Hadera Paper Ltd
Form 6-K
August 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the Month of August 2008

HADERA PAPER LTD.

(Translation of Registrant s Name into English)

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

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

x Form 20-F o Form 40-F

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

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

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

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

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

o Yes x No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant s press release dated August 11, 2008 with respect to the Registrant s results of operations for the quarter ended June 30, 2008.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant s Management Discussion with respect to the Registrant s results of operations for the quarter ended June 30, 2008.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant s unaudited condensed consolidated financial statements for the quarter ended June 30, 2008.

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

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended June 30, 2008.

Attached hereto as Exhibit 6 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Carmel Container Systems Ltd. and subsidiaries with respect to the quarter ended June 30, 2008.

SIGNATURE

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

HADERA PAPER LTD.
(Registrant)

By: /s/ Lea Katz

Lea Katz
Corporate Secretary

Dated: August 11, 2008.

EXHIBIT INDEX

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

Exhibit 1

NEWS

For Release: IMMEDIATE

Hadera Paper Ltd.
Reports Financial Results for the Second Quarter and Six Months
Announces Intention for Public Placement of Debentures
Announces Israeli Antitrust Authority Approval for Carmel Transaction

Hadera, Israel, August 11, 2008 Hadera Paper Ltd. (AMEX:AIP) (the Company or Hadera Paper) today reported financial results for the second quarter and first six months ended June 30, 2008. The Company, its subsidiaries and associated companies is referred to hereinafter as the Group .

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

As a result of the transition to reporting according to IFRS standards, the Company presented its financial statements for the reported period, as well as the comparison figures for the corresponding period last year and for the year ended December 31, 2007 according to IFRS.

Aggregate sales amounted to NIS 1,618.6 million during the reported period (six month period- January-June 2008), as compared with NIS 1,492.8 million in the corresponding period last year.

Aggregate sales in the second quarter this year amounted to NIS 771.0 million, as compared with NIS 740.0 million in the corresponding period last year, and as compared with NIS 847.6 million in the first quarter of the year.

Aggregate operating profit totaled NIS 111.3 million during the reported period, as compared with NIS 70.7 million in the corresponding period last year. The significant improvement in the aggregate operating profit is attributed to the performance improvement in Israel on the one hand, coupled with the continuing trend of lowering the operating loss in Turkey on the other hand.

Aggregate operating profit totaled NIS 51.5 million in the second quarter of the year, as compared with NIS 41.7 million in the corresponding quarter last year, and as compared with NIS 59.8 million in the first quarter of the year.

The Consolidated Data set forth below excluding the results of operation of the associated companies: Mondi Hadera, H-K and Carmel Containers Systems Ltd. (Carmel)

Consolidated sales during the reported period amounted to NIS 275.8 million and were similar to the sales in the reported period last year that amounted to approximately NIS 277.8 million.

Operating profit totaled NIS 30.1 million during the reported period, as compared with NIS 30.4 million in the corresponding period last year.

Net profit totaled NIS 39.3 million during the reported period, as compared with net profit of NIS 6.3 million in the corresponding period last year. Net profit was affected by the improvement in the Group s profitability in Israel, coupled with the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR).

Net profit for the second quarter this year amounted to NIS 18.0 million, as compared with a net profit of NIS 10.2 million in the corresponding quarter last year. The net profit in the second quarter last year appears net of our share (49.9%) in the amortization of the tax asset in Turkey (KCTR) in the sum of NIS 6.0 million.

Basic earnings per share amounted to NIS 7.77 per share ($2.32 per share) in the reported period, as compared with NIS 1.57 per share ($0.38 per share) in the corresponding period last year.

Basic earnings per share amounted to NIS 3.56 per share ($1.06 per share) in the second quarter of the year, as compared with earnings of NIS 2.53 per share ($0.59 per share) in the corresponding quarter last year.

The inflation rate during the reported period amounted to 2.3%, as compared with an inflation rate of 1% in the corresponding period last year.

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

In the reported period, KCTR continued to implement its strategic plan formulated together with its 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 dominant and profitable company by 2015, with annual sales in the area of $300 million.

Financial expenses during the reported period amounted to NIS 11.1 million, as compared with NIS 11.7 million in the corresponding period last year.

The company s share in the earnings (losses) of associated companies totaled NIS 25.8 million during the reported period, as compared with a loss of NIS (5.1) million in the corresponding period last year.

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

The Company s share in the net profit of Mondi Hadera (49.9%) increased by approximately NIS 4 million. Most of the change in profit originated primarily from Mondi s highly improved operating profitability, which recorded an increase from operating profit of NIS 13.8 million last year to an operating profit of NIS 17.7 million this year primarily as a result of the raising of selling prices in relation to last year that led to an improved gross margin. The net profit also increased as a result of the sharp 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.

