Hadera Paper Ltd
Form 6-K
March 12, 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 March 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 March 11, 2009 with respect to the Registrant s results of operations for the year ended December 31, 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 year ended December 31, 2008.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant s unaudited condensed consolidated financial statements for the year ended December 31, 2008.

Attached hereto as Exhibit 4 and incorporated herein by reference is the Registrant s periodical report for the year ended December 31, 2008.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries with respect to the year ended December 31, 2008.

Attached hereto as Exhibit 6 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the year ended December 31, 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: March 11, 2009.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated March 11, 2009.
2.	Registrant's management discussion.
3.	Registrant's unaudited condensed consolidated financial statements.
4.	Registrant's periodical report.
5.	Unaudited condensed interim consolidated financial statements of Mondi Business Paper Hadera Ltd. and subsidiaries.
6.	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 Fiscal Year Ended December 31, 2008

Hadera, Israel, March 11, 2009 Hadera Paper Ltd. (AMEX:AIP) (the Company or Hadera Paper) today reported financial results for the year ended December 31, 2008. The Company, its subsidiaries and associated companies are referred to hereinafter as the Group .

As a result of the transition to reporting according to IFRS, the Company presented its financial statements for 2008, as well as the comparison figures for the year ended December 31, 2007, according to IFRS.

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

Aggregate sales amounted to NIS 3,229.1 million in 2008, as compared with NIS 3,124.3 million in the corresponding period last year.

Aggregate operating profit in 2008 amounted to NIS 203.0 million, as compared with NIS 183.8 million in 2007. 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 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 2008 amounted to NIS 673.5 million, as compared with NIS 583.6 million in 2007.

Operating profit amounted to NIS 35.4 million in 2008, as compared with NIS 71.1 million in 2007. Most of the erosion in the profit was due to changes in the dollar exchange rate, which negatively impacted the selling prices, to dumping prices of competing imports and to the apparent slowdown in the operations during the final quarter of 2008, as a result of the financial crisis.

The net profit attributed to the Company s shareholders in 2008 amounted to NIS 69.7 million, as compared with net profit of NIS 31.5 million in 2007, and was affected by the improvement in the profitability of some of the Group s companies 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 profit attributed to the Company s shareholders amounted to NIS 10.6 million and from the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR). On the other hand, the net profit decreased as a result of recording an expenditure of NIS 10.0 million from the valuation of a PUT option at Mondi.

The net profit attributed to the shareholders of the company in the fourth quarter this year amounted to NIS 10.2 million, as compared with net profit attributed to the company s shareholders of NIS 17.5 million in the corresponding quarter last year.

Basic earnings per share amounted to NIS 13.77 per share ($3.62 per share) in 2008, as compared with basic earnings per share of NIS 7.63 per share ($1.98 per share) in 2007.

The inflation rate in 2008 amounted to 3.8%, as compared with an inflation rate of 3.4% in 2007.

Mr. Avi Brener, Chief Executive Officer of the Company said that In view of the global recession, the Company formulated in recent months an action plan which includes aggressive measures to improve efficiency, cut current investments, cut general expenses. True to this date, there is no material impact as a result of the escalation of the global financial crisis, on the Company s business results, its financial robustness or the value of its assets. In the first half of 2008, input prices rose for energy, fibers, chemicals and commodities, a trend that was reversed in the second half of the year due to the global crisis. The Company s transition, at the end of 2007, to using natural gas, has led to NIS 46 million in Group-wide (including associated companies) energy-cost savings in 2008. These savings were partially offset as a result of the increase in electricity prices in 2008. In the second half of 2008, the global paper market, particularly Europe, saw the start of a trend of slowing demand that led to surplus production in the market, which increased the importing of fine paper and packaging paper from Europe at dumping prices. In order to avoid erosion of its gross margin, the Group filed two complaints, with the Supervisor of Anti-Dumping Charges at the Israeli Ministry of Industry, Trade and Employment, regarding dumping imports of packaging paper and fine paper from several European nations to Israel. In both cases, the Supervisor decided to launch an investigation. 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 average revaluation of the NIS against the US$ coupled with the revaluation of the NIS against the euro had a positive impact on the Company with regard to imported inputs while, on the other hand, serving to erode the selling prices in the main operating segments of the Company whose prices are denominated in US$. In the fourth quarter, the trend in input prices was reversed and prices started to decline due to the aforementioned crisis which served to somewhat offset the looming slowdown in operations in both local and export markets. The overall business range and currency operations of the Hadera Paper Group, including its associated companies, is relatively balanced and the Company s exposure to sharp fluctuations in exchange rates is therefore low.

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

Financial expenses in 2008 amounted to NIS 15.0 million, as compared with NIS 22.2 million in the corresponding period last year.

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The company s share in the earnings of associated companies totaled NIS 51.3 million in 2008, as compared with NIS 0.9 million in 2007. The Company s share in the earnings of associated companies amounted to NIS 14.7 million in the fourth quarter of the year, as compared with NIS 7.9 million in the corresponding quarter last year.

The following principal changes were recorded in the Company s share in the earnings of associated companies, in relation to 2007:

The Company s share in the net profit of Mondi Hadera (49.9%) rose by NIS 0.6 million. The increased income was primarily attributed to the improvement in Mondi s operating profit, which grew from NIS 33.6 million last year to NIS 34.1 million this year primarily due to a quantitative increase in sales, operating efficiency and lower energy costs due to the transition to using natural 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 H-K Israel (49.9%) increased by approximately NIS 12.3 million. 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, while innovating products and empowering the Company s brands.

The Company s share in the losses of KCTR Turkey (49.9%) decreased by NIS 48.0 million. The significant decrease in the loss is attributed to the growth in the volumes of operation that led to a significant reduction in the operating loss, from NIS 73.7 million last year to approximately NIS 33.4 million this year. In 2007, the Company recorded a non-recurring loss in respect of termination of trade agreements with distributors following the transition to distribution by Unilever, amounting to approximately NIS 6 million, of which the Company s share amounts to 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 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, 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% before August 31, 2008 the date of consolidation), increased by NIS 6.4 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 exchange rates.

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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	
	(AUDITED)	
	except per share amounts	
	NIS IN THOUSANDS (1)	
	2008	2007
Net sales	673,484	583,650
Net earnings attributed to the Company's shareholders	69,710	31,535
Basic net earnings per share attributed to the Company's shareholders	13.77	7.63
Fully diluted earnings per share attributed to the Company's shareholders	13.77	7.62

(1) The representative exchange rate at December 31, 2008 was NIS 3.802=$1.00.

