Hadera Paper Ltd
Form 6-K
May 16, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

For the Month of May 2011

HADERA PAPER LTD.
(Translation of Registrant's Name into English)

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

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

x Form 20-F   o Form 40-F

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

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

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

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

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

o Yes   x No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's press release dated May 16, 2011 with respect to the Registrant's results of operations for the quarter ended March 31, 2011.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant's Management Discussion with respect to the Registrant's results of operations for the quarter ended March 31, 2011.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant's unaudited condensed consolidated financial statements for the quarter ended March 31, 2011.

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended March 31, 2011.

SIGNATURE

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

HADERA PAPER LTD.
(Registrant)

By: /s/ Yael Nevo
Name: Yael Nevo
Title: Corporate Secretary

Dated: May 16, 2011.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated May 16, 2011.
2.	Registrant's management discussion.
3.	Registrant's unaudited condensed consolidated financial statements.
4.	Unaudited condensed interim consolidated financial statements of Hogla- Kimberly Ltd. and subsidiaries.

Exhibit 1

NEWS

For Release: IMMEDIATE

Hadera Paper Ltd.
Reports Financial Results for the First Quarter Ended March 31, 2011

Hadera, Israel, May 16, 2011 - Hadera Paper Ltd. (AMEX:AIP) (the “Company” or “Hadera Paper”) today reported financial results for the first quarter ended March 31, 2010 (the "Reported Period"). The Company, its subsidiaries and associated company – are referred to hereinafter as the "Group".

The Consolidated Data set forth below excludes the results of operation of the associated company Hogla-Kimberly Ltd. ("H-K").

Consolidated sales during the reported period amounted to NIS 517.6 million, as compared with NIS 240.0 million last year, representing an increase of 115.7%, originating primarily from growth in the sales of the packaging paper and recycling sector as compared with the corresponding period last year, coupled with the consolidation of the sales of Hadera Paper - Writing and Printing Ltd ("Hadera Paper Printing"), starting January 1, 2011, in the total sum of NIS 182.1 million, net of inter-company sales totaling NIS 172.6 million.

The operating profit totaled NIS 53.8 million during the reported period, 10.4% of sales, as compared with NIS 7.4 million, 3.1% of sales, in the corresponding period last year. The increase in operating profit during the reported period, in relation to the corresponding period last year, is primarily attributed to non-recurring revenues from the sale of real estate, coupled with the significant growth in the gross profit as a result of the said growth in sales, that was offset as a result of the consolidation of the results of the Hadera Paper Printing sector, starting January 1, 2011, due to an operating loss of NIS -3.0 million in this sector.

The net profit attributed to the Company's shareholders amounted to NIS 41.2 million in the reported period, as compared with net profit of NIS 24.3 million in the corresponding period last year, representing an increase of 69.5%. The net profit, net of non-recurring revenues and expenditures during the reported period, amounted to NIS 19.8 million, representing a decrease of 18.6% in relation to the corresponding period last year.

The net profit attributed to the company's shareholders during the reported period was affected by the improvement in the operating margin at most group companies in Israel and in Turkey as a result of the increase in the volume of operations, that brought about an improvement in the operating profit as mentioned above, coupled with non-recurring revenues from the sale of real estate. In addition the net profit was adversely affected by the increase on the financial expenses in the reported period as compared with the corresponding period last year.

Basic earnings per share amounted to NIS 8.10 per share ($2.33 per share) in the reported period, as compared with basic earnings per share of NIS 4.80 per share ($1.29 per share) in the corresponding period last year.

The exchange rate of the NIS in relation to the dollar was revaluated by approximately 1.9% during the reported period, as compared with a revaluation of approximately 1.6% during the reported period last year (the average exchange rate of the NIS vis-à-vis the dollar was revaluated during the reported period by a rate of approximately 3.6% in relation to the corresponding period last year). The changes in exchange rates as mentioned above, affected the results of the various sectors, although the Group's business portfolio, including the investee companies, is practically at equilibrium in terms of foreign currency and consequently, the exposure of the Group to sharp fluctuations in currency exchange rates is low.

The inflation rate during the reported period amounted to 0.7%, as compared with a negative inflation rate of -0.9% in the corresponding period last year.

The Company estimates that the demand for recycled packaging paper, as a replacement for virgin packaging paper, is continuing in global paper markets. The trend of rising prices of recycled products in the global packaging paper market continued in the first quarter as well, at an average rate of approximately 5.7% (according to publications of PPI Germany). The prices of recycled products are expected to rise by a further 5% starting in May 2011. The said increase in prices and demand, in addition to the prevailing high level of prices, may support the continued growth and expansion in the volumes of operation of the packaging paper sector, in Israel and worldwide.

The Group manages a wide and diverse portfolio of companies and businesses focused on consumer goods and basic commodities. As part of the trend of consumption in the Israeli economy during the reported period, this trend led to an increase in demand at most Group companies for a wide range of products, while continuing to place an emphasis on the implementation of efficiency and cost-cutting measures across all sectors of operation.

In terms of raw materials, in the course of the first quarter, the NIS was revaluated in relation to the average dollar and the euro, in relation to last year, by a rate of approximately 3.6% and 4.8%, respectively. This revaluation led to savings in terms of inputs and imported products denominated in dollars or euro, in the principal sectors of operation of the company, whose prices track import prices in the said currencies. As a result of the said revaluation, the relative price of natural gas denominated in dollars, decreased by approximately 3.7% in relation to last year and also contributed to savings. These savings were partially offset as a result of the rise in the prices of water during the reported period by an average rate of approximately 24%, in relation to the corresponding period last year, along with the increase in the prices of electricity during the reported period, in relation to the corresponding period last year, by a rate of approximately 6.7%. In addition, a sharp rise was recorded in the price of fibers, by an average rate of approximately 19% in relation to last year.

The financial expenses during the reported period amounted to NIS 17.4 million, as compared with NIS 0.9 million in the corresponding period last year. The sharp rise in financial expenses is attributed primarily to the fact that during the corresponding period last year, the cost of financing Machine 8 was capitalized. This capitalization ended in late May 2010. An additional factor consists of expenditures on account of bond series 5, that was issued in May 2010. Moreover, an increase of NIS 3.7 million was recorded in financial expenses in relation to the corresponding period last year, as a result of the higher inflation rate during the reported period, as compared with a lower inflation rate during the corresponding period last year, coupled with the consolidation of the financial expenses of Hadera Paper Printing, starting January 1, 2010, in the sum of NIS 2.9 million.

The company’s share in the profits of associated companies totaled NIS 11.1 million during the reported period, as compared with NIS 19.5 million in the corresponding period last year. The decrease is partially attributed to the Company's share in the profits of Hadera Paper Printing (which starting 1, January 2011, is consolidated in the Company's reports).

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

- The company's share in the net profit of H-K Israel (49.9%) during the reported period, amounted to NIS 11.9 million, as compared with NIS 18.8 million in the corresponding period last year. The decrease in the sum of NIS 6.9 million, originated primarily from the decrease in operating profit that fell from NIS 50.4 million to NIS 29.2 million this year. The decrease in the operating profit is primarily attributed to the erosion of selling prices in certain segments of operation as a result of escalating competition in the market, coupled with non-recurring expenditures associated with compensation of consumers on account of complaints related to leaks in a new brand of diapers. These were offset by efficiency measures that were implemented across the company, the lowering of purchasing expenditures in view of the decrease in the average dollar exchange rate by approximately 3.6%, coupled with empowering the company brands. These factors served to reduce the erosion in profit during the reported period.

- The company's share in the losses of KCTR Turkey (49.9%) during the reported period, amounted to NIS 0.8 million, as compared with NIS 1.2 million in the corresponding period last year, representing a decrease of approximately NIS 0.4 million. The reduced loss, despite the slight decrease in the volume of operations, is primarily attributed to the continuing efficiency measures during the reported period, that led to the reduction in the operating loss from NIS 3.2 million in the corresponding period last year, to NIS 0.2 million during the reported period. The improvement in the operating profit was partially offset by the recording of financial expenditures of NIS 1.4 million, as compared with financial revenues of NIS 0.8 million in the corresponding period last year.