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The Company s share in the net profit of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 8.1 million. Hogla s operating profit grew from NIS 67.6 million to NIS 85.1 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.

The Company s share in the losses of KCTR (formerly: Ovisan) (49.9%) decreased by NIS 25.6 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 46.2 million last year to approximately NIS 20.9 million this year. In the corresponding period last year, a non-recurring loss of approximately NIS 6 million ($1.5 million) was included on account of the termination of trade agreements with distributors due to the transition to distribution by Unilever, of which our share was approximately NIS 3 million. Moreover, the tax asset that was recorded in previous years in Turkey, in the sum of approximately NIS 12 million (approximately $3 million) was reduced, of which our share is NIS 6.0 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%) increased by NIS 2 million. Net off one time losses from hedging transactions, operating profit increased in the reported period by NIS 1.9 million, of which the Company s share amounted to NIS 0.7 million. The aforesaid growth occurred despite of the damages caused by the eroded profitability at Carmel originated from the impact of the cold spell in agriculture that decreased demands in the agriculture market as aforesaid. Carmel also recorded a loss of NIS 7.5 million in the reported period on account of hedging transactions for affixing exchange rate, of which the Company s share amounted to approximately NIS 1.9 million.

The Company s share in the earnings of associated companies from current operations in Israel (excluding Turkey) grew by NIS 5.3 million this year and amounted to NIS 36.3 million.

Pursuant to the shelf prospectus published by the Company on May 26, 2008, the Company completed the offering on July 16, 2008 of two debenture series in the total sum of NIS 308,060 thousands. Net of offering expenses, the Company received net proceeds of approximately NIS 306,609 thousands.

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

On July 6, 2008, the Maalot Rating Company (Standard and Poor s) announced a rating of AA-/Negative Outlook for the Company s debenture series.

On July 10, 2008, the General Meeting approved the appointment of Ms. Atalia Arad as an external director of the Company.

On July 10, 2008, an agreement was signed whereby the Company acquired the shares of Carmel held by Robert Kraft, the principal shareholder in Carmel, as well as by several other shareholders, in consideration of a total of $20.77 million, to be paid in a single installment upon closing of the transaction. The shares will be acquired As Is . The completion of the transaction is contingent upon the approval of the Anti-Trust Supervisor and any other approval required by law. In the event that the transaction is completed, the Company will hold approximately 89.3% of the Carmel shares and consequently, upon completion of the transaction, the financial statements of Carmel and those of Frenkel-CD Ltd. will be consolidated with the Company s financial statements. The expected impact of this transaction if an when completed on the Company s financial statements, will consist primarily of the anticipated growth in the Company s turnover as a result of the said consolidation. The transaction will be financed using the Company s internal resources.

In other Company news, the Company announced that the Company s Board of Directors resulted, following the shelf prospectus that was published by the Company on May 26, 2008, and following the public placement of debentures (series 4) dated July 16, 2008 according to the shelf offering report dated July 14, 2008, to authorize the Company s management to carry out an additional raise of up to a total amount of approximately NIS 50 million by way of a public placement, by expanding a series of debentures(series 4)(additional debentures).The additional debentures, as long as offered to the public, shall bear identical terms to the current debentures in Company s income turnover (series 4).

The issuance of the additional debentures shall be executed by a uniformed offer (at a tender regarding units price) according to a shelf offering report, detailing the conditions of the issuance, to be approved by the Company s Board of Directors and subordinate to the Tel Aviv Stock Exchange s approval for listing the additional debentures for trade.

It should be noted, that there is no certainty as to the actual execution of the raise, its extent and its timing.

In other matter, following the Company s announcements dated July 2, 2008, July 8, 2008 and July 13, 2008 regarding the signing of an agreement for the acquisition of Carmel Container Systems Ltd. (Carmel , an affiliated company) shares, held currently by Mr. Robert Kraft, the principal shareholder of Carmel, and by a number of additional shareholders in Carmel, the Company also announced today that the approval of the Israeli Antitrust Authority to the transaction, which the completion of the transaction was conditioned upon, was received.

As aforesaid in the previous reports, as to the date of this report the Company holds approximately 36% of Carmel shares. Shall the transaction be completed the Company will hold approximately 89.3% of Carmel s shares.

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

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

	Six months ended June 30,	
	NIS IN THOUSANDS [1]	
	2008	2007
Net sales	275,786	277,823
Net earnings	39,302	6,342
Basic net earnings per share	7.77	1.57
Fully diluted earnings per share	7.76	1.57

	Three months ended June 30,	
	NIS IN THOUSANDS [1]	
	2008	2007
Net sales	133,267	141,185
Net earnings	18,032	10,219
Basic net earnings per share	3.56	2.53
Fully diluted earnings per share	3.55	2.52

(1) The representative exchange rate at June 30, 2008 was N.I.S. 3.352=$1.00.