(2) The net profit attributed to the Company s shareholders in 2008 was affected by the improvement in the profitability of some of the Group s companies 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 profit attributed to the Company s shareholders amounted to NIS 10.6 million and the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR), as compared with 2007. On the other hand, the net profit decreased as a result of recording an expenditure of NIS 10.0 million from the valuation of a PUT option at Mondi

(3) The net profit in 2007 was affected by the growth in the Company s share in the losses of the operations in Turkey (KCTR), amounting to approximately NIS 11.8 million (from NIS 52.0 million last year to NIS 63.8 million this year), as compared with the preceding year. In 2007, the net profit included earnings from the realization of surplus cost at an associated company in the amount of NIS 2.5 million, a loss from the amortization of a tax asset at an associated company in the sum of NIS 13.4 million and a capital loss from the sale of cardboard machines (machine 6) and hub machines in the sum of NIS 2.4 million.

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Exhibit 2

Translation from Hebrew

March 11, 2009

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 year 2008. The Company, its consolidated subsidiaries and its associated companies hereinafter: The Group .

A. Description of the Corporation s Business

1. Company Description

Hadera Paper deals in the manufacture and sale of packaging paper, corrugated board packaging, consumer goods 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. Updating of data to comply with IFRS

As a result of the transition to reporting according to IFRS, the Company presented its financial statements for 2008, as well as the comparison figures 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.

b. Principal Current Operations

1. Business Environment

Global financial markets suffered a considerable upheaval in 2008, an upheaval that reached new highs during the period between September and October 2008, with the collapse of several large financial entities in the United States and elsewhere around the world, along with global stock markets. This economic and financial crisis came in the wake of the subprime mortgage crisis, that began in the second half of 2007 and affected additional financial sectors. The global economic and financial crisis resulted inter alia 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 that started in the wake of the subprime mortgage crisis. Following the said events, several nations initiated various measures in order to stabilize and prevent an additional deterioration of financial markets, by way of injecting funds into financial institutions while also lowering interest rates. However, there is still no certainty that these measures have indeed tamed the crisis or prevented its deterioration and there is no certainty that they will in fact do so.

Over the last several months, the said financial crisis began to materialize in the form of a real economic crisis, as various economies around the world, including the United States, central economies in Europe and the Israeli market as well, entered into a recession, accompanied by the discontinuation of numerous operations and mass employee layoffs in various market sectors, including industry, services and high-tech.

As of the report date, it would seem that the direct economic repercussions of the aforementioned crisis have yet to run their course, and a concern exists that Israel s economy may slide into recession, similar to other economies around the world.

In view of the global recession, the Company formulated in recent months an action plan which includes aggressive measures to improve efficiency, cut current investments, cut general expenses (regarding the waiver of senior executive wages see Section K, below), continued measures for improved efficiency across the group, focus on purchasing operations in order to reduce expenses related to the purchase of raw materials, services and products as well as focused management of operational working capital and control of customer credit exposure. Along with these actions, the Company continues to identify business opportunities to enable accelerated growth and improved margins in its various sectors of operation in Israel and overseas.

Alongside the said global financial crisis, several events occurred in the Israeli economy in the second half of 2008, including significant fluctuations in the exchange rates of principal currencies vis-à-vis the NIS.

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 robustness 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 to the public series of debentures that render it possible for the company to promote the long-term strategic projects on which it is focusing. The Company does not currently anticipate difficulties in raising additional financing in case of need.

The above information constitutes forward-looking information as defined in the Securities Law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as the global crisis in credit and banking markets.

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

In the first half of 2008, input prices rose for energy, fibers, chemicals and commodities a trend that was reversed in the second half of the year due to the global crisis. The Company s transition, in the fourth quarter of 2007, to using natural gas, has led to NIS 46 million in Group-wide energy-cost savings in 2008, as compared with last year primarily due to the transition to steam production using natural gas and to self-generation of electricity based on gas rather than on fuel oil. These savings were partially offset as a result of the increase in electricity prices in 2008, by an average rate of 17% in relation to 2007, as mentioned above.

In the second half of 2008, the global paper market and particularly in Europe saw the start of a trend of slowing demand, that led to surplus production in the market. Due to the said surplus production, the importing of fine paper and packaging paper from Europe at dumping prices rose in the second half of 2008. In order to avoid erosion of its gross margin, the Company announced on January 15, 2009, that it had filed a complaint, as a manufacturer of packaging paper, with the Supervisor of Anti-Dumping Charges and Homogenization Charges at the Ministry of Industry, Trade and Employment (hereinafter: The Supervisor), regarding dumping imports of packaging paper from several European nations to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. On February 26, 2009, the company announced that the associated company Mondi Hadera Paper had filed a complaint to the supervisor, regarding the dumping imports of fine paper from several European nations to Israel. Upon review of the complaint, the Supervisor decided to launch an investigation of this issue. According to the Company announcement, there is no certainty that the above complaints would be accepted, and the Company is currently unable to estimate the impact of such acceptance on its business results.

The average revaluation of the NIS against the US$ amounting to approximately 13% in 2008 as compared with 2007 coupled with the revaluation of the NIS against the euro had a positive impact on the Company with regard to imported inputs while, on the other hand, serving to erode the selling prices in the main operating segments of the Company whose prices are denominated in US$. In the most recent quarter, the trend in input prices was reversed and prices started to decline due to the aforementioned crisis which served to somewhat offset the looming slowdown in operations in both local and export markets.

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

The 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 fluctuations in global fuel prices in 2008 had no material impact on the Company, due to the transition to the use of natural gas instead of fuel oil in its production processes, which began in the fourth quarter of 2007. This fact served to improve the Group s competitive capability vis-à-vis its European competitors and partially offset the aforementioned impact of the price erosion.

The inflation rate in 2008 amounted to 3.8%, as compared with an inflation rate of 3.4% in 2007.

Considerable volatility was recorded in 2008 in the exchange rate of the US dollar in relation to the NIS, throughout the year. The US dollar exchange rate fell by 1.1% in 2008, in addition to a 9% decrease in 2007.

2. Principal Current Operations

In the course of the reported period and despite the sharp change in the business environment, the aggregate sales turnover continued to grow, as illustrated by a 3.3% increase 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-company operations and support continued growth and increased profitability in organizational development, Group purchasing, B2B marketing, development and innovation. The gradual and successful implementation of these brands will enable the company to better deal with the challenging business environment, while improving profitability.

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:

a. Expanding the recycled packaging paper manufacturing network

The investment in the project for the construction of the new manufacturing network, totaling NIS 690 million was approved on October 15, 2007 by the Company s Board of Directors. The Company has selected the most highly advanced technologies in this area, 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 advancing at the site, in preparation for receiving the equipment whose arrival will begin towards the end of the year.

In parallel, the 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 toward the end of 2009.

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.

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. 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. The capital that was raised is intended to serve for covering the payments to the suppliers of equipment for Machine 8 and constitutes most of the sum necessary for financing this project. In addition to the above measures, the Company is continuing to explore additional ways to complete the remaining necessary project financing.

b. Innovative development of high-quality recycled paper

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

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

The development of new paper types is based on the characterization of fibers, developing and implementing new chemical additives and using these advanced manufacturing technologies, both in the existing production lines and in the new production line, to render it possible to gradually launch new products, as early as in 2009 and throughout 2010.

