.69 per share) in the reported period, as compared with basic earnings per share of NIS 11.75 per share ($3.44 per share) in the corresponding period last year.

Diluted earnings per share amounted to NIS 13.86 per share ($3.69 per share) in the reported period, as compared with NIS 11.73 per share ($3.43 per share) in the corresponding period last year.

The basic earnings per share amounted to NIS 7.00 per share in the third quarter ($1.86 per share), as compared with earnings of NIS 3.99 per share ($1.17 per share) in the corresponding quarter last year.

The diluted earnings per share amounted to NIS 7.00 per share in the third quarter ($1.86 per share), as compared with earnings of NIS 3.98 per share ($1.16 per share) in the corresponding quarter last year.

5. **Analysis of Operations and Profitability**

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

1. **Sales**

Consolidated sales in the reported period amounted to NIS 654.4 million, as compared with NIS 447.2 million in the corresponding period last year, representing an increase of 46.3%, which was due mainly to the consolidation of the data of Carmel Container Systems and Frenkel C.D. in the reported period, in the amount of approximately NIS 351.9 million, as compared with their consolidation in part of the corresponding period last year, in the amount of NIS 38.4 million.

Sales of the packaging paper and recycling sector amounted to NIS 193.6 million in the reported period, as compared with NIS 315.0 million in the corresponding period last year.

The reduction in the sales turnover of the packaging paper and recycling segment was due both to the decrease in sales of packaging and recycling as a result of the erosion of selling prices, (the sales of the segment are affected by the dollar-denominated import prices) and to the quantitative decrease in sales as a result of the import of packaging paper from Europe at dumping prices, the reduced volume of activity of corrugated board manufacturers, the diminished demands in the local market, the slowdown of Israeli exports, and the non-recurring reduction of inventories in the reported period by the manufacturers of corrugated board as a means to improve cash flows from operating activities.

The sales of the packaging products and board sector during the reported period amounted to NIS 351.9 million, as compared with their consolidation in part of the corresponding period last year in the amount of NIS 38.4 million.

Sales in the marketing of office supplies segment amounted to NIS 108.1 million in the reported period, as compared with NIS 93.8 million in the corresponding period last year, representing an increase of 16.0%, which was due to the continued implementation of the segment s strategic growth plan by way of expanding the scope of customer.

In the third quarter, consolidated sales amounted to NIS 220.4 million, as compared with NIS 171.4 million in the corresponding quarter last year, representing an increase of 28.5%, which is mainly due to the consolidation of the data of Carmel Container Systems and Frenkel C.D. in the reported period, in the amount of approximately NIS 111.8 million, and as compared with sales of NIS 204.1 million in the second quarter of the year, representing an increase of 8.0%.

Sales in the packaging paper and recycling segment amounted to NIS 69.3 million in the third quarter of the year, as compared with NIS 98.5 million in the corresponding quarter last year, mainly as a result of the quantitative decrease in sales as a result of the import of paper from Europe at dumping prices during the reported period, the reduction of inventories by the manufacturers of corrugated board as a means to improve cash flows, adjustment to demands and preparations for the development of export markets in connection with the development of the new products as a substitute to pulp.

The sales of the packaging products and board sector amounted to NIS 111.8 million in the third quarter of the year, as compared with a partial consolidation in the amount of NIS 38.4 million in the corresponding quarter last year.

Sales in the marketing of office supplies segment amounted to NIS 39.3 million in the third quarter of the year, as compared with NIS 34.5 million in the corresponding quarter last year. This increase was due mainly to the expansion of the company s customer portfolio in this market.

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2. **Cost of Sales**

The cost of sales amounted to NIS 561.6 million 85.8% of sales during the reported period, as compared with NIS 351.3 million 78.6% of sales in the corresponding period last year. The increase in the cost of sales originates primarily from the consolidation of the expenses of Carmel and Frenkel during the reported period, as compared with their partial consolidation last year.

The gross profit totaled NIS 92.8 million during the reported period, approximately 14.2% of sales, as compared with NIS 95.9 million, 21.4% of sales, in the corresponding period last year, representing a decrease of 3.2% in relation to the corresponding period last year.

The decrease in gross profit in relation to the corresponding period last year originates primarily from the erosion in the prices of packaging paper and as a result of the slowdown in the markets and the decrease in quantitative sales, coupled with a 4% increase in the price of water, that was offset by the lowering of paper collection costs and the procurement of raw materials, along with a 5% decrease in electricity prices. Additionally, the cost of sales included an amortization of NIS 3.2 million in excess cost, as a result of excess cost recorded from the acquisition of Carmel and Frenkel CD in 2008.

Labor Wages

The labor wages within the cost of sales amounted to NIS 153.2 million during the reported period, approximately 23.4% of sales, as compared with NIS 99.5 million last year, approximately 22.2% of sales.

