Hadera Paper Ltd
Form 6-K
November 12, 2008

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 2008

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 11, 2008 with respect to the Registrant s results of operations for the quarter ended September 30, 2008.

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, 2008.

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, 2008.

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries with respect to the quarter ended September 30, 2008.

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, 2008.

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 12, 2008.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated November 11, 2008.
2.	Registrant s management discussion.
3.	Registrant s unaudited condensed consolidated financial statements.
4.	Unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries.
5.	Unaudited condensed interim consolidated financial 5. statements of Hogla- Kimberly Ltd. and subsidiaries.

Exhibit 1

NEWS

For Release: IMMEDIATE

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

Hadera, Israel, November 11, 2008 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, 2008. 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.

As a result of the transition to reporting according to International Financial Reporting Standards (IFRS), the Company presented its financial statements for the reported period, as well as the comparison figures for the corresponding period last year and for the year ended December 31, 2007 according to IFRS

Aggregate sales amounted to NIS 2,442.5 million during the reported period (nine month period- January-September 2008), as compared with NIS 2,298.2 million in the corresponding period last year.

Aggregate sales in the third quarter this year amounted to NIS 823.9 million, as compared with NIS 805.5 million in the corresponding period last year, and as compared with NIS 771.0 million in the second quarter of the year.

Aggregate operating profit totaled NIS 160.5 million during the reported period, as compared with NIS 129.7 million in the corresponding period last year. The significant improvement in the aggregate operating profit is attributed to the performance improvement at some of the Israeli companies on the one hand, coupled with the continuing trend of a lower operating loss in Turkey on the other hand.

Aggregate operating profit totaled NIS 49.2 million in the third quarter of the year, as compared with NIS 59.6 million in the corresponding quarter last year, and as compared with NIS 51.5 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, H-K. Consolidated Data include the sales turnover of Carmel Containers Systems Ltd. (Carmel) and Frenkel- C.D. Ltd. (Frenkel- C.D.) that were consolidated as of September 2008 due to the completion of transaction for the acquisition of Carmel shares.

Consolidated sales during the reported period amounted to NIS 447.2 million, as compared with approximately NIS 428.8 million in the corresponding period last year.

Operating profit totaled NIS 38.0 million during the reported period, as compared with NIS 53.0 million in the corresponding period last year. Most of the erosion in profit is attributed to the change in the dollar exchange rate that negatively influenced the selling prices in the packaging paper and recycling activity.

The net profit attributed to the Company s shareholders totaled NIS 59.5 million during the reported period, as compared with net profit attributed to the Company s shareholders of NIS 14.0 million in the corresponding period last year. The net profit was affected by the improvement in the Group s profitability in Israel, from recording profit from the allocation of excess negative cost as a result of the acquisition of Carmel and Frenkel CD whose net impact on the net income allocated to the Company s shareholders amounted to NIS 11.7 million coupled with the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR).

The net profit attributed to the Company s shareholders for the third quarter this year amounted to NIS 20.2 million, as compared with a net profit attributed to the Company s shareholders of NIS 7.7 million in the corresponding quarter last year. The net profit attributed to the Company s shareholders in the third quarter last year appears net of our share (49.9%) in the amortization of the tax asset in Turkey (KCTR) in the sum of NIS 7.4 million.

Basic earnings per share amounted to NIS 11.75 per share ($3.44 per share) in the reported period, as compared with NIS 3.47 per share ($0.87 per share) in the corresponding period last year.

Basic earnings per share attributed to the Company s shareholders amounted to NIS 3.99 per share ($1.17 per share) in the third quarter of the year, as compared with earnings of NIS 1.90 per share ($0.47 per share) in the corresponding quarter last year.

The inflation rate during the reported period amounted to 4.4%, as compared with an inflation rate of 2.3% in the corresponding period last year.

Mr. Avi Brener, Chief Executive Officer of the Company said that Due to the surplus manufacturing capacity, the import volumes of fine paper and packaging paper from Europe in dumping prices, have recently grown and the company is working to preserve its market share and quantitative sales, that as a result causing to certain erosion of gross margins. The sharp change in the currency exchange rates that took place in the reported period as the shekel grew stronger vis-à-vis the US dollar and the euro is working in the benefit of the Company in terms of the imported inputs, while also eroding the selling prices in those areas whose prices are denominated in US dollars. The whole business of the Hadera Paper Group including the associated companies is relatively balanced and the company s exposure to sharp fluctuations in exchange rates is therefore low .

In the reported period, KCTR continued to implement its strategic plan formulated together with the international partner, Kimberly Clark.

Financial expenses during the reported period amounted to NIS 11.9 million, as compared with NIS 19.8 million in the corresponding period last year.

The company s share in the earnings (losses) of associated companies totaled NIS 36.6 million during the reported period, as compared with a loss of NIS (7.0) million in the corresponding period last year.

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

The Company s share in the net profit of Mondi Hadera (49.9%) increased by approximately NIS 1.8 million. Most of the change in profit originated primarily from Mondi s highly improved operation profit, which recorded an increase from operating profit of NIS 25.9 million last year to an operating profit of NIS 27.4 million this year primarily as a result of the raising of quantitative sales, the operating efficiency and the decrease in energy prices as a result of the transition to the use of netural gas at the Hadera site. The net profit also increased as a result of the decrease in financial expenses this year in relation to last year, primarily on account of the impact of the revaluation of the NIS against the dollar.

The company s share in the net earnings of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 10.9 million. Hogla s operating profit grew from NIS 100.9 million to NIS 126.6 million this year. The improved operating profit originated from a quantitative increase in sales, improved selling prices net of the impact of higher raw material prices, the continuing implementation of efficiency measures and the continuing trend of raising the proportion of some of the premium products out of the products basket and from currency exchange rates causing to decrease Company s expenses that are mostly dollar dominated.

The Company s share in the losses of KCTR Turkey (49.9%) was reduced by NIS 39.9 million. The significant reduction in loss originated primarily from to the growth in the volume of operations that resulted in a significant reduction in the operating loss, from NIS 61.2 million last year to approximately NIS 29.4 million this year. In the corresponding period last year, a non-recurring loss of approximately NIS 6 million ($1.5 million) was included on account of the termination of trade agreements with distributors due to the transition to distribution by Unilever, of which our share was approximately NIS 3 million. Moreover, the tax asset that was recorded in previous years in Turkey, in the sum of approximately NIS 26.8 million (approximately $6.4 million) was reduced, of which our share is NIS 13.4 million. Moreover, due to the increase in the shareholders equity of KCTR through a financial influx from Hogla Kimberly, the bank loans were repaid, while significantly reducing the financial expenses, thereby leading to an additional reduction in the net loss.