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

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.

c. 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. The Company is working to extend the existing production license, for the purpose of building a 230 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.

Discovery of additional natural gas deposits at Tamar-1 and progress made by the Egyptian gas franchisee (EMG) improve the likelihood of renewed negotiations to kick off 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.

d. The Strategic Investment in Turkey

In 2008, 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 amounted to approximately $115.0 million in 2008, as compared with $63.3 million in 2007, representing an increase of 81.7%.

In the course of 2008, the company continued to empower its brands and especially the Huggies® and Kotex® brands, was realizing constant growth in both 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 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.

Moreover, In the course of 2008, 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 33.4 million (approximately $9.3 million) in 2008, as compared with NIS 74 million (approximately $17.9 million) in 2007.

The implementation of the strategic business plan, while strengthening the brands and recording a gradual growth in the Unilever distribution and sales platforms, in combination with increased exports and continuing cost reductions at the diaper plant are rendering it possible to maintain the trend of improving gross margins as mentioned above in 2008 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

Starting September 1, 2008, the financial statements of Carmel Container Systems Ltd. (Carmel) and Frenkel- CD Ltd. (Frenkel- C.D.) (an associated company of Carmel s and of the Company), are being consolidated within the company s financial statements, as a result of the fact that the holding rate in Carmel has increased from 36.2% to 89.3%, and at Frenkel CD, indirectly, from 37.93% to 52.72% (for details see Note 15 to the financial statements). The analysis of the financial statements, as described below, is affected by this consolidation.

The cash and cash equivalents item decreased from NIS 167.7 million as of December 31, 2007 to NIS 13.1 million as of December 31, 2008. The difference, 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, was deposited in euro-linked deposits in the amount of NIS 125.7 million and in NIS deposits in the amount of 123.9 million, which have been designated for the payment of amounts pertaining to the construction of the facility for the manufacturing of packaging paper, and are presented under designated cash .

The balance of trade receivables in respect of packaging paper, recycling and cardboard, increased from NIS 138.3 million as of December 31, 2007 to NIS 273.8 million as of December 31, 2008. This increase is primarily attributed to the consolidation of the trade receivables of Carmel and Frenkel CD in the amount of NIS 186.1 million, net of the effect of the reduction in prices in NIS terms following the devaluation of the dollar exchange rate, net of trade receivable balances at Carmel, that were cancelled as a result of the consolidation of the financial statements. Accounts receivable for the office supplies marketing activity rose from NIS 40.3 million as at December 31, 2007 to NIS 45.1 million, as at December 31, 2008, as a result of growth in the volume of operations.

Accounts receivable in the packaging paper, recycling and cardboard activity increased from NIS 91.3 million as of December 31, 2007 to NIS 95.1 million as of December 31, 2008. This increase is primarily attributed to the consolidation of the accounts receivable of Carmel and Frenkel CD in the amount of NIS 5.8 million. In the office supplies marketing activity, the Other Accounts Receivable item increased from NIS 3.1 million on December 31, 2007, to NIS 5.8 million on December 31, 2008.

Inventories in the packaging paper and recycling activity increased from NIS 51.2 million as of December 31, 2007, to NIS 146.3 million as of December 31, 2008. This increase is primarily due to the consolidation of Carmel and Frenkel CD inventories, amounting to NIS 87.2 million. Inventories in the office supplies marketing activity grew from NIS 18.4 million on December 31, 2007, to NIS 22.5 million on December 31, 2008, primarily due to the increased share of products imported from Eastern Asia for the purpose of improving profitability, as well as due to acquired inventories in conjunction with the acquisition of the business operations of Yavne Pitango Ltd. in Northern Israel in early August, in order to accelerate Company growth.

Investments in associated companies decreased from NIS 346.4 million on December 31, 2007 to NIS 318.1 million on December 31, 2008. This decrease, despite the Company s share in the income of associated companies, amounting to NIS 51.3 million, was primarily due to the initial consolidation of Carmel and Frenkel CD as of September 1, due to a larger holding percentage which led to the removal of Carmel and of Frenkel CD from the Investments in Associated Companies item, to the amount of NIS 49.8 million, as well as due to the change in net capital reserves, amounting to NIS 28.1

million.

Short-term credit decreased from NIS 143.0 million on December 31, 2007 to NIS 77.7 million on December 31, 2008. The decrease in this item was primarily due to the use of part of the proceeds from the private placement to the shareholders in November of last year and of proceeds from the offering of bond series in July and August of this year intended for the repayment of short-term credit.

Accounts payable and other credit balances in the packaging paper, recycling and cardboard activity increased from NIS 65.8 million as of December 31, 2007, to NIS 100.4 million as of December 31, 2008. This increase is primarily due to the consolidation of accounts payable at Carmel and Frenkel CD, amounting to NIS 18.1 million, to an increase in expenses payable in respect of interest on bonds from issuances during the third quarter, and to the revaluation of the fair value of liabilities in respect of future transactions for hedging payments to suppliers of Machine 8, due to the lower euro exchange rate in 2008. In the office supplies marketing activity, the Other Accounts Payable item increased from NIS 4.8 million on December 31, 2007, to NIS 5.6 million on December 31, 2008.

The Company s shareholders equity increased from NIS 670.0 million on December 31, 2007, to NIS 757.6 million on December 31, 2008. This change was primarily due to the net profit associated with Company shareholders in 2008, amounting to NIS 69.7 million, to a positive capital reserve from transition to consolidation, amounting to NIS 15.9 million, and to the addition of the minority interest amounting to NIS 26.3 million, offset by an increase in net negative capital reserves, amounting to NIS 24.3 million.

1. Investments in Fixed Assets

Investments in fixed assets in 2008 amounted to NIS 230.1 million, as compared with NIS 83.4 million in 2007, with investments in 2008 primarily including payments on account of purchases from equipment vendors for the new packaging paper manufacturing network (Machine 8), amounting to approximately NIS 191 million. 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.

2. Financial Liabilities

Long-term liabilities (including current maturities) amounted to NIS 785.3 million as at December 31, 2008, as compared with NIS 260.2 million as at December 31, 2007. Long-term liabilities grew year-over-year, primarily as a result of the issuing of two debenture series (Series 3 and Series 4) in the third quarter of this year, in the total sum of NIS 427 million, coupled with long-term loans assumed intended for financing payments on account of Machine 8 and the consolidation of the loans of Carmel and Frenkel CD, in the total sum of NIS 101.4 million.

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

Series 1 NIS 7.4 million, for repayment until 2009.

Series 2 NIS 158.6 million, for repayment until 2013.

Series 3 NIS 190.5 million, for repayment until 2018.

Series 4 NIS 235.6 million, for repayment until 2020.

Long-term loans NIS 159.2 million.

The balance of short-term credit, as at December 31, 2008, amounted to approximately NIS 77.7 million, as compared with NIS 143.0 million at December 31, 2007.