The labor wages within the general and administrative expenses amounted to NIS 65.3 million during the reported period approximately 10.0% of sales, as compared with the amount of NIS 51.8 million last year 11.6% of sales.

The increase in the cost of labor wages in relation to the corresponding period last year originates primarily from supplemental labor wages in the amount of NIS 78.0 million, stemming from the consolidation of Carmel and Frenkel CD, as compared with NIS 9.2 million from their partial consolidation the corresponding period last year. Net of 30 labor expenses on account of Carmel and Frenkel, the labor expenses decreased by a rate of 1.1%.

Moreover, the cost of labor includes the labor expenses derived from the issue of options to executives and the allocation of the expenditure thereupon, at a cumulative rate of NIS 2.9 million during the reported period, an expenditure not involving cash flows.

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

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3. **Selling, General and Administrative Expenses**

The selling, general and administrative (including wages) and other expenses amounted to NIS 77.6 million in the reported period 11.9% of sales as compared with NIS 57.9 million 13.0% of sales in the corresponding period last year. When neutralizing revenues, as a result of the distribution of a unilateral dividend on account of a preferred share that was allocated by an associated company in the sum of NIS 16.4 million, the selling general, administrative and other expenses amounted to NIS 94.0 million.

The increase in selling, general and other expenses originated primarily from the consolidation of the expenses of Carmel and Frenkel CD in the Company s financial statements, in the amount of NIS 40.2 million, as compared with their consolidation in part of the corresponding period last year, in the amount of NIS 4.5 million. The general and administrative expenses also included an amortization of excess cost in the amount of NIS 2.2 million, on account of excess cost recorded during the acquisition of Carmel and Frenkel CD in 2008. Net of the expenses of Carmel and Frenkel and net of nonrecurring expenses, the selling, general and administrative expenses remained at a level similar to their level during the corresponding period last year.

4. Operating Profit

The operating profit totaled NIS 15.1 million during the reported period, 2.3% of sales, as compared with NIS 38.0 million, 8.5% of sales, in the corresponding period last year. The decrease in operating profits originated from the erosion of selling prices coupled with the quantitative erosion of packaging paper and recycling, as a result of the imports of packaging paper at dumping prices that was offset by the recording of non-recurring revenues of NIS 16.4 million on account of a unilateral dividend.

The operating loss of the paper and recycling sector amounted to NIS 4.3 million in the reported period, as compared with operating profit of NIS 30.9 million in the corresponding period last year, primarily as a result of dumping prices of competing imports, that served to erode the prices and quantities as mentioned above.

The operating profits of the packaging products and the board segment amounted to NIS 7.9 million, as compared with an operating loss of NIS 4.4 million in the corresponding period last year. The improvement in the operating profit in the sector is primarily due to the decrease in input prices and the implementation of an aggressive efficiency program that compensated for the erosion in the quantities sold and in the selling prices.

The operating profit of the office supplies sector amounted to NIS 2.9 million, as compared with NIS 2.7 million in the corresponding period last year.

The operating profit amounted to NIS 1.2 million in the third quarter of the year, as compared with operating profit of NIS 7.9 million in the corresponding quarter last year.

The operating loss of the paper and recycling sector in the third quarter of the year amounted to NIS 3.8 million, as compared with operating profit of NIS 10.4 million in the corresponding quarter last year, as mentioned above, as a result of the continuing impact of dumping prices on sales in the sector.

The operating profits in the third quarter of the packaging product and board segment amounted to NIS 3.3 million, as compared with an operating loss of NIS 3.8 million the corresponding quarter last year, as mentioned above, primarily as a result of the continuing erosion of input prices.

The operating profit of the office supplies sector amounted to NIS 1.7 million, as compared with NIS 1.3 million in the corresponding quarter last year.

5. Financial Expenses

The financial expenses during the reported period amounted to NIS 14.8 million, as compared with NIS 11.9 million in the corresponding period last year, representing an increase of 24.4%.

The total average of interest bearing liabilities, net, carried to the Company s financial expenses, decreased by approximately NIS 1 million by average between the periods 2008-2009. This decrease originated primarily from the positive cash flows from operating activities between the periods, net of the current investments in fixed assets.

The interest on the short-term interest-bearing credit decreased by NIS 1.6 million, both as a result of the decrease in the balance of short-term credit and as a result of the lower interest rate between the two periods. The interest expenses in respect of CPI-linked long-term liabilities (debentures) decreased by NIS 2.8 million as compared with the corresponding period last year, as a result of the decrease in the balance of debentures following redemptions made to the holders of the debentures, and with hedging transactions on the CPI-linked debentures against the increase in the CPI, whose costs amounted to 0.3% per annum in 2009, as compared with 2.6% in 2008, and as a result of the valuation of the hedging transactions to their fair value, in accordance with international standards. The actual index rose by 3.4% in the reported period.