In other matter, the Company announced today that Pursuant to the information provided by the Company in the periodical report for 2010, regarding negotiations being conducted by the Company regarding an agreement for the purchase of natural gas, the Company announced that an agreement was signed on May 15, 2011 between the company and the partners in the Yam Tethys projects ("The Agreement"). Pursuant to the Agreement, the term of the agreement signed between the companies on July 29, 2005, for the purchase of natural gas ("The Original Agreement") (regarding which the Company issued a press release on July 31, 2005), will be extended by an additional 2 years, until June 30, 2013.

The formula for the price of gas set in the Agreement is based on the price of petroleum (Brent barrel) and includes a minimum price for the price of gas. It should be noted, that following the sharp rise in fuel prices that took place since the signing of the Original Agreement, the price of gas in the Agreement is significantly higher than the maximum price that was set in the Original Agreement. This fact could potentially have an impact on the price of gas for the Company, as compared with the cost according to the Original Agreement, by an additional sum of approximately $19.4 million per annum (according to the calculation of the formula at the date of signing the Agreement, in terms of gross cost, prior to tax shield), the Company is making preparations for a cost-cutting and efficiency plan accordingly. The actual cost of the gas is dependent upon numerous factors, primarily changes in global petroleum prices. The remaining terms of the Original Agreement would remain in force, with the necessary changes.

The overall financial volume of the Agreement is currently estimated at approximately $63 million (according to the calculation of the formula at the date of signing the Agreement). It should be clarified that the actual volume may change over time as a result of changes in global petroleum prices. In parallel, as stated in previous reports of the Company, the Company is continuing to evaluate a project for building a new power station at the Hadera site.

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

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

	2011	2010
Net sales	517,609	239,985
Net earnings attributed to the Company's shareholders	41,192	24,290
Basic net earnings per share attributed to the Company's shareholders	8.10	4.80
Fully diluted earnings per share attributed to the Company's shareholders	8.06	4.75

(1) The representative exchange rate at March 31, 2011 was NIS 3.481=$1.00.

Contact:
Yael Nevo, Adv.
Corporate Secretary and Chief of Legal Department
Hadera Paper Ltd. Group
Yaeln@hadera-paper.co.il

Exhibit 2

Hadera Paper Ltd.

Update to Chapter I
(Description of the Corporation's Business)
of the Information Presented in the Company's Periodical Report
Dated March 31, 2011

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

1. Update to Chapter A, Section 5: "Equity investments in the Company and transactions in its shares"

During the reported period, 26,560 option warrants that were granted as part of the management option plan, were exercised. 4,930 Company shares were issued following this exercise.

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

On March 15, the Company entered into an engagement with Clal P.V. Ltd., a company indirectly held and controlled by the controlling shareholder of the company, for the rental of rooftop areas located at the Company's Hadera plant, for the purpose of establishing facilities for generating of electricity using photovoltaic technology. On April 21, 2011, the general meeting of the shareholders of the Company approved the said engagement.

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

Pursuant to the immediate report of the company dated April 12, 2011, pertaining to the notice from the Water Authority regarding its decision not to issue a permit to the Company, as prescribed by the Water Law - 1969 ("The Law"), for discharging wastewater to the Hadera river, on the basis of the Company's request, and pursuant to the urgent appeal of the Company for obtaining such a permit, the Company announced that on April 17, 2011, the Company received a letter from the (acting) Manager of the Water Authority, pursuant to which a permit was granted for discharging wastewater from the Company to Hadera river for a limited period of time, until an organized discussion is held in this matter. The permit that was obtained is valid until May 30, 2011 and according to the directives stipulated in the letter, covers the terms of said discharge and the relevant reporting obligations.

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

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

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

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

6. Update to Chapter D, Section 15: "Finance"

On March 31, 2011, the Company announced that it had submitted a preliminary draft of a shelf prospectus to the Securities Authority and to the Tel Aviv Stock Exchange Ltd., on the basis of the financial statements of the Company as at December 31, 2010. At this stage, there is no certainty whatsoever that the shelf prospectus will be published and that the Company will conduct a public offering based thereupon.

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

On May 2, 2011, the Company announced that Hogla Kimberly Ltd. ("Hogla"), an associated company in which 49.9% are held, had announced to the Company that on May 2, 2011, a lawsuit was filed against Hogla, along with a request for the said lawsuit to be recognized as a class action. The plaintiff alleges that Huggies diapers, marketed by Hogla, that she had purchased, failed to absorb properly due to a malfunction that occurred on the diaper production line. The plaintiff estimates the volume of the lawsuit - in the event that is approved as a representative class action - at approximately NIS 1.2 billion. At this preliminary stage, Hogla announced that it is studying the lawsuit and cannot estimate its chances and repercussions.

8. Update to Chapter D, Section 19: "Material Agreements"

Pursuant to the information provided by the Company in the periodical report for 2010, regarding negotiations being conducted by the Company regarding an agreement for the purchase of natural gas, the Company announced that an agreement was signed on May 15, 2011 between the Company and the partners in the Yam Tethys projects ("The Agreement"). Pursuant to the Agreement, the term of the agreement signed between the companies on July 29, 2005, for the purchase of natural gas ("The Original Agreement") (regarding which the Company issued a press release on July 31, 2005), will be extended by an additional 2 years, until June 30, 2013.

The formula for the price of gas set in the Agreement is based on the price of petroleum (Brent barrel) and includes a minimum price for the price of gas. It should be noted, that following the sharp rise in fuel prices that took place since the signing of the Original Agreement, the price of gas in the Agreement is significantly higher than the maximum price that was set in the Original Agreement. This fact could potentially have an impact on the price of gas for the Company, as compared with the cost according to the Original Agreement, by an additional sum of approximately $19.4 million per annum (according to the calculation of the formula at the date of signing the Agreement, in terms of gross cost, prior to tax shield), the Company is making preparations for a cost-cutting and efficiency plan accordingly. The actual cost of the gas is dependent upon numerous factors, primarily changes in global petroleum prices. The remaining terms of the Original Agreement would remain in force, with the necessary changes.

The overall financial volume of the Agreement is currently estimated at approximately $63 million (according to the calculation of the formula at the date of signing the Agreement). It should be clarified that the actual volume may change over time as a result of changes in global petroleum prices.

In parallel, as stated in previous reports of the Company, the Company is continuing to evaluate a project for building a new power station at the Hadera site.

-Translation from Hebrew-

May 15, 2011

MANAGEMENT DISCUSSION

The Board of Directors of Hadera Paper Ltd. ("The Company" or "Hadera Paper", the Company, its consolidated subsidiaries and its associated companies – hereinafter: “The Group”) is hereby honored to present the Management Discussion as at March 31, 2011, reviewing the principal changes in the operations of the company for the months January through March 2011 ("The Period of the Report" or "The Reported Period"). The report was formulated in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, based on the assumption that the reader is also in possession of the full Periodic Report of the company as at December 31, 2010 ("Annual Financial Statements"). The results of the company that are presented in the management discussion relate to the share of the shareholders of the company in the results, unless stated otherwise.

A. Description of the Status of the Corporation’s Business

1. Company Description

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

The company’s securities are traded on the Tel Aviv Stock Exchange and on the New York Stock Exchange (NYSE).

2. General

Principal Current Operations

1. The Business Environment

Whereas 2010 was marked by economic recovery, alongside continued concerns regarding the implications of the financial crisis, primarily in Europe and the United States, since the beginning of 2011, an increase was recorded in the level of uncertainty in global financial markets. This is attributed inter alia to significant geopolitical changes in several Arab nations in the Middle East and North Africa, that led to a rise in petroleum prices, coupled with the earthquake in Japan that damaged nuclear power stations in the country and led to fears concerning damage that would be incurred by the third largest economy in the world, following the sharp rise in 2010 in overall commodity prices and petroleum prices in particular.