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

Put option for shareholder at 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 54.7 million as compared with the value of the liabilities through fair value NIS 13.9 million amounts to NIS 40.8 million.

The liability on account of the Put option for shareholder at the associated company shares as at December 31, 2008, December 31, 2007, and as at January 1, 2007, amounts to NIS 13.9 million, NIS 3.9 million and NIS 1.6 million, respectively.

On account of the Put option, other expenses grew by NIS 10.0 million in 2008, as compared with growth of NIS 2.3 million in 2007.

The principal factors responsible for the change in fair value in 2008 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 2008 and in the risk-free, dollar-denominated interest rate.

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 (3) below.

Aggregate Data

The aggregate sales amounted to NIS 3,229.1 million in 2008, as compared with NIS 3,124.3 million in the corresponding period last year, representing growth of 3.4%.

Aggregate operating profit in 2008 amounted to NIS 203.0 million, as compared with NIS 183.8 million in 2007 representing a 10.4% increase. 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.

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

2. **The net profit and the Earnings per Share Attributed to the Company s Shareholders**

The net profit attributed to the Company s shareholders in 2008 amounted to NIS 69.7 million, as compared with net profit of NIS 31.5 million in 2007, representing an increase of 121.3%.

The net profit attributed to the Company s shareholders in 2008 was affected by the improvement in the profitability of some of the Group s companies 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 profit attributed to the Company s shareholders amounted to NIS 10.6 million and the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR), as compared with 2007 (see Strategic Investment in Turkey, above, and Section C7, below). On the other hand, the net profit decreased as a result of recording an expenditure of NIS 10.0 million from the valuation of a PUT option at Mondi.

Regarding details of the calculations of the surplus of assets fair value and liabilities resulting from purchasing Carmel, see assessments of the value which were added to the financial statements of the Company dated 30.9.08

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The net profit attributed to the shareholders of the company in the fourth quarter this year amounted to NIS 10.2 million, as compared with net profit attributed to the company s shareholders of NIS 17.5 million in the corresponding quarter last year.

Basic earnings per share amounted to NIS 13.77 per share ($3.62 per share) in 2008, as compared with basic earnings per share of NIS 7.63 per share ($1.98 per share) in 2007.

Diluted earnings per share amounted to NIS 13.77 per share ($3.62 per share) in 2008, as compared with diluted earnings per share of NIS 7.62 per share ($1.98 per share) in 2007.

3. **Analysis of Operations and Profitability**

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

1. **Sales**

The consolidated sales during 2008 amounted to NIS 673.5 million, as compared with NIS 583.6 million in 2007, representing growth of 15.4%.

Sales of the packaging paper, recycling and cardboard activity in 2008 amounted to NIS 543.1 million, as compared with NIS 465.3 million in 2007.

Higher sales in the packaging paper, recycling and cardboard activity were primarily due to the initial consolidation, starting in September, of sales by Carmel and Frenkel CD, amounting to NIS 160.9 million on the one hand, and on the other hand to the decrease in the sales of packaging paper and recycling due to the impact of the weaker dollar on the selling prices, which was not offset by a rise in NIS-denominated prices (segment sales are impacted by dollar-denominated import prices).

Sales of the Office Supplies Marketing activity in 2008 amounted to NIS 131.1 million, as compared with NIS 119.0 million in 2007, representing growth of 10.2% due to continued implementation of the growth plan in this segment.

The consolidated sales in the fourth quarter amounted to NIS 226.3 million, as compared with NIS 154.9 million in the corresponding quarter last year, representing an increase of 46.5%, that is primarily attributed to the inclusion of the data of Carmel and Frenkel CD in the fourth quarter, in the sum of NIS 119.9 million, that were not consolidated last year, as mentioned above. Net of the sales of Carmel and Frankel CD, the sales amounted to NIS 106.4 million, primarily as a result of the decrease in the sales of packaging paper as a result of price erosion in dollar terms, coupled with the apparent slowdown in the markets and the global financial crisis.

2. Cost of Sales

The cost of sales amounted to NIS 542.4 million or 80.5% of sales in 2008, as compared with NIS 440.7 million or 75.5% of sales in 2007.

The gross profit totaled NIS 131.1 million in 2008 (approximately 19.5% of sales), as compared with NIS 142.9 million (24.4% of sales) in 2007, representing a decrease of approximately 8.3% in relation to 2007.

The decrease in the gross profit and gross margin in relation to 2007 is attributed primarily to the erosion of the dollar-linked prices of packaging paper 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 approximately 17% 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 approximately NIS 5.5 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 149.2 million in 2008 (22.3% of sales), as compared with NIS 115.7 million last year (approximately 19.8% of sales).

The labor wages within the general and administrative expenses amounted to NIS 73.9 million in 2008 (approximately 11.0% of sales), as compared with the sum of NIS 58.3 million last year (approximately 10.0% of sales).

The Increase in salary costs as compared to 2007 is attributed to additional salary expenses of approximately NIS 50.0 million resulting from the consolidation of Carmel and Frenkel CD and the increase in personal, primarily at Amnir and in the packaging paper sector, 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 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 4.9 million in 2008 an expenditure that does not involve cash flows.

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

3. Selling, General and Administrative and Other Expenses

Selling, general and administrative expenses (including wages) and other expenses in 2008, amounted to NIS 95.7 million or 14.3% of sales as compared with NIS 71.8 million or 12.3% of sales in 2007. Net of the revenues from attribution of excess negative cost at a subsidiary and non-recurring expenses as set forth below, selling, general and administrative and other expenses amounted to NIS 94.5 million.

The increase in selling, general and administrative and other expenses was primarily attributed to the consolidation of the expenses of Carmel and Frenkel CD in the Company s financial statements, in the amount of NIS 17.3 million, along with the increase in wages expenses as a result of NIS 4.9 million in wages 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 10.0 million pursuant to IFRS.

The selling, general and administrative expenses amounted to NIS 37.8 million or 16.7% of sales in the fourth quarter of the year, as compared with NIS 20.9 million, or 13.5% of sales, in the corresponding quarter last year. The growth is primarily attributed to the inclusion of the expenses of Carmel and Frankel CD in the sum NIS 12.8 million in the quarter, as well as a result of recording an expenditure on account of a PUT option on an associated company, in the sum of approximately NIS 4.3 million in the fourth quarter.

4. Operating Profit

The operating profit amounted to NIS 35.4 million or 5.3% of sales in 2008, as compared with NIS 71.1 million or 12.2% of sales in 2007. Most of the erosion in the profit was due to changes in the dollar exchange rate, which negatively impacted the selling prices of packaging paper and recycling, as well as to the dumping prices of competing imports, as set forth above, coupled with the apparent slowdown in the operations of the various companies during the final quarter as a result of the financial crisis.