Moreover, financial expenses of NIS 5.2 million were included last year on account of a currency transaction on the US dollar. Such expenses did not offset the financial expenses this year.

6. Taxes on Income

Revenues from taxes on income amounted to NIS 6.0 million in the reported period, as compared with tax expenses of NIS 4.2 million in the corresponding period last year. The tax revenues originated primarily from the decrease in pretax profits in the amount of NIS 25.7 million, coupled with the change in the tax rates the following years that generated deferred tax revenues in the amount of NIS 9.4 million, that were offset as a result of recording a provision for taxes on account of events that were included the reported period.

7. Company s Share in Profits of Associated Companies

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

The Company s share in the profits of associated companies totaled NIS 63.9 million during the reported period, as compared with NIS 36.6 million in the corresponding period last year.

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

The Company s share in the net income of Mondi Hadera Paper (49.9%) rose by NIS 2.4 million. The increase in profit originated primarily from an increase in the operating profit of Mondi that grew from NIS 27.4 million last year, to NIS 28.9 million this year, despite the erosion of prices as a result of imports at dumping prices, in light of implementing the aggressive efficiency program in operations and in purchasing, and the decrease in input prices. The net profit also grew as a result of recording tax revenues due to the change in the tax rate, in the sum of NIS 6.4 million, that was offset as a result of the increase in financial expenses during the reported period, as compared with last year, primarily as a result of the devaluation influence of the NIS against the US dollar, as an average between the reported periods.

The Company s share in the net earnings of Hogla-Kimberly Israel (49.9%) increased by NIS 15.6 million. Hogla s operating profit grew from NIS 126.6 million to NIS 155.0 million this year. The improved operating profit originated from a quantitative increase in sales, improved selling prices in some of the sectors of operation, innovating products and empowering the Company s brands, a decrease in the prices of part of company inputs in view of the erosion of global commodity prices. Continuing efficiency measures across the company and growing savings in procurement also contributed significantly to the improved profit.

The Company s share in the losses of KCTR (49.9%) was reduced by NIS 7.8 million. The significant decrease in the loss is attributed primarily to the growth in the volumes of operation (see above Strategic Investment in Turkey) that led to the continued reduction in the operating loss, from NIS 29.4 million last year to approximately NIS 12.2 million this year. In addition, due to the increase in the shareholders equity of KCTR through a financial influx from Hogla-Kimberly last year and during the reported period, the bank loans were repaid, and the financial expenses were reduced , thereby leading to an additional reduction in the net loss.

D. Liquidity

Cash Flows

The cash flows from operating activities totaled NIS 133.0 million in the reported period, as compared with NIS 50.9 million in the corresponding period last year. The increase in the cash flows from operating activities during the reported period as compared with the corresponding period last year originated primarily from dividends received from an associated company in the sum of NIS 35.9 million, coupled with a decrease in working capital during the reported period, that amounted to approximately NIS 22.9 million, as compared with an increase of NIS 10.5 million last year. The decrease in working capital during the reported period originated primarily from a decrease in inventory levels, coupled with a, as a result of the lowering of purchasing costs that caused decrease in other payables.

E. Sources of Finance

See Section B2 Financial Liabilities and further details in the table below.

F. 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 factors, so as to reach decisions in this matter. The individual responsible for the implementation of market risk management policy at the Company is Shaul Glicksberg, the Group s VP of Finance and Business Development.

2. Market Risks to which the Company is Exposed

Description of Market Risks

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

Exchange Rate Risks

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

The Company periodically reexamines the need for hedging on account of these exposures. True to September 30, 2009, the Company entered into hedging transactions in the sum of 15.5 million euro, in order to hedge the cash flows for the acquisition of fixed assets from equipment vendors for Machine 8.

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

Consumer Price Index Risks

The Company is exposed to changes in the Consumer Price Index, pertaining to the debentures issued by the Company and to long-term loans, in the total sum of NIS 389.0 million.

In early 2009, the Company entered into hedging transactions for a period of one year, to protect itself against a rise in the CPI, in the amount of NIS 250 million, pursuant to previous transactions that were made in early 2008 and in August 2008 and terminated at the end of 2008.

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

Credit Risks

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

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

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Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at September 30, 2009:

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value as at Sept-30-09	Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Series 2 Debentures	(1,401)	(703)	(176,855)	709	1,423
Series 3 Debentures	(3,318)	(1,670)	(204,837)	1,692	3,406
Series 4 Debentures	(2,955)	(1,484)	(264,097)	1,499	3,011
Loan A - fixed interest	(171)	(86)	(25,180)	86	173
Loan B - fixed interest	(1,582)	(796)	(102,674)	805	1,620
Long-term loans and capital notes - granted	195	98	50,874	(98)	(196)

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 2009).

Regarding the terms of the debentures and other liabilities See Note 8 to the annual financial statements dated Dec-31-08.