The Company s share in the loss of Carmel (36.21% as at August 31, 2008 the date of consolidation), increased by NIS 4.8 million. This increase is attributed to the sharp erosion in the operating margin as a result of lower demand for packaging due to the slowdown in industrial exports on account of the erosion of currency exchange rates vis-à-vis the NIS, coupled with the damages of the cold spell in the agricultural sector. On the other hand, the prices of imported raw materials did not decrease in NIS terms, due to hedging transactions on the exchange rate.

On July 1, 2008, pursuant to approval by the Registrar of Companies, the Company changed its name from American Israeli Paper Mills Ltd. to Hadera Paper Ltd.

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Pursuant to the shelf prospectus published by the Company on May 26, , the Company completed the offering on July 16, 2008 of two debenture series in the total sum of NIS 308,060 thousands. Net of offering expenses, the Company received net proceeds of approximately NIS

306, 609 thousands. On August 17, 2008 the Company raised in an additional offering a total of NIS 120,000 thousand in return for that allocation of NIS 114,997 thousand par value in bonds (Series 4). Net of issuance expenses, the Company received net proceeds amounting to NIS 119,826 thousand. The Company raised from the two offerings a net proceeds amounting to approximately NIS 426,435 thousand.

Following Company s request to raise an additional amount by a shelf offering of debentures in the total amount of NIS 400 million, on July 6, 2008, the Maalot Rating Company (Standard and Poor s) announced a rating of AA- with Negative Outlook for the Company s debenture series (Series 3 and Series 4), that applies also to the rest of the Company s debenture series. On August 14, 2008, Maalot clarified that the rating also applies to an overall issuance of up to NIS 426 million.

On November 3, 2008, the Company s General Meeting approved the lease agreement signed on September 18, 2008 between the Company and Gav-Yam Land Ltd. (the lessor), a public company controlled by the Company s indirect controlling shareholders, whereby the Company would lease a plot in Modi in with an area of 74,500 square meters, as well as buildings to be constructed by the lessor for the Company, with a total constructed area of 21,300 square meters, to serve as a logistics center, industrial and office space for the Company s subsidiaries and associated companies, which would in part replace existing lease agreements. The Leasing Period shall be 15 years from the date of receiving possession of the Leased Property. The Company will also hold an option to extend the lease by an additional 9 years and 11 months.

On August 24, 2008, a transaction was completed for the acquisition of shares of Carmel Container Systems Ltd. (Carmel), pursuant to an agreement signed on July 10, 2008, whereby the Company acquired the shares of Carmel held by Robert Kraft, the principal shareholder in Carmel, as well as those of several other shareholders, in consideration of a total of $20.77 million, paid in a single installment upon closing of the transaction. The shares were acquired As Is . The transaction was concluded after receiving approval from the Antitrust Supervisor, which was a pre-condition for conclusion of the transaction.

Upon conclusion of the transaction, the company holds approximately 89.3% of Carmel shares and as of the transaction closing date, the financial statements of Carmel and those of Frenkel-CD have been consolidated with the Company s financial statements.

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

Hadera PAPER LTD.
SUMMARY OF RESULTS
(UNAUDITED)
except per share amounts

	Nine months ended September 30,	
	NIS IN THOUSANDS (1)	
	2008	2007
Net sales	447,180	428,784
Net earnings attributed to the Company's shareholders	59,479	14,024
Basic net earnings per share attributed to the Company's shareholders	11.75	3.47
Fully diluted earnings per share attributed to the Company's shareholders	11.73	3.47

	Three months ended September 30,

	Three months ended September 30,	
	NIS IN THOUSANDS (1)	
	2008	2007
Net sales	171,394	150,961
Net earnings attributed to the Company's shareholders	20,177	7,682
Basic net earnings per share attributed to the Company's shareholders	3.99	1.90
Fully diluted earnings per share attributed to the Company's shareholders	3.98	1.89

(1) The representative exchange rate at September 30, 2008 was N.I.S. 3.421=$1.00.

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

Exhibit 2

Hadera Paper Ltd.

Update to Chapter I (Description of the Corporation s Business) of the Information Presented in the Company s Periodical Report As of December 31, 2007

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

1. Update to Section 1 Chapter A Introduction

On July 1, 2008, pursuant to approval by the Registrar of Companies, the Company changed its name from American Israeli Paper Mills Ltd. to Hadera Paper Ltd.

2. Update to Section 5, Chapter A Equity Investments in the Company

Pursuant to the shelf prospectus published by the Company on May 26, , the Company completed the offering on July 16, 2008 of two debenture series in the total sum of NIS 308,060 thousands. Net of offering expenses, the Company received net proceeds of approximately NIS 306, 609 thousands. On August 17, 2008 the Company raised in an additional offering a total of NIS 120,000 thousand in return for that allocation of NIS 114,997 thousand par value in bonds (Series 4). Net of issuance expenses, the Company received net proceeds amounting to NIS 119,826 thousand. The Company raised from the two offerings a net proceeds amounting to approximately NIS 426,435 thousand.

3. Update to Section 14 Chapter D Finance

Following Company s request to raise an additional amount by a shelf offering of debentures in the total amount of NIS 400 million, on July 6, 2008, the Maalot Rating Company (Standard and Poor s) announced a rating of AA- with Negative Outlook for the Company s debenture series (Series 3 and Series 4), that applies also to the rest of the Company s debenture series. On August 14, 2008, Maalot clarified that the rating also applies to an overall issuance of up to NIS 426 million.

4. Update to Section 17, Chapter 4 Additional Information Regarding the Company

On November 3, 2008, the Company s General Meeting approved the lease agreement signed on September 18, 2008 between the Company and Gav-Yam Land Ltd. (**the lessor**), a public company controlled by the Company s indirect controlling shareholders, whereby the Company would lease a plot in Modi in with an area of 74,500 square meters, as well as buildings to be constructed by the lessor for the Company, with a total constructed area of 21,300 square meters, to serve as a logistics center, industrial and office space for the Company s subsidiaries and associated companies, which would in part replace existing lease agreements. The Leasing Period shall be 15 years from the date of receiving possession of the Leased Property. The Company will also hold an option to extend the lease by an additional 9 years and 11 months. For further details, see the Company s reports dated September 25, 2008.

5. Update to Section 22.4.1, Chapter D, Investments in Associated Companies

On August 24, 2008, a transaction was completed for the acquisition of shares of Carmel Container Systems Ltd. (Carmel), pursuant to an agreement signed on July 10, 2008, whereby the Company acquired the shares of Carmel held by Robert Kraft, the principal shareholder in Carmel, as well as those of several other shareholders, in consideration of a total of $20.77 million, paid in a single installment upon closing of the transaction. The shares were acquired As Is . The transaction was concluded after receiving approval from the Antitrust Supervisor, which was a pre-condition for conclusion of the transaction.