In the Israeli economy, the year 2011 started out with the continuation of the rapid growth trend accompanied by a certain rise in the inflationary environment. On the other hand, the said geopolitical developments in several Arab nations served to increase the uncertainty and volatility of the Israeli capital market. The continuation of the geopolitical instability in the Middle East, may - under certain scenarios - negatively affect the situation in the Israeli economy, although its impact on real-term economic activity is limited for the time being. Contractionary monetary measures are continuing in the Israeli economy since the beginning of 2011, alongside a similar process in additional emerging markets worldwide and the beginning of a similar process in the eurobloc as well.

The Company estimates that the demand for recycled packaging paper, as a replacement for virgin packaging paper, is continuing in global paper markets. The trend of rising prices of recycled products in the global packaging paper market continued in the first quarter as well, at an average rate of approximately 5.7% (according to publications of PPI Germany). The prices of recycled products are expected to rise by a further 5% starting in May 2011. The said increase in prices and demand, in addition to the prevailing high level of prices, may support the continued growth and expansion in the volumes of operation of the packaging paper sector, in Israel and worldwide.

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

2. Impact of the Business Environment on Company Operations

General

The Hadera Paper Group manages a wide and diverse portfolio of companies and businesses focused on consumer goods and basic commodities. As part of the trend of consumption in the Israeli economy during the reported period, this trend led to an increase in demand at most Group companies for a wide range of products, while continuing to place an emphasis on the implementation of efficiency and cost-cutting measures across all sectors of operation.

Sector Operations

In the packaging paper and recycling sector, Machine 8 entered into full operation during the reported period (the new packaging paper manufacturing array), as compared with the running-in period in the corresponding period last year. This manufacturing array led to the doubling of operations in the sector, which is currently toward the end of the learning curve associated with the machine. The operation of the new manufacturing array has led to a significant increase in the volume of operations. Moreover, Packaging Paper has increased the sales of new paper types that it has developed, recycled paper replacing paper based on virgin pulp. Selling prices in the packaging paper sector are currently on an upward trend in Israel, in line with rising prices globally. The quantitative growth and the high selling prices brought about a significant improvement in the operating results of the sector, as compared with the corresponding period last year.

Amnir collects paper waste, which constitutes the main raw material for the manufacture of packaging paper, from various sources throughout Israel. The Packaging Law entered into effect on March 1, 2011, and certain provisions regarding the start of collection by the recognized body will enter into effect on July 1, 2011. In light of the directives of the Packaging Law, the Company cannot at this point assess the impact of the law on its activities, and this depends, inter-alia, on arrangements to be set by virtue of the law regarding separation at source, in the matter of collection and removal of waste, and on the method by which the recognized body established by power of the law operates. The company is examining the situation and is working toward adapting its paper collection operations. For additional details regarding the packaging law, see the detailed explanation in the periodical report dated December 31, 2010, in Section 24.1.24.5.

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

In the Hadera Paper Printing sector, the prices of pulp (the principal raw material in this sector) continued to soar during the reported period in relation to the corresponding period last year. Moreover, the trend of decreasing selling prices for products in this sector, that began in the fourth quarter of 2010, continued during the reported period in light of escalating competition as a result of imports at low prices and as a result of the rising shekel against the dollar. In order to contend with this business environment, the Hadera Paper Printing sector continued to expand its export operations, including penetration into newer and more lucrative markets in the United States. These measures served to decrease the erosion in the profitability of the sector. Furthermore, during the reported period, the sector began to operate from the new logistics center in Modiin, while improving the level of customer service as compared with the period prior to the relocation. This relocation serves to improve the logistic capabilities of the company and is expected to support the continuing growth and expansion of the company.

In Hogla Kimberly (an associated company), a decrease was recorded in the level of profitability in relation to the corresponding period last year as a result of non-recurring expenditures that were related to compensation provided to consumers on account of complaints concerning leaks in a new brand of diapers, coupled with the erosion of prices following the fierce competition that characterizes some of the areas of operations. The company continues to promote special sales campaigns in order to retain customers and market share. In parallel, an increase was reported in the prices of raw materials, that was partially offset by the revaluation of the shekel in relation to the average US dollar during the reported period, as compared with the corresponding period last year, coupled with efficiency measures. These measures provided the company with the necessary flexibility in order to protect and even increase market share and preserve optimized profitability in a competitive business environment. Furthermore, it should be noted that the sector operations in the Turkish market were at equilibrium and even contributed positive cash flows to the sector.

Raw Materials

In the course of the first quarter, the NIS was revaluated in relation to the average dollar and the euro, in relation to last year, by a rate of approximately 3.6% and 4.8%, respectively. This revaluation led to savings in terms of inputs and imported products denominated in dollars or euro, in the principal sectors of operation of the company, whose prices track import prices in the said currencies. As a result of the said revaluation, the relative price of natural gas denominated in dollars, decreased by approximately 3.7% in relation to last year and also contributed to savings. These savings were partially offset as a result of the rise in the prices of water during the reported period by an average rate of approximately 24%, in relation to the corresponding period last year, along with the increase in the prices of electricity during the reported period, in relation to the corresponding period last year, by a rate of approximately 6.7%. In addition, a sharp rise was recorded in the price of fibers, by an average rate of approximately 19% in relation to last year.

It should be noted that on May 15, 2011, the Company signed an extinction agreement for purchasing natural gas with the partners in the Yam Tethys project. For additional details see Note 8d to the Financial statements dated March 31, 2011.

Impact of Developments in Financial Markets

The developments in global markets, and especially in the euro bloc and in the United States, that also include volatility in local and global securities rates and exchange rates, have and may continue to affect the business results of the Company and its investees, their liquidity, shareholders' equity and assets and the ability to realize these assets, the state of their business (including the demand for the products of the Company's investees), their financial benchmarks and covenants, credit ratings, ability to distribute dividends and even their ability to raise financing for operating activities and long-term activities as well as the financing terms.

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

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

The exchange rate of the NIS in relation to the dollar was revaluated by approximately 1.9% during the reported period, as compared with a revaluation of approximately 1.6% during the reported period last year (the average exchange rate of the NIS vis-à-vis the dollar was revaluated during the reported period by a rate of approximately 3.6% in relation to the corresponding period last year).

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

The inflation rate during the reported period amounted to 0.7%, as compared with a negative inflation rate of -0.9% in the corresponding period last year.

B. Explanation of the Results of Operation

1. Analysis of Operations and Profitability

The Company applies International Financial Reporting Standard (IFRS) No. 8, “Operating Segments”, and has accordingly recognized the packaging and cardboard products segment, which includes the operations of Carmel Container Systems and Frenkel CD, as a separate segment. The Hadera Paper - Writing and Printing Paper segment ("Hadera Paper Printing") - formerly Mondi Hadera Paper was also recognized as an independent segment (starting December 31, 2010 - a consolidated subsidiary). The associated company Hogla Kimberly was also identified as an independent segment (for details, see Note 21 to the financial statements dated December 31, 2010). Please note that the following analysis of financial results relates to the companies that are consolidated in the results of Hadera Paper and is affected by the adoption of the Standard mentioned above.

1.1. Sales

Consolidated sales during the reported period amounted to NIS 517.6 million, as compared with NIS 240.0 million last year, representing an increase of 115.7%, originating primarily from growth in the sales of the packaging paper and recycling sector as compared with the corresponding period last year, coupled with the consolidation of the sales of Hadera Paper Printing, starting January 1, 2011, in the total sum of NIS 182.1 million, net of inter-company sales totaling NIS 172.6 million.

The sales of the packaging paper and recycling sector amounted to NIS 176.0 million during the reported period, or NIS 150.8 million net of inter-company sales, as compared with NIS 86.0 million, or NIS 73.5 million net of inter-company sales in the corresponding period last year, representing an increase of 105.2%.

The growth in the sales turnover of the packaging paper and recycling sector originates from quantitative growth in the sales of packaging paper and recycling as a result of the operation of Machine 8, as mentioned above. The growth in the output of Machine 8 served to increase exports to Europe and offered a response for the growth in demand from the domestic market. The growth in sales is also attributed to the rise in selling prices in relation to last year.