Regarding long-term loans and capital notes granted See Note 4 to the annual financial statements dated Dec-31-08.

Sensitivity of -linked instruments to changes in the exchange rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in 10%	Rise in 5%	Fair value as at Sept-30-09	Decrease in 5%	Decrease in 10%
	In NIS thousands				
Cash and cash equivalents	199	100	1,993	(100)	(199)
Designated deposits	3,006	1,503	30,056	(1,503)	(3,006)

Sensitivity of -linked instruments to changes in the exchange rate

Other Accounts Receivable	443	221	4,425	(221)	(443)
Other Accounts Payable	(7,879)	(3,939)	(78,787)	3,939	7,879
NIS- forward transaction	9,055	4,785	541	(3,755)	(8,026)

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Sensitivity to the US Dollar Exchange Rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	Fair value as at Sept-30-09	Devaluation of $ 5%	Devaluation of $ 10%
	In NIS thousands				
Cash and cash equivalents	379	189	3,786	(189)	(379)
Other Accounts Receivable	1,396	698	13,956	(698)	(1,396)
Accounts Payable	(2,560)	(1,280)	(25,598)	1,280	2,560
Liabilities at fair value through the statement of income	(1,354)	(677)	(13,540)	677	1,354

Other accounts receivable reflect primarily short-term customer debts.

Capital note See Note 4d to the annual financial statements dated Dec-31-08.

Accounts payable reflect primarily short-term liabilities to suppliers.

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Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at Sept-30-09:

In NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	16.5	-	3.8	2.0	-	22.3
Short-term deposits and investments	83.7	-	-	30.1	-	113.8
Other Accounts Receivable	382.1	1.0	14.8	4.4	8.3	410.6
Inventories	-	-	-	-	155.4	155.4
Investments in Associated Companies	17.6	36.7	-	-	283.5	337.8
Deferred taxes on income	-	-	-	-	30.8	30.8
Fixed assets, net	-	-	-	-	1,070.8	1,070.8

In NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	-linked	Non-Monetary Items	Total
Intangible Assets	-	-	-	-	28.1	28.1
Land under lease	-	-	-	-	38.5	38.5
Other assets	-	-	-	-	2.3	2.3
Assets on account of employee benefits	0.8	-	-	-	-	0.8
Total Assets	500.7	37.7	18.6	36.5	1,617.7	2,211.2
Liabilities						
Short-term credit from banks	91.8	-	-	-	-	91.8
Other Accounts Payable	230.6	-	27.9	78.8	-	337.3
Current tax liabilities	1.3	-	-	-	-	1.3
Deferred taxes on income	-	-	-	-	61.3	61.3
Long-Term Loans	203.8	30.5	-	-	-	234.3
Notes (debentures) - including current maturities	238.1	360.2	-	-	-	598.3
Liabilities on account of employee benefits	37.3	-	-	-	-	37.3
Liabilities at fair value through the statement of income	-	-	13.5	-	-	13.5
Shareholders' equity, reserves and retained earnings	-	-	-	-	836.1	836.1
Total liabilities and equity	802.9	390.7	41.4	78.8	897.4	2,211.2
Surplus financial assets (liabilities) as at Sept-30-09	**(302.2)**	**(353.0)**	**(22.8)**	**(60.1)**	**738.1**	
Surplus financial assets (liabilities) as at Dec-31-08	**(157.4)**	**(389.0)**	**(12.6)**	**107.6**	**471.4**	

* As to hedging transactions associated with surplus CPI-linked liabilities, see Section F(2), above.

Associated Companies

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

G. 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.

H. Detailed processes undertaken by the Company s supreme supervisors, prior to the approval of the financial statements

The Company s Board of Directors has appointed the Company s Audit Committee to serve as a Balance Sheet Committee and to supervise the completeness of the financial statements and the work of the CPAs and to offer recommendations regarding the approval of the financial statements and the discussion thereof prior to said approval. The Committee consists of three directors, of which two possess accounting and financial expertise. The meetings of the Balance Sheet Committee, as well as the board meetings during which the financial statements are discussed and approved, are attended by the company s auditing CPAs, who are instructed to present the principal findings if there are any that surfaced during the audit or review process, as well as by the Internal Auditor.

The Committee conducts its examination via detailed presentations from company executives and others, including: General Manager Avi Brener, and CFO Shaul Glicksberg. The material issues in the financial reports, including any extraordinary transactions if any, the material assessments and critical estimates implemented in the financial statements, the reasonability of the data, the financial policy implemented and the changes therein, as well as the implementation of proper disclosure in the financial statements and the accompanying information. The Committee examines various aspects of risk assessment and control, as reflected in the financial statements (such as reporting of financial risks), as well as those affecting the reliability of the financial statements. In case necessary, the Committee demands to receive comprehensive reviews of matters with especially relevant impact, such as the implementation of international standards.