Upon conclusion of the transaction, the company holds approximately 89.3% of Carmel shares and as of the transaction closing date, the financial statements of Carmel and those of Frenkel-CD Ltd. have been consolidated with the Company s financial statements.

Regarding the impact of this acquisition on the Company, see Note 5 to the Company s financial statements as at September 30, 2008.

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Translation from Hebrew

November 10, 2008

MANAGEMENT DISCUSSION

We are honored to present the consolidated financial statements of the Hadera Paper Group Ltd. (Hadera Paper or The Company) (formerly American Israeli Paper Mills AIPM) for the first nine months of 2008. The Company, its consolidated subsidiaries and its associated companies hereinafter: The Group .

A. Description of the Company s Business

1. Company Description

Hadera Paper deals in the manufacture and sale of packaging paper, in manufacture of cardboard packaging products, consumer goods packaging, in the recycling of paper 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, corrugated board containers and packaging for consumer goods.

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

2. General

a. Data Updates to IFRS

As a result of the transition to reporting according to IFRS, the Company presented its financial statements for the reported period, as well as the comparison figures for the corresponding period last year and for the year ended December 31, 2007 according to IFRS. Accordingly, the data appearing in the Management Discussion and the comparison figures are presented according to IFRS. As to the material impacts regarding the transition to IFRS see Section H, below.

b. Principal Current Operations

1. Business Environment

A significant additional upheaval took place in global financial markets in September 2008, with the collapse of several very large financial entities in the United States and several other countries, against the background of the severe crisis in the subprime mortgage sector, that affected additional financial sectors. The escalation of the said crisis resulted in severe damage to global capital markets, downturns and fierce fluctuations in stock exchanges both in Israel and worldwide and in the worsening of the credit crunch. Subsequent to the said events, several nations have implemented various measures intended to stabilize the financial markets and prevent an additional crash. This was accomplished by an influx of funds to financial institutions and by a lowering of interest rates, although it is unclear whether these measures will suffice to reign in the crisis or prevent a further deterioration. It would appear that the direct economic repercussions of the crisis have yet to run their course, and there exist concerns regarding a recession in the US and global markets.

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Alongside the said global financial crisis, several events occurred in the Israeli economy over the past several months, including significant fluctuations in the exchange rates of principal currencies vis-à-vis the NIS, as well as high inflation rates in the domestic economy.

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 escalation of the crisis, on the Company s business results, its financial soundness or the value of its assets.

In the course of the third quarter, the Company conducted two offerings in the total sum of NIS 426 million, by way of issuing series of debentures that render it possible for the company to promote the long-term strategic projects on which the company is focusing. The Company does not currently anticipate difficulties in raising additional financing in case of need.

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

In parallel, in the course of the reported period, the prices of the following inputs continued to rise: Energy, fibers, chemicals and commodities. These served to accelerated the inflation rate. This trend has currently reversed itself as a result of the global crisis.

Global paper markets and primarily those in Europe are beginning to show a slight slowdown in demand in relation to surplus manufacturing capacity.

Due to the surplus manufacturing capacity as aforesaid, the import volumes of fine paper and packaging paper from Europe in dumping prices, have recently grown and the company is working to preserve its market share and quantitative sales, that as a result causing to certain erosion of gross margins.

The sharp change in the currency exchange rates that took place in the reported period as the shekel grew stronger vis-à-vis the US dollar and the euro is working in the benefit of the Company in terms of the imported inputs, while also eroding the selling prices in those areas whose prices are denominated in US dollars.

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The whole business of the Hadera Paper Group including the associated companies is relatively balanced and the company s exposure to sharp fluctuations in exchange rates is therefore low.

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

The sharp rise in global fuel prices during most of the reported period is not materially affecting the Company due to its transition to the use of natural gas instead of fuel oil in its manufacturing processes, starting with the fourth quarter last year. This fact improved the Group s competitive capabilities vis-à-vis competition from Europe and offset some of the above-mentioned influences of erosion of selling prices. This trend has reversed itself subsequent to the reported period.

During the last few months after the reported period, a change occur in market trends, the input prices trend is changing, and shall this trend continues in terms of fibers and chemicals, it shall enable a partial compensation for the prices erosion that is expected if the markets slowdown will continue.

The inflation rate during the reported period amounted to 4.4%, as compared with an inflation rate of 2.3% in the corresponding period last year.

The erosion of the US dollar exchange rate vis-à-vis the Israeli shekel (NIS) continued in the reported period, with considerable volatility. The US dollar exchange rate fell by 11.0% during the reported period, in addition to approximately 9% decrease in 2007.

2. Principal Current Operations

The aggregate sales turnover continued to grow during the reported period, and was manifested by a raise of approximately 6% , in relation to the aggregate sales turnover in the corresponding period last year.

Implementation and Assimilation of Organization-Wide Processes

In the course of the reported period, the Group companies continued to implement and assimilate organization-wide processes that are intended to empower Group operations and support continued growth and increased profitability in organizational development, Group purchasing, B2B marketing, development and innovation.

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3. The Strategic Plans

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

1. Expanding the recycled packaging paper manufacturing network

The investment budget 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 advancing as planned and the Company has completed the signing of central agreements for the purchasing of the main manufacturing equipment. The construction of the structure for the machine is progressing at the site, in anticipation for receiving the manufacturing equipment, expected at the end of the year.

In parallel, Amnir Recycling Industries Ltd. (Amnir), a Company s subsidiary, is continuing preparations for the expansion of the collection of cardboard and newspaper waste and is continuing to accumulate inventories toward the planned operation of the new machine in the second half of 2009.

As part of the preparations for financing the project, additional capital of approximately NIS 211 million was raised in November 2007, by way of a private placement of shares to the controlling shareholders and to institutional investors. In the course of July 2008, the Company raised a net sum of approximately NIS 306 million, after deducting the offering expenses, and in August 2008 the Company raised approximately NIS 120 million, after deducting offering expenses, by way of issuing debentures to institutional investors and to the public, to serve for covering the payments to the suppliers of equipment for Machine 8, and is most of the capital required for the financing of the project. In addition to the above measures, the Company is continuing to explore additional ways to complete the rest of the project financing.

2. New Power Plant

The project for the new power plant, that is intended to provide steam and electricity for the manufacturing operations in Hadera and to sell surplus electricity to Israel Electric Company and/or private customers, is still in progressive examination stages of configuration and feasibility studies on the basis of the license for a 230 mega-watts (MW) power station, to be constructed on an 80,000 m^2 plot of land that was acquired for this purpose, in immediate proximity to the Company s site in Hadera.