Operating profit for the packaging paper, recycling and cardboard activity in 2008 amounted to approximately NIS 32.1 million, as compared with NIS 70.4 million in 2007 primarily due to the aforementioned impact of the exchange rate, at which segment sales are denominated, as well as due to the dumping prices of competing imports, as set forth above, and the impact of the severe cold spell on the demand for exported agricultural produce.

The operating profit of the office supplies operations amounted to NIS 3.2 million, as compared with a profit of NIS 0.7 million in 2007.

The operating loss amounted to NIS 2.6 million in the fourth quarter of the year, as compared with approximately NIS 18.1 million in the corresponding quarter last year. This is primarily attributable to the decrease in sales for exports as well as the development of recycled products from pulp replacements, the influence of currency and the erosion of selling prices, as well as the result of recording an expenditure on account of a PUT option for an associated company in the sum NIS 4.3 million in the fourth quarter of the year. Net of influence of the Put option and losses from companies consolidated during the quarter, the operating profit for the quarter amounted to approximately NIS 5.5 million.

5. Financial Expenses

The financial expenses in 2008 amounted to NIS 15.0 million, as compared with NIS 22.2 million in the corresponding period last year, representing a decrease of 32.4%.

The total average of net interest-bearing liabilities, charged to the Company s financial expenses, decreased by approximately NIS 85 million, between 2007 and 2008. This decrease was primarily due to proceeds of the private placement received last year, to the positive cash flows from operating activities in those years, offset by investments in fixed assets.

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The interest on the short-term credit decreased by approximately NIS 6.3 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) grew by approximately NIS 0.7 million, as compared with 2007, 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 grew by an annual rate of 2.6% in 2008, as compared with 1.3% in 2007, 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 approximately 3.8% in this period.

Furthermore, the Company recorded financial revenues in 2008 amounting to NIS 5.2 million in respect of a dollar currency transaction executed in the third quarter of this year, as compared with financial revenues of NIS 4.6 million from euro currency transactions executed in late 2007. These revenues were offset last year by financial expenses amounting to NIS 2.3 million, primarily due to the impact of the revaluation of the NIS vis-à-vis the USD by 9.0% in 2007, as compared with a 1.1% revaluation in 2008, applicable to USD asset balances.

6. Taxes on Income

Expenses on taxes on income amounted to NIS 3.7 million in 2008, as compared with NIS 18.3 million in 2007. The sharp decrease of approximately NIS 14.6 million is primarily attributed to the sharp drop in taxable income (income after financial expenses, net of 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 with the preceding 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 Container Systems (until August 31, 2008 the date of initial consolidation of the Carmel financial statements).

The company s share in the earnings of associated companies totaled NIS 51.3 million in 2008, as compared with NIS 0.9 million in 2007. The Company s share in the earnings of associated companies amounted to NIS 14.7 million in the fourth quarter of the year, as compared with NIS 7.9 million in the corresponding quarter last year, representing an increase of 86% in relation to the corresponding quarter last year.

The following principal changes were recorded in the Company s share in the earnings of associated companies, in relation to 2007:

The Company s share in the net profit of Mondi Hadera Paper (49.9%) rose by NIS 0.6 million. The increased income was primarily attributed to the improvement in Mondi s operating profit, which grew from NIS 33.6 million last year to NIS 34.1 million this year primarily due to a quantitative increase in sales, operating efficiency and lower energy costs due to the transition to using natural 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 12.3 million. Hogla s operating profit grew from NIS 136.3 million to NIS 169.0 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, while innovating products and empowering the Company s brands.

The Company s share in the losses of KCTR Turkey (formerly: Ovisan) (49.9%) decreased by NIS 48.0 million. The significant decrease in the loss is attributed to the growth in the volumes of operation (see above Section A(2)(b)(3)(4) Strategic Investment in Turkey) that led to a significant reduction in the operating loss, from NIS 73.7 million last year to approximately NIS 33.4 million this year. In 2007, the Company recorded a non-recurring loss in respect of termination of trade agreements with distributors following the transition to distribution by Unilever, amounting to approximately NIS 6 million ($1.5 million), of which the Company s share amounts to 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, 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 6.4 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 exchange rates.

D. Liquidity

Cash Flows

The cash flows from operating activities in 2008 amounted to approximately NIS 113.9 million, as compared with NIS 91.9 million in 2007. The increase in the cash flows from operating activities in 2008, as compared with 2007, originated primarily as a result of the sharp improvement in net profit as well as from the decrease in working capital in 2008, that amounted to approximately NIS 41 million, as compared with a NIS 8.0 million decrease last year. The decrease in working capital in 2008 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.

E. Sources of Finance

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

Debentures for institutional investors and the public

Series	Issue Date	Name of Rating Company	Rating at time of issue and at report date	Total stated value at issue date	Interest type	Stated Interest	Registered for trade on stock exchange (Yes/No)	Interest payment dates	Nominal par value as at Dec-31-08	Book value of debenture balances as at Dec-31-08	Book value of interest to be paid as at Dec-31-08	Market value as at Dec-31-08
				In NIS					NIS millions			
Series 1	Apr-1992	Maalot	AA-	48,000,000	Fixed	3.8%	No	Annual interest On June 10-30 In the years 1993-2009	3.25	7.42	0.1	
Series 2	Dec-2003	Maalot	AA-	200,000,000	Fixed	5.65%	No	Annual interest On December 21 In the years 2004-2013	142.9	158.6	0.3	
Series 3	Jul-2007	Maalot	AA-	187,500,000	Fixed	4.65%	Yes	Annual interest On July 10 In the years 2009-2018	187.5	190.5	4.1	182.4
Series 4	Jul/Aug-2007	Maalot	AA-	235,557,000	Fixed	7.45%	Yes	Semi-annual interest On January 10 and July 10 In the years 2009-2015	235.6	235.6	8.1	249.6

Comments:

1. Series 1 Linked to the Consumer Price Index (CPI). Principal repayment ends in June 2009.

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

3. Series 3 Linked to the Consumer Price Index (CPI). Principal repaid in 9 annual installments, between July 2010 and July 2018.

4. Principal repaid in 6 annual installments, between July 2010 and July 2015.

5. The trustee of the debentures (Series 2) is Bank Leumi Le-Israel Trust Corporation Ltd. The responsible contact person on behalf of Bank Leumi Le-Israel Trust Corporation Ltd. is Ms. Idit Teuzer (telephone: 03-5170777).

6. The trustee of the public debentures (Series 3, 4) is Hermetic Trust Corporation (1975) Ltd. The responsible contact people on behalf of Hermetic Trust Corporation (1975) Ltd. are Mr. Dan Avnon and /or Ms. Merav Ofer-Oren (telephone: -3-5272272).

7. As at the date of the report, the Company has met all of the terms and undertakings of the trust notes and there exist no terms that constitute just cause for demanding the immediate repayment of the debentures.

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 December 31, 2008, the Company entered into hedging transactions in the sum of 25 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 356.5 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.