Contact:
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Exhibit 2

Translation from Hebrew

Hadera Paper Ltd.

Update to Chapter I (Description of the Corporation s Business) of the Information Presented in the Company s Periodical Report Dated Dec-31-2007

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

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

Pursuant to the shelf prospectus published by the Company on May 26, 2008, the Company completed the offering on July 16, 2008 of two debenture series in the total sum of NIS 308,060 thousands. Net of offering expenses, the Company received net proceeds of approximately NIS 306, 609 thousands.

2. Update to Section 1 Chapter A Introduction

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

3. Update to Section 14 Chapter D Finance

On July 6, 2008, the Maalot Rating Company (Standard and Poor s) announced a rating of AA-/Negative Outlook for the Company s debenture series.

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

On July 10, 2008, the General Meeting approved the appointment of Ms. Atalia Arad as an external director of the Company.

5. Update to Section 9.1.4, Chapter C, General information regarding the paper and recycling operating activity

In March 2008, as part of the construction of the new packaging paper manufacturing network, the Company completed the signing of central agreements for the purchasing of the main equipment for the said manufacturing network, from Italian company Voith, while complementary parts are acquired from Finnish company Metso for a total sum of approximately 48.4 million euro.

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

On July 10, 2008, an agreement was signed whereby the Company acquired the shares of Carmel Container Systems Ltd. (Carmel) held by Robert Kraft, the principal shareholder in Carmel, as well as by several other shareholders, in consideration of a total of $20.77 million, to be paid in a single installment upon closing of the transaction. The shares will be acquired As Is . The completion of the transaction is contingent upon the approval of the Anti-Trust Supervisor and any other approval required by law.

In the event that the transaction is completed, the Company will hold approximately 89.3% of the Carmel shares and consequently, upon completion of the transaction, the financial statements of Carmel and those of Frenkel-CD Ltd. will be consolidated with the Company s financial statements.

The expected impact of this transaction if an when completed on the Company s financial statements, will consist primarily of the anticipated growth in the Company s turnover as a result of the said consolidation. The transaction will be financed using the Company s internal resources.

Translation from Hebrew

August 10, 2008

MANAGEMENT DISCUSSION

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

A. Description of the Company s Business

1. Company Description

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

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

2. General

a. Data Updates to IFRS

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

b. Principles Current Operations

1. Business Environment

During the reported period (January-June 2008), the global financial crisis and its economic repercussions that have manifested themselves in the United States and in Europe are affecting the level of demand in many areas and are causing a slowdown in investments in light of the global credit crunch. The growth rate of the Israeli economy is gradually slowing down in relation to the past several years, and the Israeli exports are suffering from the slowdown in the aforementioned markets.

In parallel, the rise in input prices has continued during the reported period in terms of energy, fibers, chemicals and food and is exacerbating the rate of inflation globally and in Israel.

No significant slowdown in demand has been identified in the global paper market in the reported period.

The import volumes of fine paper and packaging paper from Europe have recently grown and the company is working to preserve its market share and quantitative sales, while dealing with a certain erosion of selling prices.

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

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

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

The sharp rise in global fuel prices is not materially affecting the Company due to its transition to the use of natural gas instead of fuel oil in its manufacturing processes, starting with the fourth quarter last year. This fact serves to improve the Group s competitive capabilities in relation to competitors in Europe.

Electricity prices have increased by approximately 22% in relation to electricity prices in the corresponding period last year, although their overall impact is approximately NIS 8 million, however the overall influence on the Company s results is low, given the fact that the Company generates approximately 50% of its electrical consumption independently and based on natural gas, in a long-term agreement with Tethys Sea Group.

The inflation rate during the reported period amounted to 2.3%, as compared with an inflation rate of 1% in the corresponding period last year.

The erosion in the US dollar exchange rate against the NIS grew more severe in the first half of the year, along with considerable volatility. The US dollar exchange rate fell by 12.8% in the first half of the year, in addition to a 9% decrease in 2007.

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2. Principles Current Operations

The aggregate sales turnover of most of the Group s subsidiaries and associated companies (hereinafter: Group Companies) continued to grow during the reported period, while raising prices across part of the areas of operation, in parallel to the successful implementation of efficiency measures in relation to the corresponding period last year.

3. Implementation and Assimilation of Organization-Wide Processes

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

4. The Strategic Plans

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

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

   The investment budget in the project for the construction of the new manufacturing network, totaling NIS 690 million was approved on October 15, 2007 by the Company s Board of Directors. The Company has selected the most highly advanced technologies in this area, from the leading suppliers in the activity, 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.