The Company plans for the said power plant to consume natural gas that will be provided by EMG, on the basis of the principles agreement that was signed in May last year. The closing of the detailed agreement with EMG in the next several months will render it possible to launch the project.

c. The Strategic Investment in Turkey

In 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 approximately $300 million, by 2015. In the first nine months of the year, KCTR s sales turnover amounted to approximately $87.9 million, as compared with $42.9 million in the corresponding period last year and $63.0 million in all of 2007.

In the course of the third quarter of the year, the Company continued to empower its brands, mostly under the Huggies® and KOTEX® brands while preserving a constant growth in market share and in the increasing awareness to company s products. In parallel, the scope of export to Kimberly Clark grew, to various countries in Europe and to Africa.

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 the 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.

The continuing high level of competition in the markets where the company is working to penetrate and empower 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 29.4 million (approximately $8.4 million) in the reported period, as compared with NIS 61.2 million (approximately $14.6 million) in the corresponding period last year and approximately NIS 74 million (approximately $18 million) in all of 2007.

The implementation of the business and strategic plan, while strengthening the brands and recording a gradual growth in the Unilever distribution and sales platforms, in combination with expending export and continuing cost reductions at the plant is rendering it possible to maintain the trend of improving gross profitability as mentioned above in the reported period as well.

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.

B. Analysis of the Company s Financial Situation

The cash and cash equivalents item decreased from NIS 53.8 million on September 30, 2007 to NIS 5.1 million on September 30, 2008. The decrease in the cash balance, together with additional amounts that resulted from the private placement carried out last year and from the issuance of several series of debentures in the third quarter of the year, were deposited in euro-linked deposits in the amount of NIS 96.5 million and in NIS deposits in the amount of 160.6 million, which have been designated for the payment of amounts pertaining to the construction of the packaging paper manufacturing network, and are presented under Designated Cash.

The balance of trade receivables in respect of packaging paper and recycling increased from NIS 148.9 million as of September 30, 2007 to NIS 300.1 million as of September 30, 2008. This increase is primarily attributed to the consolidation of the trade receivables of Carmel Container Systems Ltd. (Carmel) and Frenkel- C.D. Ltd. (Frenkel- C.D.) in the amount of NIS 191.0 million, net of the effect of the reduction in prices in NIS terms following the devaluation of the dollar and net of trade receivable of Carmel that were cancelled due to the consolidation under the Company s reports. The balance of trade receivable for the office supplies marketing activity rose from NIS 44.9 million as at September 30, 2007 to NIS 45.2 million as at September 30, 2008.

Accounts receivable in the packaging paper and recycling activity increased from NIS 97.2 million as of September 30, 2007 to NIS 107.7 million as of September 30, 2008. This increase is primarily attributed to the consolidation of the accounts receivable of Carmel and Frenkel- C.D. in the amount of NIS 5.9 million. Accounts receivables for the office supplies marketing activity decreased from NIS 11.5 million on September 30, 2007 to NIS 11.1 million on September 30, 2008.

Inventories in the packaging paper and recycling activity increased from NIS 52.0 million as of September 30, 2007 to NIS 126.3 million as of September 30, 2008. This increase is primarily attributed to the consolidation of the inventories of Carmel and Frenkel- C.D. in the amount of NIS 77.9 million. In the office supplies marketing activity, the Inventories item increased from NIS 15.4 million on September 30, 2007, to NIS 19.8 million on September 30, 2008, primarily as a result of the increase in the proportion of products imported from East Asia so as to improve profitability and from purchased inventory as part of the acquisition of the business activity of the company Yavne- Pitango located at north Israel, at the beginning of August 2008.

Investments in associated companies decreased from NIS 344.6 million on September 30, 2007 to NIS 314.3 million on September 30, 2008. The decrease consists primarily of the write-off of a balance of NIS 49.8 million in respect of Carmel and Frenkel- C.D. from the investments in associated companies and due to the consolidation thereof as of September 1, 2008 following the increase in the percentage of holding and as a result of a change in equity funds net, at a total amount of approximately NIS 15.3 million.

Short-term credit decreased from NIS 233.7 million as of September 30, 2007 to NIS 36.7 million as of September 30, 2008. The decrease was primarily attributed to the use of part of the proceeds from the private placement to shareholders in November last year and the consideration from the issuance of debentures in July and August 2008 to the repayment of short- term credit.

Accounts payable and accruals in the packaging paper and recycling activity increased from NIS 70.2 million as of September 30, 2007 to NIS 116.8 million as of September 30, 2008. The increase is primarily attributed to the consolidation of the accounts payable and accruals of Carmel and Frenkel- C.D. in the amount of NIS 24.2 million, the increase in expenses for the payment of debentures interest from the raises during the qurter, and for the reevaluation of fair value of liabilities in respect of futures transactions that are intended to hedge payments to the suppliers of Machine 8 in view of the sharp devaluation of the euro in the reported period. In the marketing of office supplies activity, accounts payable and accruals increased from NIS 2.6 million as of September 30, 2007 to NIS 6.5 million as of September 30, 2008.

The Company s shareholders equity increased from NIS 422.7 million as of September 30, 2007 to NIS 743.0 million as of September 30, 2008. The change was primarily attributed to the net consideration from the issuance of shares under a private placement to the controlling shareholders and institutional investors in November 2007 in the amount of approximately NIS 211.6 million, the net profit distinguished to the Company s shareholders, of NIS 77.0 million created between the periods, the positive capital surplus in the amount of NIS 16.3 million from the transition to consolidation, with the addition of the minority interest of approximately NIS 27.0 million, net of the increase in the negative capital surplus from translation differences in respect of an associated company, in the amount of approximately NIS 20.5 million, and net of the company s share in capital surplus from a cash flow hedge in the amount of NIS 15.5 million.

1. **Investments in Fixed Assets**

Investments in fixed assets amounted to approximately NIS 178.6 million in the reported period, as compared with NIS 61.6 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 manufacturing network (Machine 8), in the sum of approximately NIS 140.9 million. The Company also made current investments in environmental issues (effluent treatment) and current investments in equipment renewal, means of transportation and in the maintenance of buildings at the Hadera site.

2. **Financial Liabilities**

The long-term liabilities (including current maturities) amounted to NIS 828.2 million as at September 30, 2008, as compared with NIS 293.4 million as at September 30, 2007. The long-term liabilities grew in relation to last year primarily as a result of the issuing of two debenture series, series 3 and 4, in the third quarter this year, in the total sum of approximately NIS 427 million, coupled with long-term loans assumed intended for financing payments on account of Machine 8 and the consolidation of the loans of Carmel and Frenkel- C.D., in the total sum of NIS 80.2 million. The long-term liabilities totaled NIS 261.7 million on December 31, 2007.