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 as at December 31, 2008:

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value As at Dec-31-08	Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Series 1 Debentures	(16)	(8)	(7,537)	8	16
Series 2 Debentures	(1,866)	(937)	(155,637)	947	1,903
Series 3 Debentures	(3,979)	(2,005)	(195,959)	2,037	4,105
Series 4 Debentures	(3,956)	(1,990)	(269,078)	2,013	4,050
Other liabilities	(134)	(57)	(31,359)	68	136
Long-term loans and capital notes - granted	212	106	49,355	(106)	(213)

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 (4.5% in 2008).

Regarding the terms of the debentures and other liabilities See Note 8 to the financial statements

Regarding long-term loans and capital notes granted See Note 4 to the financial statements

Sensitivity of -linked instruments to changes in the(euro)exchange rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in 10%	Rise in 5%	Fair value as at Dec-31-08	Decrease in 5%	Decrease in 10%
	In NIS thousands				
Cash and cash equivalents	268	134	2,681	(134)	(268)
Designated deposits	12,575	6,287	125,747	(6,287)	(12,575)
Other Accounts Receivable	321	160	3,206	(160)	(321)
Supplier engagement transaction - Alstom	(92)	(46)	(922)	46	92
Other Accounts Payable	(2,397)	(1,198)	(23,969)	1,198	2,397
PUT options	-	-	(836)	(2,088)	(3,412)

Sensitivity of -linked instruments to changes in the(euro)exchange rate

NIS- forward transaction	12,293	6,996	1,304	(3,599)	(8,896)

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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 Dec-31-08	Devaluation of $ 10%	Devaluation of $ 5%
	In NIS thousands				
Cash and cash equivalents	233	116	2,327	(116)	(233)
Other Accounts Receivable	1,472	736	14,722	(736)	(1,472)
Accounts Payable	(3,246)	(1,623)	(32,549)	1,623	3,246

Other accounts receivable reflect primarily short-term customer debts.

Capital note See Note 4d to the financial statements.

Accounts payable reflect primarily short-term liabilities to suppliers.

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Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at December 31, 2007:

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value As at Dec-31-07	Interest decrease 5%	Interest decrease 10%
			In NIS thousands		
Series 1 Debentures	(54)	(27)	(14,336)	27	54
Series 2 Debentures	(2,370)	(1,191)	(191,537)	1,203	2,417
Other liabilities	(121)	(60)	(31,510)	61	122
Long-term loans and capital notes - granted	186	93	48,644	(188)	(94)

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 2007).

Regarding the terms of the debentures and other liabilities See Note 8 to the financial statements

Regarding long-term loans and capital notes granted See Note 4 to the financial statements

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 Dec-31-07	Decrease in (euro) 5%	Decrease in 10%
			In NIS thousands		
NIS- forward transaction	(6,038)	(4,028)	(994)	3,741	8,439

See Note 12a to the financial statements.

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 Dec-31-07	Devaluation of $ 10%	Devaluation of $ 5%
			In NIS thousands		
Other Accounts Receivable	1,272	636	12,720	(636)	(1,272)
Capital note	242	121	2,421	(121)	(242)
Accounts Payable	(1,036)	(518)	(10,363)	518	1,036

Other accounts receivable reflect primarily short-term customer debts.

Capital note See Note 4d to the financial statements.

Accounts payable reflect primarily short-term liabilities to suppliers.

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at December 31, 2008:

NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	8.1		2.3	2.7		13.1
Short-term deposits and investments	123.9			125.7		249.6
Other Accounts Receivable	396.0	0.9	15.8	3.2	3.9	419.8
Inventories					168.8	168.8
Current tax assets	6.3					6.3
Investments in Associated Companies	53.0				265.1	318.1
Deferred taxes on income					29.8	29.8
Fixed assets, net					767.6	767.6
Intangible Assets					31.5	31.5
Other assets					38.9	38.9
Assets on account of employee benefits	0.6					0.6
Total Assets	587.9	0.9	18.1	131.6	1,305.6	2,044.1
Liabilities						
Short-term credit from banks	77.7					77.7
Other Accounts Payable	240.3		36.8	24.0		301.1
Financial liability at fair value through the statement of income			13.9			13.9
Deferred taxes on income					76.6	76.6
Long-term loans, including current maturities	124.0	35.2				159.2
Notes (debentures) - including current maturities	238.6	354.7				593.3
Liabilities on account of employee benefits	31.9					31.9
Other Liabilities	32.8					32.8
Equity, funds and reserves					757.6	757.6
Total liabilities and equity	745.3	389.9	50.7	24.0	834.2	2,044.1
Surplus financial assets (liabilities) as at Dec-31-2008	**(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.

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Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at December 31, 2007:

NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	2.6		7.4	157.7		167.7
Other Accounts Receivable	259.8	0.5	10.9	1.8		273.0
Inventories					69.6	69.6
Investments in Associated Companies	52.2		2.4		291.8	346.4
Deferred taxes on income					20.6	20.6
Fixed assets, net					405.2	405.2
Intangible Assets					1.6	1.6
Other assets					34.9	34.9
Assets on account of employee benefits	0.9					0.9
Total Assets	315.5	0.5	20.7	159.5	823.7	1,319.9
Liabilities						
Credit from Banks	143.0					143.0
Other Accounts Payable	164.7		11.7	2.6		179.0
Financial liability at fair value through the statement of income			3.9			3.9
Deferred taxes on income					40.5	40.5
Long-Term Loans	33.5					33.5
Notes (debentures)		195.5				195.5
Liabilities on account of employee benefits	22.4					22.4
Other liabilities - including current maturities	31.2					31.2
Current tax liabilities					0.9	0.9
Equity, funds and reserves					670.0	670.0
Total liabilities and equity	394.8	195.5	15.6	2.6	711.4	1,319.9
Surplus financial assets (liabilities) as at Dec-31-2007	**(79.3)**	**(195.0)**	**(4.9)**	**156.9**	**112.3**	

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. Donations and Contributions

The Hadera Paper Group, within the framework of its business and social commitment, invests efforts and funds in community assistance and support, while focusing on providing help to the weaker echelons of Israeli society and primarily teenagers.

As part of this policy, the Company makes contributions to various institutions active in the said areas. The Group s contributions and activity through the Shenkar Foundation amounted to NIS 456 thousand in 2008.

In parallel, through its employees, the Company also participates in volunteer activity in the community, for promoting these same objectives.

This year the company focused on donations to youth clubs, community centers operating in the afternoons with the intention of fortifying and enriching teenagers while granting them a proper opportunity. During this year assistance was provided to two projects: children's club in the Eastern Worker neighborhood of Hadera and youth studying centers in Hadera.

Moreover the company is active in the granting of student scholarships, through the Shenkar Foundation, that was established by the company together with its Austrian strategic partner in Mondi Hadera. The total contributions of the company through the Shenkar Foundation amounted to NIS 90 thousand.