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The approval of the financial statements involves several meetings, as necessary: The first is held by the Audit Committee to discuss the material reporting issues in depth and at great length, whereas the second is held by the Board of Directors to discuss the actual results. Both meetings are held in proximity to the approval date of the financial statements.

Zvika Livnat, Chairman of the Board of Directors	Avi Brener General Manager

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Exhibit 3

HADERA PAPER LTD
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2009

HADERA PAPER LTD

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HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

	September 30		December 31
	2009	2008	2008
	(Unaudited)		
Assets			
Current Assets			
Cash and cash equivalents	22,312	5,075	13,128
Designated deposits	113,819	257,118	249,599
Accounts receivable:			
Trade receivables	308,797	345,279	318,926
Other receivables	101,750	118,760	100,888
Current tax assets	-	16,262	6,271
Inventory	155,392	146,104	168,755
Total Current Assets	**702,070**	**888,598**	**857,567**
Non-Current Assets			
Fixed assets, net	1,070,800	714,605	767,542
Investments in associated companies	337,840	314,309	318,101
Deferred tax assets	30,776	19,623	29,848
Prepaid expenses with respect to an operating lease	38,480	35,538	36,344
Other intangible assets	28,085	32,569	31,519
Other assets	2,336	1,755	2,549
Employee benefit assets	824	* 559	624
Total Non-Current Assets	**1,509,141**	**1,118,958**	**1,186,527**
Total Assets	**2,211,211**	**2,007,556**	**2,044,094**

* Reclassified, see note 9.

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

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HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(NIS in thousands)

	Note	September 30 2009	September 30 2008	December 31 2008
		(Unaudited)	(Unaudited)	
Liabilities and Equity				
Current Liabilities				
Credit from banks and others		91,803	36,735	77,655
Current maturities of long-term bonds and long term loans		141,093	79,554	76,469
Trade payables		228,595	168,008	195,020
Other payables and accrued expenses		108,645	* 118,405	* 104,943
Short term employee benefit liabilities		19,729	* 18,208	* 17,478
Other financial liabilities		-	32,380	32,770
Financial liabilities at fair value through profit and loss		13,540	9,474	13,904
Current tax liabilities		1,316	-	-
Total Current Liabilities		**604,721**	**462,764**	**518,239**
Non-Current Liabilities				
Loans from banks and others		187,245	128,725	121,910
Bonds		504,244	587,592	554,124
Deferred tax liabilities		61,307	71,452	76,641
Employee benefit liabilities		17,595	* 14,051	* 15,551
Total Non-Current Liabilities		**770,391**	**801,820**	**768,226**
Capital and reserves				
Issued capital		125,267	125,267	125,267
Reserves		306,795	294,417	299,949
Retained earnings		378,071	296,308	306,097
capital and reserves attributed to shareholders		**810,133**	**715,992**	**731,313**
Minority Interests		25,966	26,980	26,316
Total capital and reserves		**836,099**	**742,972**	**757,629**
Total Liabilities and Equity		**2,211,211**	**2,007,556**	**2,044,094**

* Reclassified, see note 9.

Z. Livnat	**A. Brener**	**S. Gliksberg**
Chairman of the Board of Directors	Chief Executive Officer	Chief Financial and Business

Development Officer

Approval date of the interim financial statements: November 8, 2009.

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

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HADERA PAPER LTD

CONDENSED CONSOLIDATED INCOME STATEMENTS
(NIS in thousands)

	Note	Nine months ended September 30		Three months ended September 30		Year ended December 31
		2009	2008	2009	2008	2008
		(Unaudited)		(Unaudited)		
Revenue		654,405	447,180	220,371	171,394	673,484
Cost of sales		561,608	351,287	188,413	142,350	542,387
Gross profit		**92,797**	**95,893**	**31,958**	**29,044**	**131,097**
Selling and marketing expenses		52,822	28,147	17,840	12,494	45,674
General and administrative expenses		43,172	38,542	13,255	18,872	54,970
Other income, net	6	(18,346)	(8,768)	(381)	(10,213)	(4,898)
Total expenses		**77,648**	**57,921**	**30,714**	**21,153**	**95,746**
Profit from ordinary operations		**15,149**	**37,972**	**1,244**	**7,891**	**35,351**
Finance income		4,407	9,017	593	5,487	12,069
Finance expenses		19,215	20,928	5,406	6,268	27,112
Finance expenses, net		**14,808**	**11,911**	**4,813**	**781**	**15,043**
Profit (loss) after financial expenses		**341**	**26,061**	**(3,569)**	**7,110**	**20,308**
Share in profit of associated companies, net		63,893	36,644	28,988	10,873	51,315
Profit before taxes on income		**64,234**	**62,705**	**25,419**	**17,983**	**71,623**
Taxes on income	7	(6,025)	4,189	(10,434)	(1,231)	3,663