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

Series 1 NIS 7.5 million, for repayment until 2009.

Series 2 NIS 191.2 million, for repayment until 2013.

Series 3 NIS 191.4 million, for repayment until 2018.

Series 4 NIS 235.6 million, for repayment until 2020.

Long-term loans NIS 128.7 million.

The outstanding short-term credit totaled NIS 36.7 million as at September 30, 2008, as compared with NIS 233.7 million as at September 30, 2007 and NIS 143.0 million as at December 31, 2007.

3. Financial liabilities at fair value through the statement of income

Put option on an associated company

As part of an agreement dated November 21, 1999 with Mondi Business Paper (hereinafter MBP, formerly Neusiedler AG) Mondi Hadera acquired the Group s operation in fine paper and issued MBP 50.1% of its shares.

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

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

The difference between the value of the liabilities according to the agreement NIS 54,736 thousand as compared with the value of the liabilities through fair value NIS 9,474 thousand amounts to NIS 45,262 thousand.

The liability on account of the Put option on the associated company shares as at September 30, 2008, as at September 30, 2007, as at December 31, 2007 and as at January 1, 2007, amounts to NIS 9,474 thousand, NIS 3,169 thousand, NIS 3,901 thousand and NIS 1,612 thousand, respectively.

Other expenses grew by NIS 5,572 and 4,277 thousand for the period of nine months and three months ended on September 30, 2008, respectively, and grew by a sum of NIS 1,557 thousand and NIS 1,378 thousand for the period of nine months and three months ended September 30, 2007, respectively, and grew by a sum of NIS 2,289 thousand for the year ended December 31, 2007.

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

C. Results of Operations

1. Aggregate Data

Since the Company s share in the earnings of associated companies constitutes a material component in the company s statement of income (primarily on account of its share in the earnings of Mondi Hadera PaperLtd. [Mondi Hadera] and Hogla-Kimberly Ltd.), 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.

Regarding the consolidated data, see Section (4) below.

Aggregate Data

The aggregate sales amounted to NIS 2,442.5 million during the reported period, as compared with NIS 2,298.2 million in the corresponding period last year, representing growth of 6.3%.

The aggregate sales in the third quarter this year amounted to NIS 823.9 million, as compared with NIS 805.5 million in the corresponding period last year, representing growth of approximately 2.3% and as compared with NIS 771.0 million in the second quarter of the year.

The aggregate operating profit totaled NIS 160.5 million during the reported period, as compared with NIS 129.7 million in the corresponding period last year, representing growth of 23.7%. The significant improvement in the aggregate operating profit is attributed to the performance improvement at some of the Israeli companies on the one hand, coupled with the continuing trend of a lower operating loss in Turkey on the other hand.

The aggregate operating profit totaled NIS 49.2 million in the third quarter of the year, as compared with NIS 59.6 million in the corresponding quarter last year, representing a decrease of 17.4% and as compared with NIS 51.5 million in the second quarter of the year.

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

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2. **Net Profit and Earnings Per Share Attributed to the Company s shareholders**

The net profit attributed to the Company s shareholders totaled NIS 59.5 million during the reported period, as compared with net profit attributed to the Company s shareholders of NIS 14.0 million in the corresponding period last year.

The net profit allocated to the Company s shareholders during the reported period was affected by the improvement in the Group s profitability in Israel, from recording profit from the allocation of excess negative cost as a result of the acquisition of Carmel and Frenkel CD whose net impact on the net income allocated to the Company s shareholders amounted to NIS 11.7 million and the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR), as compared with the corresponding period last year (see Strategic Investment in Turkey, above, and Section C7, below).

The net profit attributed to the Company s shareholders for the third quarter this year amounted to NIS 20.2 million, as compared with a net profit attributed to the Company s shareholders of NIS 7.7 million in the corresponding quarter last year. The net profit attributed to the Company s shareholders in the third quarter last year appears net of our share (49.9%) in the amortization of the tax asset in Turkey (KCTR) in the sum of NIS 7.4 million.

Basic earnings per share amounted to NIS 11.75 per share ($3.44 per share) in the reported period, as compared with NIS 3.47 per share ($0.87 per share) in the corresponding period last year.

The diluted earnings per share amounted to NIS 11.73 per share ($3.43 per share) in the reported period, as compared with NIS 3.47 per share ($0.87 per share) in the corresponding period last year.

Basic earnings per share attributed to the Company s shareholders amounted to NIS 3.99 per share ($1.17 per share) in the third quarter of the year, as compared with earnings of NIS 1.90 per share ($0.47 per share) in the corresponding quarter last year.

Diluted earnings per share attributed to the Company s shareholders amounted to NIS 3.38 per share ($1.16 per share) in the third quarter of the year, as compared with earnings of NIS 1.89 per share ($0.47 per share) in the corresponding quarter last year.

3. **Analysis of Operations and Profitability**

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

1. **Sales**

The consolidated sales during the reported period amounted to NIS 447.2 million, as compared with approximately NIS 428.8 million in the corresponding period last year, representing growth of approximately 4.3%.

Sales of the packaging and recycling activity amounted to NIS 353.4 million in the reported period, as compared with NIS 342.0 million in the corresponding period last year.

The growth in the packaging paper and recycling turnover originated primarily from the consolidation of the Carmel and Frenkel- C.D. sales turnover that were consolidated for the first time in September 2008, in the sum of NIS 41 million on the one hand, and on the other hand from the reduction in sells of packaging paper and recycling as a result of the erosion of the US dollar on selling prices that was not compensated by raising of NIS prices (The activity sales are affected by dollar-denominated import prices).

The sales of the Office Supplies Marketing activity during the reported period amounted to NIS 93.8 million, as compared with NIS 86.8 million last year, representing growth of 8.1% that originated from the continuing trend of growth in operating volumes in this activity.

The aggregate sales in the third quarter of the year totaled NIS 171.4 million, as compared with NIS 151.0 million in the corresponding quarter last year, representing growth of approximately 13.5% and as compared with second quarter sales of NIS 133.3 million, representing growth of approximately 28.6%, originating primarily from the inclusion of the Carmel and Frenkel- C.D. data for the first time this quarter, as mentioned above.

Sales of the packaging and recycling activity amounted to NIS 136.9 million in the third quarter of the year, as compared with NIS 120.7 million in the corresponding quarter last year, representing growth of 13.4%, originating primarily from the initial consolidation of Carmel and Frenkel- C.D., net of the impact of exchange rate differentials and the cold spell that affected the agricultural sector and harmed the volumes of agricultural exports during the reported period.