I. Members of the Board of Directors Possessing Financial Skills and Qualifications

The minimum number of company directors possessing accounting and financial qualifications and skills was determined to be two for the company, in consideration of the nature of the accounting and financial issues that are raised in the preparation of the company s financial statements, in view of the company s areas of operation and in consideration of the composition of the board of directors as a whole, that includes individuals possessing business, management and professional experience that enables them to deal effectively with the tasks of managing the company, including reporting duties.

The members of the company s board of directors who possess accounting and financial qualifications and skills are:

Avi Yehezkel	Holds a degree in Economics from Tel Aviv University and a Masters degree in Law from Bar-Ilan University. External director at Bank Yahav. Served as a Knesset member between 1992-2003, also served as Chairman of the Economics Committee, Chairman of the Defense Budget Committee, Chairman of the Capital Market Sub-Committee, Chairman of the Banking Sub-Committee and member of the Finance Committee.
Ari Bronshtein	Holds a Bachelor's degree in Management and Economics from Tel Aviv University and a Master s degree in Management, Accounting and Finance from Tel Aviv University. Serves as VP of Discount Investments Ltd.; Director at Elron Electronic Industries Ltd. Former VP of Economics and Business Development and Director of Finance and Investments at Bezeq The Israel Telecommunications Company Ltd.

Itzhak Manor	Holds an MBA from Hebrew University. Serves as director at various publicly-traded and privately-held companies within the IDB Group; Chairman of companies in the David Lubinsky Group Ltd.; member of the Balance Sheet Committee at Israel Union Bank Ltd.
Amos Mar-Haim	Holds a BA in economics and an MBA from Hebrew University. Formerly served and currently serves as Chairman or Deputy Chairman at publicly-traded or privately-held companies. Member of the Israeli Accounting Standards Board.
Amir Makov	Holds a Law degree from Hebrew University and an Engineering degree from the Haifa Technion.Serves as Chairman of the Israel Petroleum and Gas Institute, served as CEO of Haifa Chemicals Ltd., Sonol Israel Ltd.. Served and serves as a director of various publicly-traded and privately-held companies including Leumi Card Ltd., Dead Sea Works Ltd., Dead Sea Bromine Ltd. and more.

J. <u>The Company s Internal Auditor</u>

a. Auditor s Name: Eli Greenbaum
In the position since: July 16, 2006
Credentials: CPA

b. The Auditor is employed by the Company.

c. The Company s Audit Committee has approved the appointment of the Auditor on March 7, 2006. The Auditor is a CPA by training and has dealt in Treasury positions at the Company for 20 years and consequently possesses the necessary skills for the job.

d. The Internal Auditor is supervised by the General Manager.

e. The work plan for internal auditing is annual. The work plan is determined on the basis of: A five-year plan, covering numerous issues that were approved by the Audit Committee according to the auditing needs of the Company and covers issues that the Internal Auditor believes warrant his examination and consideration in the course of the current year. The work plan is determined by the Internal Auditor and the Audit Committee. The work plan is approved by the Audit Committee. The judgment of the Internal Auditor in terms of deviations from the audit program, subject to the approval of the Company s Audit Committee. The Internal Auditor participated in a meeting of the Audit Committee that discussed and approved an engagement in the form of a rental agreement with Gav-Yam, Bayside Land Corporation Ltd., a publicly-traded company indirectly controlled by the Company s controlling shareholder. For further details, see the Company s reports dated September 25, 2008.

f. The Internal Auditing program includes auditing topics in corporations that constitute significant holdings of the Company.

g. Scope of employment: Full-time job as Auditor, plus an assistant. The auditing hours number a total of 370 monthly hours, totaling 4,100 hours annually, divided equally between the corporation and its investee companies:

Audited body	Estimated hours of audit annually
Internal auditing at the Company	370 hours
Auditing at investee companies	3,730 hours
Total hours	4,100 hours

The internal auditor conducts his audit in accordance with acceptable professional standards for internal audit in Israel and overseas, and according to the Company s Board of Directors, based on the assessment of the Company s Audit Committee, the internal auditor complies with the requirements set forth in those standards.

h.

The Company declares that it has granted the Internal Auditor free, constant and direct access to all the information at the disposal of the Company and the investee companies.

i. Audit reports were submitted in writing and discussed on the following dates:

Submitted	Discussed
Mar-6-08	Mar-10-08
May-6-08	May-11-08
Aug-5-08	Aug-7-08
Nov-6-08	Nov-10-08

j. The scope of employment of the Internal Auditor is determined according to a cycle that renders it possible to audit all the significant topics at the Company, once every few years.

This scope of activity, the nature, the continuity of operation and the work plan of the Internal Auditor are reasonable according to the estimation of the Company s Audit Committee, while rendering it possible to realize the Internal Audit objectives of the organization.

k. The Auditor is employed by the Company. The Board of Directors believes that the compensation received by the Internal Auditor does not influence his professional judgment.

K. Senior Employee Compensation

In determining the compensation and bonuses of senior employees, the directors and Compensation Committee took into consideration the position and standing of each executive and his contribution to the operations and business of the Company. Labor wage expenses and benefits granted to senior executives and position holders are reasonable and reflect the company s accomplishments, based on its results as compared with 2007 and as compared with market standards.

The implementation of IFRS in the financial statements had a negative impact on the financial statements for 2008, see Section C(3)3, above.

In January 2008, the board of directors decided to adopt a senior employee stock option plan. In the first quarter of 2008, a sum of 250,500 stock options were allocated to senior employees at associated and consolidated companies, and on January 8, 2009 a sum of 34,000 options were granted, out of the 35,250 allocated to the trustee, for future granting to the Group. Total general expenses for this program are estimated at NIS 15.5 million. The plan s impact on the consolidated financial statements is estimated at NIS 13.8 million.

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 framework, the senior executives and position holders mutually consent to waiving between 8% and 10% of their wages in 2009.

L. Auditing CPA Fees

Current Fees

In 2008, fees paid to the Company s auditing CPA, inclusive of audit services including audits of internal auditing for financial reporting amounted to approximately $326 thousand, compared to $312 thousand in 2007. The hours invested by the auditing CPAs on account of these services amounted to 7,190 hours and 7,800 hours in the years 2008 and 2007, respectively.

Below are details of the total fee payable to the auditing CPA of the Company and its subsidiaries in the reported year and in the preceding year:

	2008		2007	
	Thousands of $	**Hours**	**Thousands of $**	**Hours**
Corporate auditing and auditing of tax reports for the company (including shelf prospectus in 2008).	206,000	5,140	150,000	4,510
Auditing of internal auditors	73,000	1,200	120,000	2,400
IFRS Auditing services	-	-	22,000	440
Miscellaneous	46,800	850	20,000	450
Total	325,800	7,190	312,000	7,800

M. External Directors

The Company chose not to adopt in its Article of Association provision with regard to the percentage of external board members.