	Note	Nine months ended September 30		Three months ended September 30		Year ended December 31
Profit for the period		**70,259**	**58,516**	**35,853**	**19,214**	**67,960**
Attributed to:						
Company shareholders		70,161	59,479	35,445	20,177	69,710
Minority interests		98	(963)	408	(963)	(1,750)
		70,259	**58,516**	**35,853**	**19,214**	**67,960**
Earning for share:						
Primary attributed to Company shareholders		**13.86**	**11.75**	**7.00**	**3.99**	**13.77**
Fully diluted attributed to company shareholders		**13.86**	**11.73**	**7.00**	**3.98**	**13.77**
Number of share used to compute the primary earnings per share		5,060,774	5,060,774	5,060,774	5,060,774	5,060,774
Number of share used to compute the fully diluted earnings per share		5,060,774	5,068,780	5,060,774	5,070,134	5,060,774

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME
(NIS in thousands)

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31
	2009	2008	2009	2008	2008
	(Unaudited)		(Unaudited)		
Comprehensive Income	**70,259**	**58,516**	**35,853**	**19,214**	**67,960**
Other Comprehensive Income					
Profit (loss) on cash flow hedges, net	3,717	(14,996)	(1,158)	(14,996)	(2,306)

	Nine months ended		Three months ended		Year ended
Actuarial profit (loss) and defined benefit plans, net	565	-	245		(1,501)
Revaluation from step acquisition	-	17,288	-	17,288	17,288
Share in Other Comprehensive Income of associated companies, net	1,142	(20,274)	(826)	917	(28,094)
Total Other Comprehensive Income for the period, net	**5,424**	**(17,982)**	**(1,739)**	**3,209**	**(14,613)**
Total Comprehensive Income for the period	**75,683**	**40,534**	**34,114**	**22,423**	**53,347**
Attributed to:					
Company shareholders	75,585	41,638	33,680	23,527	55,115
Minority interests	98	(1,104)	434	(1,104)	(1,768)
	75,683	**40,534**	**34,114**	**22,423**	**53,347**

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

HADERA PAPER LTD

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

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Minority Interests	Total
	(Unaudited)										
	NIS in thousands										
Balance - January 1, 2009	**125,267**	**301,695**	**6,227**	**3,397**	**15,908**	**(5,092)**	**(22,186)**	**306,097**	**731,313**	**26,316**	**757,629**
For the Nine months ended September 30, 2009:											
Total Comprehensive Income for the period	-	-	-	-	-	4,234	685	70,666	75,585	98	75,683
Purchasing shares of subsidiary company	-	-	-	-	-	-	-	-	-	(448)	(448)

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Minority Interests	Total
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(1,308)	-	-	1,308	-	-	-
Share based payment	-	-	3,235	-	-	-	-	-	3,235	-	3,235
Balance - September 30, 2009	**125,267**	**301,695**	**9,462**	**3,397**	**14,600**	**(858)**	**(21,501)**	**378,071**	**810,133**	**25,966**	**836,099**
Balance - January 1, 2008	**125,267**	**301,695**	**-**	**3,397**	**-**	**(635)**	**3,810**	**236,437**	**669,971**	**-**	**669,971**
For the Nine months ended September 30, 2008:											
Total Comprehensive Income for the period	-	-	-	-	17,288	(15,392)	(19,185)	58,927	41,638	(1,104)	40,534
First transfer to consolidation - create minority interests	-	-	-	-	-	-	-	-	-	28,084	28,084
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(944)	-	-	944	-	-	-
Share based payment	-	-	4,383	-	`-	-	-	-	4,383	-	4,383
Balance - September 30, 2008	**125,267**	**301,695**	**4,383**	**3,397**	**16,344**	**(16,027)**	**(15,375)**	**296,308**	**715,992**	**26,980**	**742,972**

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

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HADERA PAPER LTD

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

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on	Capital reserve from revaluation from step acquisition	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Minority Interests	Total

exercise of employee options

(Unaudited)

NIS in thousands

Balance - July 1, 2009	**125,267**	**301,695**	**8,967**	**3,397**	**15,036**	**(280)**	**(20,095)**	**341,971**	**775,958**	**25,532**	**801,490**
For the three months ended September 30, 2009:											
Total Comprehensive Income for the period	-	-	-	-	-	(578)	(1,406)	35,664	33,680	434	34,114
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(436)	-	-	436	-	-	-
Share based payment	-	-	495	-	-	-	-	-	495	-	495
Balance - September 30, 2009	**125,267**	**301,695**	**9,462**	**3,397**	**14,600**	**(858)**	**(21,501)**	**378,071**	**810,133**	**25,966**	**836,099**
Balance - July 1, 2008	**125,267**	**301,695**	**2,461**	**3,397**	**-**	**(3,731)**	**(14,135)**	**275,589**	**690,543**	**-**	**690,543**
For the three months ended September 30, 2008:											
Total Comprehensive Income for the period	-	-	-	-	17,288	(12,296)	(1,240)	19,775	23,527	(1,104)	22,423
First transfer to consolidation - create minority interests	-	-	-	-	-	-	-	-	-	28,084	28,084
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(944)	-	-	944	-	-	-
Share based payment	-		1,922		-	-	-	-	1,922	-	1,922
Balance - September 30, 2008	**125,267**	**301,695**	**4,383**	**3,397**	**16,344**	**(16,027)**	**(15,375)**	**296,308**	**715,992**	**26,980**	**742,972**