Sales of the office supplies marketing activity amounted to NIS 34.5 million in the third quarter of the year, as compared with NIS 30.3 million in the corresponding quarter last year, representing growth of 13.9% originating from the larger volumes of operation this year, in relation to last year.

2. Cost of Sales

The cost of sales amounted to NIS 351.3 million or 78.6% of sales during the reported period, as compared with NIS 324.9 million or 75.8% of sales in the corresponding period last year.

The gross profit totaled NIS 95.9 million during the reported period (approximately 21.4% of sales), as compared with NIS 103.9 million (24.2% of sales) in the corresponding period last year, representing a decrease of approximately 7.7% in relation to the corresponding period last year.

The decrease in the gross profit and gross margin in relation to the corresponding period last year is attributed primarily to the erosion of dollar-linked prices in packaging paper and the sales turnover in light of the change in the exchange rate, coupled with a decrease in the quantitative sales on the local market as a result of the impact of the cold spell, the 23% rise in electricity prices and the rise in paper waste collection costs that were partially offset by the continuing efficiency measures and the transition to manufacture using natural gas. Additionally, the cost of sales included an amortization of NIS 4 million in excess cost, as a result of excess cost recorded from the sale of Carmel and Frenkel CD.

Labor Wages

The labor wages within the cost of sales amounted to NIS 102.6 million during the reported period (approximately 22.9% of sales), as compared with NIS 85.9 million last year (approximately 20.0% of sales).

The labor wages within the general and administrative expenses amounted to NIS 51.8 million during the reported period (approximately 11.6% of sales), as compared with the sum of NIS 44.5 million last year (approximately 10.4% of sales).

The Increase in salary costs as compared to the corresponding period last year is attributed to additional salary expenses of approximately NIS 9.2 million resulting from the consolidation of Carmel and Frenkel- C.D. and the increase in personnel, primarily at Amnir and in the packaging paper activity, as part of the preparations for and the execution of the expanded collection of cardboard and newspaper waste that is to serve the upcoming operation of the new packaging paper manufacturing network, coupled with a nominal average increase of 4% in wages.

Moreover, the labor costs include an increase in labor expenses as detailed in Section 3 below, as a result of expenses derived from the issue of options to executives and the allocation of the expenses thereupon, at an accrued sum of NIS 4.4 million for the period   an expenditure that does not involve cash flows.

3. Selling, General and Administrative and Others

The selling, general and administrative (including wages) and others amounted to NIS 57.9 million in the reported period or 13.0% of sales   as compared with NIS 50.9 million   or 11.9% of sales   in the corresponding period last year. Net of the effect of income from the allocation of the negative excess of cost in a subsidiary and non-recurring expenses as detailed below, selling, general and administrative and others amounted to NIS 57.7 million.

The increase in selling, general and administrative and others was primarily attributed to the consolidation of the expenses of Carmel and Frenkel- C.D. in the financial statements of the Company amount of NIS 4.5 million, the increase in wages expenses as a result of NIS 4.4 million in salary expenses recorded in respect of the option plan for executives approved in January this year, as well as the increase in other expenses following the revaluation of a Mondi Put option in the amount of NIS 5.7 million pursuant to IFRS.

4. Operating Profit

The operating profit totaled NIS 38.0 million during the reported period (8.5% of sales), as compared with NIS 53.0 million (12.4% of sales) in the corresponding period last year. Most of the erosion in profit is attributed to the change in the dollar exchange rate that negatively influenced the selling prices in the packaging paper and recycling activity.

The operating profit of the paper and recycling activity amounted to approximately NIS 35.3 million, as compared to NIS 53.8 million in the corresponding period last year, primarily due to the aforesaid effect of the exchange rate in which the sales in the activity are denominated and the effect of the cold spell on the demand for agricultural exports.

The operating profit of the office supplies activity amounted to NIS 2.7 million, as compared with a loss of NIS -0.8 million in the corresponding period last year.

The operating profit in the third quarter this year amounted to NIS 7.9 million, as compared with NIS 22.6 million in the corresponding quarter last year and as compared with operating profit of NIS 12.6 million in the second quarter this year. As mentioned above, this is attributed mostly to the erosion of the dollar exchange rate in an average rate of approximately 20% as compared with the corresponding quarter last year.

The operating profit of the paper and recycling activity amounted to NIS 6.5 million in the third quarter of the year, as compared with NIS 22.3 million in the corresponding quarter last year.

The operating profit of the office supplies activity amounted to approximately NIS 1.3 million, as compared with an operating profit of NIS 0.3 million in the corresponding quarter last year.

5. Financial Expenses

The financial expenses during the reported period amounted to NIS 11.9 million, as compared with NIS 19.8 million in the corresponding period last year, representing a decrease of 40%.

The total average of interest bearing liabilities, net, carried to the company s financial expenses, decreased by approximately NIS 96 million between the periods 2007-2008. The decrease is primarily attributed to the proceeds from the private placement last year and the positive cash flows from operating activities between the periods, net of investments in fixed assets.

The interest on the short-term credit decreased by approximately NIS 4.3 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) remained unchanged as compared to the corresponding period last year, despite the decrease in the balance of debentures following redemptions made to the holders of the debentures both as a result of the increase in the costs of the hedging transactions on the CPI-linked debentures against the increase in the CPI, which amounted to an annual rate of 2.6% in 2008 as compared to 1.3% in 2007, and as a result of the revaluation of the hedging transactions to their fair value in accordance with international standards.

In addition, financial expenses in the amount of NIS 1.5 million were recorded, primarily in respect of the effect of the 11% revaluation against the dollar during the year, as compared to a revaluation of 5.0% in the corresponding period last year, on the balances of dollar-denominated assets in the amount of NIS 5.2 million, which had been setoff against financial income, in respect of a dollar currency transaction carried out in the third quarter of the year.

6. Taxes on Income

Taxes on income amounted to NIS 4.2 million in the reported period, as compared with NIS 12.2 million in the corresponding period last year. The sharp decrease of approximately NIS 8.0 million is primarily attributed to the sharp drop in taxable income (pre-tax income net of a non-recurring income of approximately NIS 14.6 million from the allocation of a negative excess of cost), the inclusion of NIS 0.9 million in last year s tax expenses in respect of the closing of assessments for the years 2002 through 2005 and the decrease in the current tax rate this year as compared to the previous year.