The sales of the packaging and cardboard products sector during the reported period amounted to NIS 150.6 million, or NIS 146.1 million net of inter-company sales, as compared with NIS 127.4 million, or NIS 125.4 million net of inter-company sales, in the corresponding period last year, representing an increase of approximately 16.5%, originating primarily as a result of the increase in the volume of operations of the companies in this sector.

The sales of the office supplies marketing sector during the reported period, amounted to NIS 48.4 million, or NIS 48.1 million net of inter-company sales, as compared with NIS 41.4 million last year, or NIS 41.1 million net of inter-company sales, representing an increase of 17.0% that originated from the quantitative growth in sales, primarily due to having secured institutional tenders that have expanded the volume of customers and activity in this sector.

1.2. Cost of Sales

The cost of sales amounted to NIS 445.7 million – or 86.1% of sales – during the reported period, as compared with NIS 196.6 million – or 81.9% of sales – in the corresponding period last year. The increase in the cost of sales originated primarily from an increase in manufacturing costs (especially energy costs and the use of raw materials, as a result of the operation of Machine 8), coupled with the consolidation of expenses of Hadera Paper Printing, in the total sum of approximately NIS 172.4 million, starting January 1, 2011.

The gross profit totaled NIS 72.0 million during the reported period (13.9% of sales), as compared with NIS 43.4 million (18.1% of sales) last year, representing growth of 65.9% in relation to the corresponding period last year.

The increase in gross profit in relation to the corresponding period last year is primarily attributed to the quantitative growth in sales following the initial recognition of revenues from the sales of Machine 8 in June last year, coupled with the consolidation of the results of Hadera Paper Printing, starting January 1, 2011, which contributed approximately NIS 9.7 million to the gross profit, and from the continuing expansion of operations at the various companies. The growth in gross profit is also attributed to the decrease in prices of some of the raw materials, see Section A2, above.

Labor Wages

The labor wages within the cost of sales amounted to NIS 70.7 million during the reported period,13.7% of sales, as compared with NIS 48.4 million last year, 20.2% of sales. The increase in labor expenses in relation to last year originates primarily from the growth in the number of employees as a result of the higher volume of operations, both in the office supplies segment and in the packaging paper and recycling segment, coupled with the consolidation of labor expenses of Hadera Paper Printing, in the amount of approximately NIS 12.4 million, starting January 1, 2011.

The labor wages within the Selling, General and Administrative expenses amounted to NIS 33.1 million during the reported period, 6.4% of sales, as compared with NIS 26.2 million last year, 10.9% of sales.

The increase in the cost of labor in relation to the corresponding period last year, originated primarily as a result of the consolidation of the labor expenses of Hadera Paper Printing, in the sum of approximately NIS 6.3 million, starting January 1, 2011.

The sharp drop in the proportion of labor expenses as a percentage of sales is attributed to the significant increase in the volume of operations and sales, primarily at the packaging paper and recycling sector.

1.3. Selling, General and Administrative and Other Expenses

The selling, general and administrative and other expenses (including wages) and other expenses amounted to NIS 18.1 million in the reported period – or 3.5% of sales – as compared with NIS 35.9 million – or 15.0% of sales – in the corresponding period last year. Net of non-recurring revenues during the reported period, as a result of the sale of real estate in the amount of approximately NIS 35.8 million, the selling, general and administrative expenses amounted to NIS 53.9 million, representing approximately 10.4% of sales. The increase in the selling, general and administrative expenses, totaling NIS 18.0 million, in relation to the corresponding period last year, originates primarily from an increase in the selling and transportation expenses as a result of the growth in the volumes of operation on the local market in various sectors as well as opposite export markets of the packaging paper and recycling sector, coupled with the consolidation of the expenses of Hadera Paper Printing, starting January 1, 2011, in the sum of approximately NIS 12.7 million.

1.4. Operating Profit

The operating profit totaled NIS 53.8 million during the reported period, 10.4% of sales, as compared with NIS 7.4 million, 3.1% of sales, in the corresponding period last year. The increase in operating profit during the reported period, in relation to the corresponding period last year, is primarily attributed to non-recurring revenues from the sale of real estate, as mentioned in Section 1.3, above, coupled with the significant growth in the gross profit as a result of the said growth in sales, that was offset as a result of the consolidation of the results of the Hadera Paper Printing sector, starting January 1, 2011, due to an operating loss of NIS -3.0 million in this sector.

The operating profit of the packaging paper and recycling segment amounted to NIS 55.8 million in the reported period, as compared with an operating profit of NIS 2.7 million in the corresponding period last year. The results in the reported period included non-recurring revenues totaling NIS 35.8 million, as mentioned above. The sharp growth in operating profit is attributed to the continuing increase in the sales of this segment as a result of the operation of Machine 8, on the one hand, coupled with the improved operational efficiency in relation to the corresponding period last year, when the machine was undergoing its running-in process and its expenditures were capitalized to the machine.

The operating profit of the packaging and cardboard products segment amounted to NIS 4.0 million in the reported period, as compared with an operating profit of NIS 3.6 million in the corresponding period last year. The increase in the operating profit of this segment is primarily attributed to the improved gross profit as a result of the growth in sales, that was offset by the rising prices of raw materials in relation to the corresponding period last year.

The operating loss of the office supplies segment amounted to NIS -2.2 million in the reported period, as compared with an operating profit of NIS 1.5 million in the corresponding period last year. Part of this loss consists of non-recurring expenditures related to double rental fees associated with the anticipated relocation of the company to the logistics center in Modiin, see Section D5, below.

1.5. Financial Expenses

The financial expenses during the reported period amounted to NIS 17.4 million, as compared with NIS 0.9 million in the corresponding period last year.

The sharp rise in financial expenses is attributed primarily to the fact that during the corresponding period last year, the cost of financing Machine 8 was capitalized. This capitalization ended in late May 2010. An additional factor consists of expenditures on account of bond series 5, that was issued in May 2010. Moreover, an increase of NIS 3.7 million was recorded in financial expenses in relation to the corresponding period last year, as a result of the higher inflation rate during the reported period, as compared with a lower inflation rate during the corresponding period last year, coupled with the consolidation of the financial expenses of Hadera Paper Printing, starting January 1, 2010, in the sum of NIS 2.9 million.

1.6. Taxes on Income

Tax expenditures of NIS 7.4 million were recorded during the reported period, as compared with tax expenditures totaling NIS 1.2 million in the corresponding period last year. The increase in tax expenditures during the reported period in relation to the corresponding period last year is primarily attributed to the recording of tax expenses in the sum of NIS 7.7 million, account of the sale of real estate, as mentioned in Section 1.3, above.

1.7. 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 Hogla Kimberly.

The company’s share in the profits of associated companies totaled NIS 11.1 million during the reported period, as compared with NIS 19.5 million in the corresponding period last year. The decrease in the earnings of associated companies, compared with the corresponding period last year, is partially attributed to the Company's share in the profits of Hadera Paper Printing (which starting 1, January 2011, is consolidated in the Company's reports), that was included in the corresponding period last year in the amount of approximately NIS 3.2 million.

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

- The company's share in the net profit of Hogla Kimberly in Israel (49.9%) during the reported period, amounted to NIS 11.9 million, as compared with NIS 18.8 million in the corresponding period last year. The decrease in the sum of NIS 6.9 million, originated primarily from the decrease in operating profit that fell from NIS 50.4 million to NIS 29.2 million this year. The decrease in the operating profit is primarily attributed to the erosion of selling prices in certain segments of operation as a result of escalating competition in the market, coupled with non-recurring expenditures associated with compensation of consumers on account of complaints related to leaks in a new brand of diapers. These were offset by efficiency measures that were implemented across the company, the lowering of purchasing expenditures in view of the decrease in the average dollar exchange rate by approximately 3.6%, coupled with empowering the company brands. These factors served to reduce the erosion in profit during the reported period.