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

HADERA PAPER LTD

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

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Capital reserve from revaluation from step acquisition	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total for Company shareholders	Minority Interests	Total
	NIS in thousands										
Balance - January 1, 2008	**125,267**	**301,695**	**-**	**3,397**	**-**	**(635)**	**3,810**	**236,437**	**669,971**	**-**	**669,971**
For the year ended December 31, 2008:											
Total Comprehensive Income for the period	-	-	-	-	17,288	(4,457)	(25,996)	68,280	55,115	(1,768)	53,347
First transfer to consolidation - create minority interests	-	-	-	-	-	-	-	-	-	28,084	28,084
Depreciation of capital from revaluation from step acquisition to retained earnings	-	-	-	-	(1,380)	-	-	1,380	-	-	-
Share based payment	-	-	6,227	-	-	-	-	-	6,227	-	6,227
Balance - December 31, 2008	**125,267**	**301,695**	**6,227**	**3,397**	**15,908**	**(5,092)**	**(22,186)**	**306,097**	**731,313**	**26,316**	**757,629**

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

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HADERA PAPER LTD

CONDENSED CONSOLIDATED STATMENTS OF CASH FLOWS
(NIS in thousands)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2009	2008	2009	2008	2008
	(unaudited)		(unaudited)		
Cash flows - operating activities					
Profit for the period	70,259	58,516	35,583	19,214	67,960
Taxes on income recognized in profit and loss	(6,025)	4,189	(10,434)	(1,231)	3,663
Finance expenses recognized in profit and loss	14,808	11,911	4,813	781	15,043

	Nine months ended		Three months ended		Year ended December 31
Capital gain on disposal of fixed assets	(321)	(269)	(125)	(419)	(284)
Share in profit of associated companies	(63,893)	(36,644)	(28,988)	(10,873)	(51,315)
Dividend received from associated company	52,326	-	19,556	-	-
Income from repayment of capital note to associated company	(16,418)	-	-	-	-
Depreciation and amortization	58,308	39,409	19,292	17,136	59,784
Share based payments expenses	2,907	3,455	846	1,458	4,913
Gain from negative goodwill	-	(14,664)	-	(14,664)	(14,664)
	111,951	**65,903**	**40,813**	**11,402**	**85,100**
Changes in assets and liabilities:					
Decrease (Increase) in trade and other receivables	23,350	21,944	(34,527)	4,747	66,805
Decrease (Increase) in inventory	13,363	2,783	13,622	2,377	(19,868)
Increase (Decrease) in trade payables and other payables	(13,841)	* (35,173)	26,170	* (24,514)	* (16,923)
Increase (Decrease) in financial liabilities at fair value through profit and loss	(364)	* 5,573	987	* 4,278	10,003
Increase (Decrease) in employee benefit liabilities	4,323	* (223)	(964)	* (3,647)	* (3,063)
	26,831	**(5,096)**	**5,288**	**(16,759)**	**36,954**
Tax Payments	(5,754)	(9,927)	(2,439)	(427)	(8,182)
Net cash generated by (used in) operating activities	**133,028**	**50,880**	**43,662**	**(5,784)**	**113,872**

* Reclassified, see note 9.

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

HADERA PAPER LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

		Nine months ended September 30		Three months ended September 30		Year ended December 31
	Note	2009	2008	2009	2008	2008
		(Unaudited)		(Unaudited)		
Cash flows - investing activities						
Acquisition of property plant and equipment	4	(279,689)	(178,633)	(62,136)	(50,445)	(230,053)
Acquisition of subsidiaries		-	(70,167)	-	(70,167)	(70,567)
Proceeds from disposal of fixed assets		1,752	719	722	535	825