7. Company s Share in Earnings of Associated Companies

The companies whose earnings are reported under this item (according to Hadera Paper s holdings therein), include primarily: Mondi Hadera, Hogla-Kimberly and Carmel (until August 31, 2008, on which Carmel s reports were consolidated for the first time).

The company s share in the earnings (losses) of associated companies totaled NIS 36.6 million during the reported period, as compared with a loss of NIS (7.0) million in the corresponding period last year.

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

The Company s share in the net profit of Mondi Hadera (49.9%) increased by approximately NIS 1.8 million. Most of the change in profit originated primarily from Mondi s highly improved operation profit, which recorded an increase from operating profit of NIS 25.9 million last year to an operating profit of NIS 27.4 million this year primarily as a result of the raising of quantitative sales, the operating efficiency and the decrease in energy prices as a result of the transition to the use of netural gas at the Hadera site. The net profit also increased as a result of the decrease in financial expenses this year in relation to last year, primarily on account of the impact of the revaluation of the NIS against the dollar.

The company s share in the net earnings of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 10.9 million. Hogla s operating profit grew from NIS 100.9 million to NIS 126.6 million this year. The improved operating profit originated from a quantitative increase in sales, improved selling prices net of the impact of higher raw material prices, the continuing implementation of efficiency measures and the continuing trend of raising the proportion of some of the premium products out of the products basket and from currency exchange rates causing to decrease Company s expenses that are mostly dollar dominated.

The Company s share in the losses of KCTR Turkey (formerly Ovisan) (49.9%) was reduced by NIS 39.9 million. The significant reduction in loss originated primarily from to the growth in the volume of operations (see above chapter on strategic investment in Turkey), that resulted in a significant reduction in the operating loss, from NIS 61.2 million last year to approximately NIS 29.4 million this year. In the corresponding period last year, a non-recurring loss of approximately NIS 6 million ($1.5 million) was included on account of the termination of trade agreements with distributors due to the transition to distribution by Unilever, of which our share was approximately NIS 3 million. Moreover, the tax asset that was recorded in previous years in Turkey, in the sum of approximately NIS 26.8 million (approximately $6.4 million) was reduced, of which our share is NIS 13.4 million. Moreover, due to the increase in the shareholders equity of KCTR through a financial influx from Hogla Kimberly, the bank loans were repaid, while significantly reducing the financial expenses, thereby leading to an additional reduction in the net loss.

The Company s share in the loss of Carmel (36.21% as at August 31, 2008 the date of consolidation), increased by NIS 4.8 million. This increase is attributed to the sharp erosion in the operating margin as a result of lower demand for packaging due to the slowdown in industrial exports on account of the erosion of currency exchange rates vis-à-vis the NIS, coupled with the damages of the cold spell in the agricultural sector. On the other hand, the prices of imported raw materials did not decrease in NIS terms, due to hedging transactions on the exchange rate.

The Company s share in the earnings of associated companies from current operations in Israel (excluding Turkey) grew by approximately NIS 3.8 million this year and amounted to approximately NIS 51.2 million.

D. Liquidity

Cash Flows

The cash flows from operating activities totaled NIS 50.9 million during the reported period, as compared with NIS 32.5 million in the corresponding period last year. The significant change in the cash flows from operating activities during the reported period, originated primarily from the sharp improvement in net profit, coupled with the reduction in working capital in the reported period, that amounted to approximately NIS 1.9 million, as compared with growth of approximately NIS 23.4 million last year. The decrease in working capital during the reported period originated primarily from the reduction in the accounts receivable balance as a result of the lower dollar exchange rate, that is affecting the selling prices in NIS, especially as regards packaging paper and recycling activity.

E. Sources of Finance

See Section B2 - Financial Liabilities.

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 Israel Eldar, the Company s Comptroller.

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 this exposure. True to September 30, 2008, the Company entered into hedging transactions in the sum of 34 million euro, in order to hedge the cash flows for the acquisition of fixed assets from equipment vendors for Machine 8.

Consumer Price Index Risks

The Company is exposed to changes in the Consumer Price Index, pertaining to the debentures issued by the Company, in the total sum of NIS 390.1 million.

In early 2008, 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 190 million, pursuant to previous transactions that were made in December 2006 and January 2007 and terminated at the end of 2007.

In August this year, the Company entered into hedging transactions for a period of five months, to protect itself against a rise in the CPI, in the amount of NIS 187.5 million.

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 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

Sensitivity of -linked instruments to changes in the exchange rate

Sensitive Instruments	**Profit (loss) from changes**			**Profit (loss) from changes**	
	Revaluation of 10%	**Revaluation 5%**	**Fair value As at Sept-30-08**	**Devaluation of 5%**	**Devaluation of 10%**
	In NIS thousands				
Transaction with supplier - Alstom	(130)	(65)	(1,305)	65	130
Designated deposits	9,651	4,826	96,511	(4,826)	(9,651)

Sensitivity to interest rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Increase in interest rate of 10%	Increase in interest rate of 5%	Fair value As at Sept-30-08	Decrease in interest rate of 5%	Decrease in interest rate of 10%
In NIS thousands					
Debenture series 3	4,454	2,247	(190,092)	(2,287)	(4,614)
Debenture series 4	4,533	2,282	(261,453)	(2,313)	(4,656)

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Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at September 30, 2008:

NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto	Non-Monetary Items	Total
Assets					
Cash and cash equivalents	2.6		2.5		5.1
Short-term deposits and investments			257.1		257.1
Other Accounts Receivable	438.4	1.1	17.3	7.2	464.0
Inventories				146.1	146.1
Current tax assets	16.3				16.3
Investments in Associated Companies	52.8		2.8	258.7	314.3
Deferred taxes on income				19.6	19.6
Fixed assets, net				714.6	714.6
Other assets				69.9	69.9
Assets on account of employee benefits	15.8				15.8
Total Assets	525.9	1.1	279.7	1,216.1	2,022.8
Liabilities					
Short-term credit from banks	3.8	32.9			36.7
Other Accounts Payable	264.0		36.8		300.8
Deferred taxes on income				71.4	71.4
Long-term loans, including current maturities	130.7	38.3			169.0
Notes (debentures) - including current maturities	238.8	388.1			626.9
Liabilities on account of employee benefits	42.6				42.6
Other Liabilities	32.4				32.4
Equity, funds and reserves				743.0	743.0
Total liabilities and equity	712.3	459.3	36.8	814.4	2,022.8

NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto	Non-Monetary Items	Total
Surplus financial assets (liabilities) as at September 30, 2008	**(186.4)**	**(458.2)**	**242.9**	**401.7**	
Surplus financial assets (liabilities) as at December 31, 2007	**(80.9)**	**(195.1)**	**170.0**	**106.0**	

* 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 the economic 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. Significant Influences as a Result of the Transition to IFRS

As at September 30, 2008, no significant impact was recorded on the financial situation, results of operations, liquidity and sources of finance of the company as a result of the transition to IFRS, except for that stated in the update to Chapter A (Description of the Company s Business) of the Company s Periodical Report dated December 31, 2007 and that stated below. As to the overall accounting implications and adjustments as a result of the transition to IFRS, see Note 11 to the Company s financial statements as at September 30, 2008.