- The company's share in the losses of KCTR Turkey (49.9%) during the reported period, amounted to NIS 0.8 million, as compared with NIS 1.2 million in the corresponding period last year, representing a decrease of approximately NIS 0.4 million. The reduced loss, despite the slight decrease in the volume of operations, is primarily attributed to the continuing efficiency measures during the reported period, that led to the reduction in the operating loss from NIS 3.2 million in the corresponding period last year, to NIS 0.2 million during the reported period. The improvement in the operating profit was partially offset by the recording of financial expenditures of NIS 1.4 million, as compared with financial revenues of NIS 0.8 million in the corresponding period last year.

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

The net profit attributed to the Company's shareholders amounted to NIS 41.2 million in the reported period, as compared with net profit of NIS 24.3 million in the corresponding period last year, representing an increase of 69.5%. The net profit, net of non-recurring revenues and expenditures during the reported period, amounted to NIS 19.8 million, representing a decrease of 18.6% in relation to the corresponding period last year.

The net profit attributed to the company's shareholders during the reported period was affected by the improvement in the operating margin at most group companies in Israel and in Turkey as a result of the increase in the volume of operations, that brought about an improvement in the operating profit as mentioned above, coupled with non-recurring revenues from the sale of real estate on Totzeret Ha'Aretz Street. In addition the net profit was adversely affected by the increase on the financial expenses in the reported period as compared with the corresponding period last year.

Basic earnings per share amounted to NIS 8.10 per share ($2.33 per share) in the reported period, as compared with basic earnings per share of NIS 4.80 per share ($1.29 per share) in the corresponding period last year.
Diluted earnings per share amounted to NIS 8.06 per share ($2.31 per share) in the reported period, as compared with NIS 4.75 per share ($1.28 per share) in the corresponding period last year.

2. Analysis of the Company's Financial Situation

- The cash and cash equivalents item rose from NIS 24.1 million on March 31, 2010, to NIS 153.3 million on March 31, 2011. The growth in cash and cash equivalents is primarily attributed to the issuing of a series of bonds (Series 5) during the second quarter last year, that was invested in shekel-denominated deposits, coupled with cash obtained from the sale of the real estate asset on Totzeret Ha'Aretz Street, in the sum of NIS 56.4 million, coupled with the consolidation of the cash balances of the Hadera Paper Printing segment, in the sum of NIS 27.1 million.

- Designated Deposits in the sum of NIS 86.9 million on March 31, 2010, were utilized entirely in the course of 2010 for payments on account of the construction of Machine 8.

- The increase in the accounts receivable item is attributed to the consolidation of the accounts receivable balances of the Hadera Paper Printing segment, that amounted to approximately NIS 186.2 million as at March 31, 2011. In the packaging paper and recycling sector, an increase was recorded from NIS 90.2 million on March 31, 2010, to NIS 133.7 million on March 31, 2011. This increase is attributed to quantitative growth in activity in both local and export markets, coupled with an increase in selling prices between the two periods. In the packaging and cardboard products sector, an increase was recorded in trade receivables, from NIS 193.1 million on March 31, 2010, to NIS 212.5 million on March 31, 2011, as a result of an increase in sales in this sector, coupled with an increase in the days of credit in some of the segments of operation in the sector. Accounts receivable for the office supplies marketing sector rose from NIS 55.4 million as at March 31, 2010, to NIS 66.0 million, as at March 31, 2011, as a result of the continuing growth in the volume of operations.

- Account receivables relating to the packaging paper and recycling segment decreased from NIS 85.6 million as at March 31, 2010, to NIS 67.6 million as at March 31, 2011. The decrease originates primarily from a reduction in credit/debit balances at the group companies as a result of the consolidation of the Hadera Paper Printing segment on December 31, 2010 and the accounts payable balance that was consolidated as at March 31, 2011 and amounted to NIS 2.1 million. Account receivables relating to the packaging and cardboard products sector increased from NIS 3.1 million as at March 31, 2010, to NIS 3.8 million as at March 31, 2011. Account receivables item at the office supplies marketing segment amounted to NIS 4.3 million and was similar to the amount in the corresponding period last year.

- The increase in the inventories item originates from the consolidation of the Hadera Paper Printing inventories in the amount of approximately NIS 155.0 million, as at March 31, 2011. Inventories in the packaging paper and recycling sector decreased from NIS 92.3 million as at March 31, 2010, to NIS 74.1 million as at March 31, 2011. This decrease is primarily attributed to utilizing the paper waste inventory as a result of the full operation of the new packaging paper manufacturing machine, following the completion of its running-in period. Inventories of the packaging and cardboard products sector increased from NIS 71.8 million as at March 31, 2010, to NIS 78.2 million as at March 31, 2011. The increase is primarily attributed to the 7% rise in prices of raw materials in relation to last year. Inventories for the office supplies marketing sector rose from NIS 23.5 million as at March 31, 2010, to NIS 27.6 million, as at March 31, 2011, primarily as a result of the continuing growth in the volume of operations.

- The investment in associated companies decreased from NIS 347.2 million on March 31, 2010, to a sum of NIS 232.2 million on March 31, 2011. The principal components of the said decrease, include the consolidation of Hadera Paper Printing for the first time on December 31, 2010, which led to a decrease in investments of NIS 117.6 million, coupled with the company share in the dividend distributed in the amount of NIS 47.1 million from associated companies and the company share in the declared dividend in the sum of NIS 15.0 million by an associated company, that were offset by the company share in the earnings of associated companies in the sum of NIS 72.7 million, between the reported periods, that led to a decrease in investment between the reported periods.

- Short-term credit increased from NIS 88.3 million on March 31, 2010, to NIS 189.0 million on March 31, 2011. The growth in this item originates primarily as a result of the consolidation of the credit balances of Hadera Paper Printing, in the amount of NIS 129.3 million as at March 31, 2011, that were offset as a result of the repayment of credit.

- The growth in the other payables item originates primarily from the consolidation of the Hadera Paper Printing balances, in the amount of NIS 13.9 million, as at March 31, 2011. The packaging paper and recycling sector recorded a decrease from NIS 107.2 million as at March 31, 2010, to NIS 96.8 million as at March 31, 2011. This decrease is primarily attributed to the decrease in Institutions on account of employees, coupled with expenses to pay. Other accounts payable of the packaging and cardboard products sector increased from NIS 14.9 million as at March 31, 2011, to NIS 17.4 million as at March 31, 2011, primarily as a result of growth in government institutions and other institutions on account of employees. Other accounts payable for the office supplies marketing sector decreased from NIS 5.1 million on March 31, 2010, to NIS 5.0 million on March 31, 2011.

- The company's shareholders' equity increased from NIS 883.0 million as at March 31, 2010, to NIS 992.5 as at March 31, 2011. This change originated primarily from the net profit attributed to the company's shareholders between the reported periods, in the sum of NIS 117.6 million.

3. Investments in Fixed Assets

The investments in fixed assets amounted to NIS 17.9 million during the reported period, as compared with NIS 78.2 million in the corresponding period last year. The investments in the reported period included primarily payments on account of investments in environmental compliance (sewage treatment) along with current investments in the renovation of equipment, means of transport and building maintenance at the Hadera site.

4. Financial Liabilities

The long-term liabilities (including current maturities) amounted to NIS 968.7 million as at March 31, 2011, as compared with NIS 900.7 million as at March 31, 2010 and as compared with NIS 989.6 million as at December 31, 2010. The long-term liabilities have increased in relation to last year primarily as a result of the issuing of a NIS-denominated bond series (Series 5) in the amount of NIS 181.5 million in the second quarter last year (see Note 10a (4) to the financial statements dated December 31, 2010), coupled with the assumption of long-term loans intended to finance the payments for Machine 8, as well as the consolidation of the long-term loans of Hadera Paper Printing in the amount of NIS 11.2 million. This increase was offset as a result of the repayment of the older debenture series, coupled with the cash flows from operating activities.