	Nine months ended September 30		Three months ended September 30		Year ended December 31
Decrease (Increase) in designated deposits, net	138,780	(261,529)	(17,116)	(188,503)	(255,244)
Interest received	1,321	4,935	-	2,511	7,764
Prepaid expenses with respect to an operating lease	(2,318)	(1,421)	-	(24)	(2,622)
Acquisition of other assets	(142)	(1,750)	(142)	(1,750)	(2,770)
Associated companies:					
Granting of loans to an associated company	(1,068)	(422)	(558)	(422)	(422)
Repayments of loans to an associated company	-	-	-	-	2,851
Net cash by used in investing activities	**(141,364)**	**(508,268)**	**(79,230)**	**(308,265)**	**(550,238)**
Cash flows - financing activities					
Proceeds from issuing bonds	-	424,728	-	424,728	424,617
Short-term bank credit - net	14,148	(152,364)	(22,966)	(115,625)	(111,444)
Borrowings received from banks and from others	103,154	55,000	100,000	20,000	39,448
Repayment of borrowings from banks	(27,860)	(17,761)	(8,507)	(12,845)	(11,801)
Repayment of capital note	(32,770)	-	-	-	-
Deferred issuance expenses	-	-	-	247	-
Interest Paid	(30,617)	(7,381)	(26,936)	(2,622)	(20,360)
Repayment of bonds	(7,505)	(7,192)	-	-	(38,904)
Net cash generated by financing activities	**18,550**	**295,030**	**41,591**	**313,883**	**281,556**
Increase (Decrease) in cash and cash equivalents	**10,214**	**(162,358)**	**6,023**	**(166)**	**(154,810)**
Cash and cash equivalents - beginning of period	13,128	167,745	9,435	5,553	167,745
Net foreign exchange difference	(1,030)	(312)	6,854	(312)	193
Cash and cash equivalents - end of period	**22,312**	**5,075**	**22,312**	**5,075**	**13,128**

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

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HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2009

NOTE 1 DESCRIPTION OF BUSINESS AND GENERAL

A. Description Of Business

Hadera Paper Limited (former American Israeli Paper Mills Limited) and its subsidiaries (hereinafter the Company) are engaged in the production and sale of paper packaging, in paper recycling activities and in the marketing of office supplies. The Company also has holdings in associated companies that are engaged in the productions and sale of paper and paper products including the handling of solid waste (the Company and its investee companies hereinafter the Group). Most of the Group s sales are made on the local (Israeli) market. For segment information, see note 9.

B. For further information read these concise reports in connection with the Company s annual financial statements as of December 31, 2008 and the year then ended, and the accompanying notes.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of preparation

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

In the preparation of these interim financial statements the Group applied identical accounting policy, presentation rules and calculation methods to those that were applied in the preparation of its financial statements as of December 31, 2008 and the year then ended, except for changes in the accounting policy that arose from the implementation of standards, amendment to standards and new interpretations that became effective on the date of the financial statements as specified in section c below.

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

C. Standards, amendments to standards and new interpretations that are in effect, which were applied in these financial statements

- **IFRS 8, Operating Segments**

The standard, which replaces IAS 14 Segment Reporting , details how an entity must report on data according to operating segments. The standard, among other things, stipulates that segmental reporting of the Group will be based on the information that management of the Group uses for purposes of evaluating performance of the segments, and for purposes of allocating resources to the various operating segments. The standard applies to annual reporting periods commencing on January 1, 2009, with retroactively restatement of comparative figures for prior reporting periods.

As for the reporting of the Group s operating segments in accordance with the provisions of IFRS 8, including the retroactive restatement of data, see note 9.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Standards, amendments to standards and new interpretations that are in effect, which were applied in these financial statements (cont.)

- **IAS 1 (Amended) Presentation of Financial Statements**

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. In the context of the amendment to this standard, changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the framework of the financial statements known as the report of comprehensive income , and the addition of a balance sheet as of the beginning of the earliest period that was presented in the financial statements, in cases of changes in accounting policy by means of retroactive implementation, restatement and reclassifications.

The standard applies, by way of retroactive implementation, to reporting periods commencing on January 1, 2009. Pursuant to the provisions of the standard the Group published a report of comprehensive income on the totals of segment profit, which specifies the components of the total profit separately from the components presented in the statement of income, as well as a statement of changes in shareholders equity, which presents balances in respect of transactions with shareholders, as part of their duty as shareholders. The first-time implementation of the standard does not have any impact on the reported results of operation and the financial situation of the Group**.**

n IAS 23 (Amended) Borrowing Costs

The standard stipulates the accounting treatment of borrowing costs. In the context of the amendment to this standard, the possibility of immediately recognizing borrowing costs related to assets with a significant period of eligibility or construction in the statement of operations, was cancelled. Those borrowing costs will capitalize to the assets cost. The standard apply to borrowing costs that relate to eligible assets as to which the capitalization period began from January 1, 2009 or earlier, as defined by the Group.

The implementation of the Standard does not expect to have effect on the Group s financial statements.

n **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

This interpretation establishes the nature of the hedged risk and the amount of the hedged item under the hedges of a net investment in a foreign operation. In addition, the interpretation stipulates that the hedging instrument may be held by any entity within the group, and the amount to be reclassified from equity to profit or loss when the entity disposes of the foreign operation, for which the accounting method of hedges of a net investment in a foreign operation has been implemented.

The provisions of the interpretation apply, by way of prospective implementation, to annual reporting periods that commence on January 1, 2009.