1. Put option on an associated company

As part of an agreement dated November 21, 1999 with Mondi Business Paper (hereinafter MBP, formerly Neusiedler AG) Mondi Hadera acquired the Group s operation in fine paper and issued MBP 50.1% of its shares.

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

Due to the extended period of time that has passed since these understandings were reached and in view of changes in the management of MBP, the Company has decided to adopt a conservative approach in this respect and to reflect the economic value of the option as part of the transition to IFRS. According to Israeli GAAP, it is not necessary to valuate a PUT option. The value of the option was calculated according to IFRS and was recognized as a liability that is measured at fair value, with changes in fair value being allocated to the statement of income in accordance with IAS 39.

As at January 1, 2007, the liability on account of the Put option on the associated company shares is presented in the sum of approximately NIS 1,612 thousand.

As at September 30, 2007, the liability on account of the Put option on the subsidiary company shares is presented in the sum of approximately NIS 3,169 thousand.

As at December 31, 2007, the liability on account of the Put option on the subsidiary company shares is presented in the sum of approximately NIS 3,901 thousand.

As a result of the valuation of the options, other expenses grew by approximately approximately NIS 1,557 and NIS 1,378 thousand for the period of nine months and three months that ended on September 30, 2007, respectively, and grew by a sum of approximately NIS 2,289 thousand for the year ended December 31, 2007.

2. Employee benefits

In accordance with generally accepted accounting principles in Israel, the company s liability for severance pay is calculated based on the last salary of the employee multiplied by the number of years of employment.

Pursuant to International Standards, the provision for severance pay is calculated according to an actuarial basis taking into account the anticipated duration of employment, the value of time, the expected salary increases until retirement and the possible retirement under conditions not entitling severance pay.

In addition, under Israeli GAAP, deposits made with regular policies or directors insurance policies which are not in the employee s name, but in the name of the employer, were also deducted from the company s liability.

Most of the Group s employees are covered according to Section 14 of the Compensation Law. Employee deposits are not reflected in the company s financial statements and accordingly, no provision is necessary in the books.

However, the Company is required to pay employees differences for pension and unutilized vacation pay. These liabilities are computed in accordance with the actuary s assessment based on an estimate of their utilization and redemption, respectively.

In addition, net liabilities in respect of post-retirement employee benefits, which relate to defined benefit plans, are measured based on actuarial estimates and discounted amounts.

Under IFRS, regular policies or directors insurance policies as aforesaid, which do not meet the definition of plan assets under IAS 19, will be presented in the balance sheet under a separate item and will not be deducted from the employer s liability.

According to the Company s adopted policy, actuarial earnings are allocated to retained earnings, although on account of immateriality, they were allocated fully to the statements of income.

Consequently, as at January 1, 2007, a net increase of approximately NIS 5,563 thousand was created in liabilities on account of employee benefit plans, in addition to an increase of approximately NIS 1,391 thousand in deferred tax assets.

As at September 30, 2007, a net increase of approximately NIS 5,527 thousand was created in liabilities on account of employee benefit plans, in addition to an increase of approximately NIS 1,381 thousand in deferred tax assets.

As at December 31, 2007, a net increase of approximately NIS 5,762 thousand was created in liabilities on account of employee benefit plans, in addition to an increase of approximately NIS 1,436 thousand in deferred tax assets.

Labor wages expenses decreased by approximately NIS 859 thousand and approximately NIS 525 thousand for the 9-month and 3-month periods ended September 30, 2007, respectively, and increased by approximately NIS 199 thousand for the year ended December 31, 2007. Furthermore, tax expenses decreased by approximately NIS 30 thousand and increased by approximately NIS 22 thousand for the 9-month and 3-month periods ended September 30, 2007, respectively, and decreased by approximately NIS 46 thousand for the year ended December 31, 2007.

Furthermore, assets in respect of employee benefits were reclassified from other accounts payable to non-current assets, in the amount of approximately NIS 1,132 thousand, approximately NIS 1,128 thousand and approximately NIS 1,179 thousand as at January 1, 2007, September 30, 2007 and December 31, 2007, respectively.

I. 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 Brenner, 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.

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. As to the supreme supervision regarding the impact of the transition to international financial reporting standards, the Committee held a detailed discussion regarding the said disclosure and the accounting policy implemented in its respect.

Tzvika Livnat	Avi Brenner
Chairman of the Board of Directors	General Manager

Exhibit 3

HADERA PAPER LTD
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF SEPTEMBER 30 , 2008

HADERA PAPER LTD

UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2008

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HADERA PAPER LTD

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(NIS in thousands)

	September 30,		December 31,
	2008	2007	2007
	(Unaudited)		
Current Assets			
Cash and cash equivalents	5,075	53,784	167,745
Designated deposits	257,118	-	-
Trade receivables	345,279	193,756	178,553
Other receivables	118,760	108,701	94,415
Current tax assets	16,262	-	-
Inventories	146,104	67,408	69,607
	888,598	**423,649**	**510,320**
Non-Current Assets			
Property plant and equipment, net	714,605	398,047	405,231
Investments in associated companies	314,309	344,636	346,403
Deferred tax assets	19,623	21,239	20,622
Deferred expenses	35,538	34,107	34,900
Other intangible assets	32,569	1,749	1,578
Other assets	1,755	-	-
Employee benefit assets	15,841	1,128	1,179
	1,134,240	**800,906**	**809,913**
	2,022,838	**1,224,555**	**1,320,233**
Current Liabilities			

	September 30,		December 31,
Credit from banks and others	36,735	233,685	143,015
Current maturities of long-term notes and long term loans	79,554	42,730	42,775
Trade payables	168,008	108,697	108,409
Other payables and accrued expenses	123,341	72,784	73,230
Other financial liabilities	32,380	-	-
Financial liabilities at fair value through profit and loss	9,474	3,169	3,901
Current tax liabilities	-	9,897	908
	449,492	**470,962**	**372,238**
Non-Current Liabilities			
Loans from banks and others	128,725	29,490	28,127
Notes	587,592	188,436	158,134
Other financial liabilities	-	32,380	31,210
Deferred tax liabilities	71,452	40,840	40,515
Employee benefit liabilities	42,605	19,699	20,038