The long-term liabilities include primarily four series of debentures and the following long-term bank loans:
Series 2 – NIS 101.6 million, for repayment until 2013.
Series 3 – NIS 180.9 million, for repayment until 2018.
Series 4 – NIS 196.3 million, for repayment until 2015.
Series 5 – NIS 181.5 million, for repayment until 2017.
Long-term loans – NIS 308.5 million.

- The balance of short-term credit, as at March 31, 2011, amounted to NIS 189.0 million, as compared with NIS 88.3 million as at March 31, 2010.

- The net debt as at March 31, 2011, net of the balance of deposits and cash, amounted to NIS 1,004.7 million. Net of the net debt originating from the consolidation of Hadera Paper Printing, in the amount of NIS 113.5 million, the net debt totals a sum of NIS 891.2 million, as compared with net debt of NIS 877.9 million as at March 31, 2010.

In July 2010 the Supervisor of the Capital Market, Insurance and Savings at the Ministry of Finance ("the Supervisor") published a circular which sets forth the Committee's recommendations for establishing parameters for institutional bodies' investments in non-government bonds. The circular, inter alia, includes provisions regarding the formulation of internal policies by institutional bodies prior to investing in bonds, the information required by such bodies to review and monitor investment in bonds, the mechanisms for cooperation between institutional bodies on certain matters relating to investment in bonds, the provisions that should be included in the bond documents as a condition for institutional bodies' investment therein and the requirement of institutional bodies to establish an investment policy (including with respect to rights to call in loans which would be included in the bonds), which addresses contractual criteria for the bonds and their various issuers. Most of the directives of the circular entered into force in October 2010.

The memorandum of the Supervisor and the manner by which the recommendations are adopted as they appear in the report of the Committee, may hold implications on the ability to raise capital from institutional entities by way of bonds, including the terms and the price of raising such capital. As at the date of the reports the company is yet unable to identify these influences.

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

Put Option to a Shareholder at a Consolidated Company

For information pertaining to the Put option, see Note 17a to the annual financial statements dated December 31, 2010.

Liabilities on account of the Put option to a shareholder at an associated company (investee until December 31, 2010), as at March 31, 2011 and as at March 31, 2010 and as at December 31, 2010, is presented in the sum of NIS 31.1 million, NIS 11.3 million and NIS 31.5 million, respectively.

On account of the Put option, an associated company recorded financial revenues of NIS 0.4 million during the reported period, as compared with other revenues of NIS 0.7 million in the corresponding period last year.

The principal factors responsible for the change originated as a result of an agreement signed by the company for the acquisition of 25.1% of the shares of the associated company ("Transaction Agreement") determining economic calculation of the value of the option and its blocking for three years (as at March 31, 2011, the option is blocked for two years and nine months). Regarding additional agreements arising from the transaction agreement and their potential impact on the terms of the option, see Note 17 to the financial statements dated December 31, 2010.

C. Liquidity

Cash Flows

The cash flows from operating activities totaled NIS 39.4 million during the reported period, as compared with NIS 38.8 million in the corresponding period last year. The increase in the cash flows from operating activities during the reported period, as compared with the corresponding period last year, is primarily attributed to the increase in profit, that was offset as a result of the increase in working capital during the reported period, that amounted to NIS 9.9 million, as compared with an increase of NIS 3.6 million in the corresponding period last year, along with the company's share in dividends from associated companies. The increase in working capital during the reported period originated primarily from the growth in accounts receivable balances as a result of the growth in the volume of operations. This growth was partially offset by the growth in accounts payable balances.

D. Details of Operations in the Various Sectors

1. Hogla-Kimberly (Household Products)

The sales turnover of Hogla-Kimberly Israel amounted to approximately NIS 304.3 million in the reported period, as compared with approximately NIS 312.2 million in the corresponding period last year, representing a decrease of 2.5%.

The decrease in sales in relation to the corresponding period last year is primarily attributed to the erosion of prices as a result of the continuing trend of escalating competition in the market.

The operating profit of Hogla-Kimberly Israel amounted to approximately NIS 29.2 million in the reported period, as compared with approximately NIS 50.4 million in the corresponding period last year, representing a decrease of approximately 42.1%.

The decrease in the operating profit in relation to the preceding year is attributed to the erosion of prices as a result of the escalating competition in the market, coupled with the rise in the prices of the principal raw materials, that was partially offset by efficiency measures that were implemented by the company, as well as by the decrease in the average US dollar exchange rate vis-à-vis the NIS, by a rate of approximately 3.6%, in relation to the corresponding period last year. Moreover, a decrease was recorded in the operating profit during the reported period, in relation to the corresponding period last year, as a result of expenditures associated with compensation provided to consumers, on account of complaints regarding leaks in a new brand of diapers.

The sales turnover of KCTR, Hogla-Kimberly's subsidiary operating in Turkey, amounted to approximately NIS 122.8 million (approximately $34 million) in the reported period, as compared with approximately NIS 131.3 million (approximately $35.4 million) in the corresponding period last year.

KCTR's strategic cooperation agreement with Unilever, under which Unilever carries out the selling, distribution and collection activities nationwide, with the exception of retail chains to which KCTR continues to sell independently, continues to expand the customer base in the reported period and to bring about the enhancement of the Huggies and Kotex brands. The operating loss of KCTR for the reported period amounted to NIS 0.2 million, as compared with NIS 3.2 million in the corresponding period last year. KCTR enjoys positive cash flows from operating activities.

in addition, it should be noted that toward the end of 2009, the Turkish tax authorities addressed KCTR as part of the examination of its financial statements for the years 2004-2008, conducted at KCTR on account of the taxation of the influx of capital from Hogla Kimberly Ltd. to KCTR. KCTR estimates, on the basis of the opinion of its legal and tax consultants, that the probability that it will be liable for an additional tax payment is low (See also Note 14i to the financial statements dated March 31, 2011).

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

The sales of fine paper amounted to 45.3 thousand tons during the reported period, as compared with 45.4 thousand tons during the corresponding period last year and as compared with 41.9 thousand tons in the fourth quarter last year, representing an increase of 8.1%.

The sales turnover of Hadera Paper Printing amounted to NIS 182.1 million in the reported period, as compared with NIS 172.7 million in the corresponding period last year (5.4% increase) and as compared with NIS 175.2 million in the fourth quarter last year (3.9% increase).

The growth in sales during the reported period, in relation to the corresponding period last year, originated primarily as a result of the 6.2% increase in selling prices, that were offset as a result of the revaluation of the shekel vis-à-vis the dollar, that led to escalating competition on the part of low-priced imports, coupled with the lowering of the selling prices on the domestic market during the reported period.

Moreover, the prices of pulp (a principal raw material traded in US dollars), that rose by 12.1% (in NIS terms) in relation to the corresponding period last year, and decreased by 0.6% in relation to the fourth quarter last year, also served to negatively impact the business results of Hadera Paper Printing during the reported period, despite the strengthening of the NIS vis-à-vis the dollar by 1.9% during the reported period.

The operating loss of Hadera Paper Printing amounted to NIS 3 million during the reported period, as compared with operating profit of NIS 8.6 million in the corresponding period last year and as compared with operating profit of NIS 0.5 million in the fourth quarter last year.

The transition to an operating loss in relation to the corresponding period last year, is attributed to the trend of prices described above, the lower efficiency of the manufacture of paper during the reported period that was caused by several factors related to the quality of raw materials and other technical malfunctions, as well as a result of non-recurring expenditures associated with the relocation to the new logistics center - with the aim of providing optimal customer service during the transition period, so as to shorten the learning curve. Toward the end of the reported period and true to the date of publication of this report, a significant improvement was recorded in manufacturing efficiency. Moreover, the logistics center has started to service customers at a level that exceeds the level of service provided prior to the relocation.

3. Carmel Container Systems - Packaging and Cardboard Products

The aggregate sales turnover of Carmel, including the sales of Frenkel CD, amounted to NIS 150.6 million during the reported period, as compared with NIS 127.4 million, representing an increase of 18.2%.