N. Negligibility procedure

1. On August 5, 2008, the amendment to Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the Periodic Report regulations) became effective. In conjunction with this amendment, reporting requirements applicable to public companies in respect of transactions with a controlling shareholder or transactions with another person in which a controlling shareholder has a personal interest (hereinafter: transactions with a controlling shareholder) were expanded to also include transactions which are not exceptional transactions, as defined by the Companies Law, except for transactions classified as negligible in the most recent financial statements.

   On March 8, 2009, the Company s Board of Directors resolved to adopt rules and guidelines for categorizing a transaction of the Company or of one of its consolidated subsidiaries with a controlling shareholder (controlling shareholder transaction) as a negligible transaction as set forth in Regulation 64(3)(d)(1) of the Securities Regulations (Preparation of Annual Financial Statements), 1993. These rules and guidelines shall also serve to examine the extent of disclosure in the periodical reports and the prospectus (including shelf prospectus reports) regarding a transaction of the Company, Corporation under its control and any affiliated company, with a controlling shareholder, or in whose approval a controlling shareholder possesses a personal interest, as set forth in Regulation 22 of the Periodic Report Regulations and in Regulation 54 of the Securities Regulations (Prospectus Details and Prospectus Draft Form and Shape) 1969, as well as for the purpose of submitting an immediate report regarding a said transaction of the company, as stipulated in Regulation 37(a)(6) of the Periodic Report Regulations.

2. The Company and its consolidated and affiliated companies, in the normal course of their business, execute or may execute transactions with interested parties, as well as undertakings to conduct transactions with interested parties in relation to the purchase or sale of products or services, including transactions of the following types and having the following attributes: Transactions related to money management deposited with Provident Funds and Continuing Education Funds, telecommunication services, leasing and rental of real estate assets, financial services (including portfolio management and investment consulting), banking services, economic consulting services, tourism services, advertising and marketing campaigns, legal services, purchasing, purchase and rental of vehicles, vehicle garage services, waste treatment, archive services, dispatch services, administrative services and engagements with equipment vendors for regular use, product sales, rental of heavy mechanical equipment, transportation services and earthwork, purchasing gift coupons and various types of insurance.

3. In the absence of any special qualitative considerations arising from the circumstances, a transaction with an interested party shall be deemed negligible if it is not an exceptional transaction and if the applicable benchmark calculated for (one or more) transactions is less than one percent (1%).

Any interested party transaction classified as a negligible transaction, one or more of the criterions relevant to the specific transaction will be calculated based on the recent annual consolidated financial statements of the Company: (a) Sales ratio total sales covered by the interested party transaction divided by total annual sales; (b) Sales cost ratio cost of the interested party transaction divided by the total cost of annual sales; (c) Earnings ratio the actual or projected profit or losses attributed to the interested party transaction divided by the average annual profit or loss in the last three years, calculated on the basis of the last 12 quarters for which reviewed or audited financial statements were published; (d) Assets ratio the amount of assets covered by the interested party transaction divided by total assets; (e) Liabilities ratio the liability covered by the interested party transaction divided by total liabilities;

Thus, for example, the applicable benchmark for a transaction involving the purchase of goods or services would typically be the ratio of cost of sales.

In cases where, at the Company s discretion, all the aforementioned quantitative benchmarks are not applicable for evaluation of the negligibility of the transaction with an interested party, the transaction shall be deemed negligible, in accordance with another applicable benchmark to be determined by the Company, provided that the applicable benchmark calculated for said transaction is less than one percent (1%).

4. The negligibility of the transaction should also be reviewed in qualitative aspects; thus, for example, a transaction with an interested party shall not usually be deemed negligible if it is conceived as a significant event by the Company s management, and if it serves as a basis for making managerial decisions, or if in the course of the transaction with an interested party, the latter is expected to receive benefits which are important to disclose publicly.

5. The negligibility of a transaction will be examined on an annual basis for the purpose of reporting within the framework of a periodical report, financial statements and a prospectus (including shelf prospectus reports), while consolidating all of the transactions of the same type with the relevant controlling shareholder, or with corporations controlled by the same shareholder. For the purposes of immediate reporting, the negligibility of the transaction will be examined as a single transaction provided that separate transactions, that are in fact interconnected, and that are in fact part of the same engagement (for example: conducting negotiations regarding the entirety of the transactions), shall be examined as a single transaction. It is hereby clarified that separate transactions made frequently and repeatedly every period, that are not interconnected (such as the purchase of inventories every period from a controlling shareholder, on the basis of ad hoc orders, and where there exists no undertaking for the said purchase), shall be examined on an annual basis for the purpose of reporting as part of a periodical report, financial statements and a prospectus (including shelf prospectus reports) and on the basis of the specific transaction for the purposes of immediate reporting. In general, the Company shall assume that all of the transactions classifiers negligible by its investee companies, are indeed negligible at the Company level as well.

O. 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: CEO 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.

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.

By: /s/ Zvika Livnat	By: /s/ Avi Brener
Zvika Livnat Chairman of the Board of Directors	Avi Brener General Manager

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Exhibit 3

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

HADERA PAPER LTD

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2008

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HADERA PAPER LTD

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Report of Independent Registered Public Accounting Firm

To the shareholders of
Hadera Paper ltd.

We have audited the accompanying consolidated balance sheets of **Hadera Paper Ltd.** (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, consolidated statement of recognized income and expenses and consolidated cash flows of the Company for each of the two years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 20% of total consolidated assets as of December 31, 2008, and whose revenues constitute approximately 25% of total consolidated revenues for the year ended December 31, 2008.

Likewise we did not audit the financial statements of certain associated companies, the Company s interest in which as reflected in the balance sheets as of December 31, 2007 is 45,933 Thousands NIS, and the Company s share in their profits or losses is a net amount of 1,440 and 7,627 Thousands NIS, for the years ended December 31, 2008 and 2007 respectively. The financial statements of those companies were audited by other Independent registered Public Accounting Firms whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other independent auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973 and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company s board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2008 and 2007, and the results of operations, changes in shareholders equity and cash flows of the Company on consolidated basis, for each of the two years in the period ended December 31, 2008, in conformity with international financial reporting standards and in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

Brightman Almagor & Co.

Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Tel-Aviv, Israel
March 11, 2009

HADERA PAPER LTD

CONSOLIDATED BALANCE SHEETS

December 31

	Note	December 31 2008	December 31 2007
		NIS in thousands	
Current Assets			
Cash and cash equivalents	2e	13,128	167,745
Designated deposits	2e	249,599	-
Accounts receivable:	13a		
Trade receivables		318,926	178,553
Other receivables		100,888	94,415
Current tax assets		6,271	-
Inventories	13b	168,755	69,607
		857,567	**510,320**
Non-Current Assets			
Fixed assets	5	767,542	405,231
Investments in associated companies	4	318,101	346,403
Deferred tax assets	11	29,848	20,622
Deferred lease expenses	6		