During the reported period, the consolidated sales turnover of Carmel Container Systems Ltd. amounted to NIS 121.2 million, as compared with NIS 100.5 million in the corresponding quarter last year, representing an increase of 20.6%.

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

The consolidated operating profit of Carmel amounted to NIS 3.0 million in the reported period, as compared with an operating profit of NIS 2.7 million in the corresponding period last year, representing an increase of 11.1%. The increase in the operating profit of Carmel is attributed to the quantitative growth, coupled with a sharp rise in selling prices as mentioned above, that was mostly offset by the sharp rise in the prices of inputs.

The aggregate operating profit of Carmel (including Frenkel CD) amounted to NIS 4.0 million in the reported period, as compared with an operating profit of NIS 3.5 million in the corresponding period last year, representing an increase of 14.3%.

4. Packaging Paper and Recycling

The sales turnover of the Packaging Paper and Recycling Division amounted to NIS 176.0 million in the reported period, as compared with NIS 86.0 million in the corresponding period last year, representing an increase of approximately 104.7% (the sales during the corresponding period last year appear subsequent to the capitalization of NIS 24 million in sales, as part of the running-in process of the Machine 8 project).

The quantitative sales of packaging paper amounted to 75.7 thousand tons during the reported period, as compared with 50.5 thousand tons in the corresponding period last year. A quantity of 19.2 thousand tons were capitalized toward the running-in of Machine 8, out of the sales last year.

The sales of paper and cardboard waste by Amnir amounted to 101.5 thousand tons during the reported period, as compared with 77.9 thousand tons in the corresponding period last year.

The sharp increase in the sales turnover originated for the most part from the quantitative increase in sales, of both packaging paper and at Amnir, coupled with the rise in the selling prices between the reported periods. This increase was offset by the lower average dollar exchange rate between the two reported periods that affects a large part of the export sales.

The division concluded the reported period with an operating profit of approximately NIS 14.4 million, as compared with an operating profit of NIS 3.9 million in the corresponding period last year, representing an increase of 269.2%.

The improvement in the operating profit during the reported period, as compared with the corresponding period last year, originated primarily from the quantitative increase in sales, coupled with the improved selling prices as mentioned above. The higher profit was achieved despite the rise in the various input prices, as a result of the significant improvement in operational efficiency, as evidenced by to improvement recorded in the various manufacturing indexes at the division.

5. Graffiti - Office Supplies Marketing

Graffiti's sales turnover during the reported period amounted to NIS 48.4 million, as compared with NIS 41.4 million in the corresponding period last year, representing an increase of 16.9%.

During the reported period, Graffiti recorded an operating loss of NIS 2.2 million, as compared with an operating profit of NIS 1.5 million in the corresponding period last year, representing a decrease of 246.7%.

The decrease in the operating profit during the reported period is primarily attributed to the eroded profitability as a result of a significant rise in commodity prices, accompanied by a delay in adjusting customer selling prices, coupled with the sharp rise in transportation costs as a result of the rise in fuel prices between the reported periods. Moreover, labor expenses increased by a sum of approximately NIS 1.9 million, due to the growth in the sales turnover that was accompanied by a parallel increase in variable expenses, along with a significant increase in personnel due to the company's preparations for the relocation to the logistics center in Modiin. Furthermore, double expenses of NIS 0.8 million were recorded during the reported period on account of rental fees and maintenance expenses associated with the company's preparations for the relocation to the logistics center in Modiin.

Graffiti intends to relocate to the Logistics Center in Modiin in the course of the third quarter of 2011. Graffiti is currently testing the logistic systems and supporting information systems (WMS), that will serve as a platform for accelerating growth and profit, while improving customer service.

E. Exposure and Management of Market Risks

1. General

The Company conducts periodical discussions regarding market risks and exposure to exchange rate and interest rate fluctuations, with the participation of the relevant elements, so as to reach decisions in this matter. The individual responsible for the implementation of market risk management policy at the Company is Shaul Glicksberg, the Group's VP of Finance and Business Development.

2. Market Risks to which the Company is Exposed

Description of Market Risks

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

Exchange Rate Risks

Approximately half of the Company's sales are denominated in US dollars, whereas a significant share of its expenses and liabilities are in NIS. The Company is therefore exposed to fluctuations in the exchange rate of the NIS vis-à-vis the US dollar. This exposure includes economic exposure (on account of surplus proceeds over 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 reexamines from time to time the need for hedging on account of these exposures. It should be noted that on the aggregate level that includes associated companies, the currency exposure is limited.

Consumer Price Index Risks

The Company is exposed to changes in the Consumer Price Index, pertaining to the debentures issued by the Company and to net long-term loans, in the total sum of NIS 310.9 million.

The company continues to regularly monitor quoted prices for hedging its exposure and in the event that these will be reasonable, the company will enter into the relevant hedging transactions.

Credit Risks

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

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

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at March 31, 2011:

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value as at Mar-31-11	Interest decrease 5%	Interest decrease 10%
	In NIS thousands				
Bonds - Series 2	686	344	(106,089)	(346)	(694)
Bonds - Series 3	2,411	1,212	(189,884)	(1,226)	(2,466)
Bonds - Series 4	1,687	847	(208,321)	(853)	(1,714)
Bonds - Series 5	3,102	1,560	(199,413)	(1,577)	(3,173)
Loan A - fixed interest	59	30	(14,244)	(30)	(60)
Loan B - fixed interest	1,090	548	(92,485)	(553)	(1,112)
Loan C - fixed interest	186	93	(27,859)	(94)	(188)

The fair value of the loans is based on a calculation of the present value of the cash flows, according to the generally-accepted interest rate on loans with similar characteristics (4% in 2011).

Regarding the terms of the debentures and another liability – See Note 10 to the annual financial statements dated December 31, 2010.

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements as at March 31, 2011:

Sensitivity of euro-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 Mar-31-11	Decrease in € 5%	Decrease in € 10%
	In NIS thousands				
Cash and cash equivalents	975	488	9,751	(488)	(975)
Accounts receivable	1,018	509	10,175	(509)	(1,018)
Accounts payable and credit balances	(4,573)	(2,287)	(45,731)	2,287	4,573
Forward	178	5	16	(341)	(515)

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 Mar-31-11	Devaluation of $ 5%	Devaluation of $ 10%
	In NIS thousands				
Cash and cash equivalents	4,313	2,157	43,131	(2,157)	(4,313)
Accounts receivable	2,573	1,286	25,727	(1,286)	(2,573)
Accounts payable and credit balances	(10,417)	(5,208)	(104,168)	5,208	10,417
NIS/US$ forward transaction	349	(51)	(103)	(852)	(1,252)

Accounts receivable reflect primarily short-term customer debts

Sensitivity to the Consumer Price Index

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in CPI 2%	Rise in CPI 1%	Fair value as at Mar-31-11	Decrease in CPI 1%	Decrease in CPI 2%
	In NIS thousands				
Bonds 2	(2,122)	(1,061)	(106,089)	1,061	2,122
Bonds 3	(3,798)	(1,899)	(189,884)	1,899	3,798
Other accounts receivable	21	10	1,025	(10)	(21)

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

Sensitivity to the exchange rate of the yen

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise in the yen 10%	Rise in the yen 5%	Fair value as at Mar-31-11	Decrease in the yen 5%	Decrease in the yen 10%
	In NIS thousands				
Accounts Payable	(166)	(83)	(1,663)	83	166

Sensitivity to other currencies (GBP)

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Rise of 10%	Rise of 5%	Fair value as at Mar-31-11	Decrease of 5%	Decrease of 10%
	In NIS thousands				
Other accounts receivable	68	34	676	(34)	(68)

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Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at March 31, 2011:

In NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	€-linked	Non-Monetary Items	Total
Assets						
Cash and cash equivalents	100.4		43.1	9.8		153.3
Other accounts receivable	625.8	1.0	26.4	10.2	12.9	676.3
Inventories					334.9	334.9
Investments in Associated Companies	19.2				213.0	232.2
Deferred taxes on income					2.7	2.7
Fixed assets, net					1,343.2	1,343.2
Investment property (real estate)					24.5	24.5
Intangible Assets					35.0	35.0
Financial assets available for sale					1.6	1.6
Other assets					1.3	1.3
Assets on account of employee benefits	0.8					0.8
Total Assets	746.2	1.0	69.5	20.0	1,969.1	2,805.8
Liabilities						
Short-term credit from banks	189.0					189.0
Accounts payable and credit balances	338.2	13.4	106.0	45.7	0.1	503.4
Current tax liabilities	19.5					19.5
Deferred taxes on income					52.5	52.5
Long-Term Loans	292.3	16.2				308.5
Notes (debentures) – including current maturities	377.9	282.3				660.2
Liabilities on account of employee benefits	49.1					49.1
Put option to holders of non-controlling interests	31.1					31.1
Shareholders' equity, reserves and retained earnings					992.5	992.5
Total liabilities and equity	1,316.2	311.9	106.0	45.7	1,045.1	2,805.8
Surplus fina ncial assets (liabilities) as at Mar-31-11	(550.9)	(310.9)	(36.5)	(25.7)	924.0	0.0
Surplus financial assets (liabilities) as at Dec-31-10	(624.4)	(296.1)	(45.4)	(48.2)	1,014.1	0.0

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

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Associated Companies

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

Hadera Paper is also exposed to tax related issues at KCTR, as detailed in Note 4i to the financial statements dated March 31, 2011.

F. Forward-Looking Statements

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

G. Corporate Governance Issues

1. External Directors

The Company chose not to include in its articles of association the provision with regard to the percentage of external board members.

2. Internal Auditing - SOX

By virtue of being a company whose shares are publicly traded in the United States, the company is subject to "Sarbanes Oxley" (SOX) in its entirety, including Section 302 (proper disclosure and evaluation of controls in the organization), Section 404 (Management Assessment of Internal Controls) and Section 906 (Criminal responsibility for breach of this section). The main points of the law have to do with increasing reporting and disclosure, the authorities and duties of the Audit Committee, manager responsibilities, enforcement, sanctions and penalties and increasing the independence from external accountants. The controls instigated by the company for the implementation of the law are regularly inspected by the company's auditing team and by the external accountant. Since 2007, with the introduction of the directives of the said law in the United States, the company is complying with the demands of the law.

We note that on February 16, 2010, the Securities and Exchange Commission (SEC) authorized the company's requests that its reports regarding the effectiveness of internal control be made in the format prescribed by law, by virtue of its being listed for trade on AMEX, i.e.- the SOX regulations in the United States that apply to the company as mentioned above, subject to the company having undertaken to examine, once every quarter, its compliance with the terms described in its application to the SEC, including any change in the directives of the law in Israel and in the United States, in the status of the company as it relates to these laws, changes in the implementation of the SOX regulations and any other change that may affect the disclosure provided by the company.

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3. Detailed processes undertaken by the company's supreme supervisors, prior to the approval of the financial statements

1. On February 8, 2011, the Board of Directors of the company authorized the Audit Committee to also serve as a committee for the examination of the financial statements. It was resolved that it would be called the balance sheet and audit committee and would be charged - on behalf of the Board of Directors - to oversee the completeness of the financial statements and the work of the auditing CPAs and to make recommendations regarding the ratification of the financial statements and a discussion thereof prior to such ratification.

2. The members of the committee are as follows:

Name	External / independent director	Possessing accounting and financial expertise / able to read financial statements	Skills, education and experience	Provided an affidavit
Atalia Arad	External Director	Capable of reading and understanding financial statements	Her education and professional experience (see chapter D, Appendix G of the 2010 periodical report).	P
Aliza Rotbard	External Director	Possesses accounting and financial qualifications	Holds a Bachelor's degree (BSC) in Mathematics and Physics, from the Hebrew University in Jerusalem. Director at several different companies.	P
Amos Mar-Haim		Possesses accounting and financial qualifications	His education and professional experience (see chapter D, Appendix G of the 2010 periodical report).	P

Ms. Atalia Arad serves as chairperson of the committee

3. On May 5, 2011, the Balance Sheet and Audit Committee met to discuss the financial statements of the company for the first quarter of 2011 ("The Financial Statements") and for the purpose of formulating recommendations for the Board of Directors of the company.

4. The senior officers, interested parties, family members and/or anyone on their behalf present in the meeting of the committee, include:

Ofer Bloch - CEO, Shaul Glicksberg - VP Finance and Business Development, Yael Nevo - legal counsel, Shmuel Molad - Controller, Boaz Simons - VP of Clal Industries and Investments Ltd. (CII) - controlling shareholder of the company, Yehuda Ben-Ezra, VP Finance & Treasurer of CII, Dror Dotan - Assistant to the CII CEO.

5. It should be noted that the auditing CPA also attended the meeting and presented the audit and review process that he performed in relation to the financial statements.

6. In the course of the meeting, the committee examined the material issues related to the financial statements, the crucial estimates and critical valuations implemented in the financial statements, the plausibility of the data, the accounting policy that was implemented and changes therein, and the implementation of the proper disclosure principal in the financial statements and regarding any accompanying information.

The Committee also examined various aspects of control and risk assessment reflected in the financial statements (such as reporting of financial risks), as well as those affecting the reliability of the financial statements.

Upon completion of the discussion of data presented, the committee handed down its recommendations to the Board of Directors of the company, regarding the ratification of the financial statements.

7. The said recommendations were forwarded to the members of the Board of Directors 11 days before the date that was set for the discussion and ratification of the financial statements.

8. The Board of Directors of the company believes that the recommendations of the committee were transferred to it within a reasonable time, and perhaps even more so, prior to the discussion by the Board of Directors, taking into consideration the scope and complexity of the issues to be discussed in the recommendations. The Board of Directors of the company has accepted the recommendations of the balance sheet and object committee regarding the approval of the financial statements.

H. Disclosure Directives Related to the Financial Reporting of the Corporation

1. Events Subsequent to the Balance Sheet Date

For details regarding events that occurred subsequent to the balance sheet date, see Note 8 to the financial statements dated March 31, 2011.

I. Dedicated Disclosure to Bonds Holders

For details regarding the rating of bonds, see Note 15 to the periodical report for the year 2010.

1. Sources of Finance

See Section B4 - Financial Liabilities and further details in the table below.

I. Dedicated Disclosure to Bonds Holders - Continued

2. Debentures for institutional investors and the public

Series	Issue Date	Name of Rating Company	Rating at time of issue and at report date	Total 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 Mar-31-11	Book value of debenture balances as at Mar-31-11	Bool value interes be paic at Mar-31
In NIS millions											
Series 2	12.2003	Maalot	A+	200,000,000	Fixed	5.65%	No	Annual interest December 21 In the years 2004-2013	85.7	101.9	1.6
Series 3	7.2008	Maalot	A+	187,500,000	Fixed	4.65%	Yes	Annual interest On July 10 In the years 2009-2018	166.7	181.4	6.1
Series 4	7-8.2008	Maalot	A+	235,557,000	Fixed	7.45%	Yes	Semi-annual interest On January 10 and July 10 In the years 2009-2015	196.3	196.3	3.3
Series 5	5.2010	Maalot	A+	181,519,000	Fixed	5.85%	Yes	Semi-annual interest On November 30 and May 31 of the years	181.5	181.5	3.5

2010-2017

Comments:

1. Series 2 - Linked to the Consumer Price Index (CPI). Principal repaid in 7 annual installments, between Dec-21-2007 and Dec-21-2013.
2. Series 3 - Linked to the Consumer Price Index (CPI). Principal repaid in 9 annual installments, between July 2010 and July 2018.
3. Series 4 - Principal repaid in 6 annual installments, between July 2010 and July 2015.
4. Series 5 - Principal repaid in 5 annual installments, between November 2013 and November 2017.
5. The trustee of the bonds (Series 2) is Bank Leumi Le-Israel Trust Corporation Ltd. The responsible contact person on behalf of Bank Leumi Le-Israel Trust Corpora