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 in the second half of 2009.

As part of the preparations for financing the project, additional capital of approximately NIS 211 million was raised in November 2007, by way of a private placement of shares to the controlling shareholders and to institutional investors. During July, the Company raised a sum of approximately NIS 306 million, less offering expenses, by way of issuing bonds to institutional investors and the public, to serve as payment for the suppliers of equipment for Machine 8. In addition to the above measures, the Company is continuing to explore additional ways to complete the project financing.

2. New Power Plant

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

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

c. The Strategic Investment in Turkey

In the reported period, Kimberly Clark Turkey, KCTR, a wholly-owned Hogla Kimberly subsidiary (49.9% of which is held by the Company) continued to implement its strategic plan GBP (Global Business Plan) that was formulated together with the international partner, Kimberly Clark Worldwide. 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 by 2015 a company with annual sales in the area of approximately $300 million. In the first six months of the year, KCTR s sales turnover amounted to approximately $55.6 million, as compared with $23.0 million in the corresponding period last year and $63.0 million in all of 2007.

In the second quarter of the year, the Company continued to develop products and launched new product lines under the Huggies® and Pedo® brands. These products are produced at the Company s advanced manufacturing site, that currently serves as a regional Kimberly Clark manufacturing center, whose products are exported to various countries in Europe and to South Africa. The company also launched advanced KOTEX® products (feminine hygiene) that were well-received by the market.

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

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

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

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

All of the expenses detailed above associated with the penetration of products, advertising, expansion of the distribution network and more are regularly recorded as expenditure in the KCTR statements of income. KCTR recorded an operating loss of approximately NIS 20.9 million (approximately $6.2 million) in the reported period, as compared with NIS 46.2 million (approximately $11.1 million) in the reported period last year and approximately NIS 74 million (approximately $18 million) in all of 2007.

The implementation of the strategic business plan, along with the strengthening brands and the gradual growth of the Unilever sales and distribution platform, coupled with the reduction of costs at the diaper plant, enabled the Company to maintain the trend of improving gross profitability in the current half of the year, as aforesaid.

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

B. Analysis of the Company s Financial Situation

The cash and cash equivalents item decreased from NIS 57.4 million on June 30, 2007 to NIS 5.6 million on June 30, 2008. The decrease in the cash balance, along with additional balances that originated from the private placement totaling NIS 67.1 million were deposited in euro-linked deposits and are intended to serve as payment for the construction of the packaging paper manufacturing network and are presented under the item Designated Cash.

The accounts receivable item for packaging paper and recycling decreased from NIS 150.7 million on June 30, 2007 to NIS 119.3 million on June 30, 2008. This decrease is primarily attributed to the impact of lower prices in NIS terms as a result of the lower dollar exchange rate and from the timing of collection set date, occurring on Saturday and thus led to the postponement of the collection of approximately NIS 10 million to July. Accounts receivable for the office supplies marketing activity rose from NIS 36.8 million as at June 30, 2007 to NIS 39.9 million as at June 30, 2008.

The other accounts receivable item for packaging paper and recycling activity rose from NIS 82.6 million on June 30, 2007 to NIS 85.8 million on June 30, 2008. Other receivables for the office supplies marketing activity decreased from NIS 11.9 million on June 30, 2007 to NIS 11.3 million on June 30, 2008.

The inventories item for packaging paper and recycling activity increased from NIS 49.1 million on June 30, 2007 to NIS 51.1 million on June 30, 2008. This increase originates primarily from an increase in the paper waste inventories, due to Amnir s preparations in anticipation of the new packaging paper machine (see also A.2.b.1.3, above). In the office supplies marketing activity, the Inventories item increased from NIS 15.6 million on June 30, 2007, to NIS 18.1 million on June 30, 2008, primarily as a result of the increase in the proportion of products imported from East Asia so as to improve profitability.

Investments in associated companies increased from NIS 346.2 million on June 30, 2007 to NIS 351.2 million on June 30, 2008. The principal components responsible for this growth were the Company s share in the net earnings of associated companies during the reported period, net of the impact of the Company s share in a capital reserve from translation differences at an associated company and net of the Company s share in a capital reserve from the hedging of cash flows at associated companies.

Short-term credit decreased from NIS 225.2 million on June 30, 2007 to NIS 106.3 million on June 30, 2008. The decrease in this item is primarily attributed to repayment of credit from proceeds obtained from the private placement to shareholders in November last year, coupled with the positive cash flows from operating activities, net of investments in fixed assets.

The other accounts payables item for packaging paper and recycling activity grew from NIS 60.9 million on June 30, 2007 to NIS 77.8 million on June 30, 2008. The growth originates primarily from growth in provisions to institutions on account of employees, coupled with the fair value of liabilities of future transactions for hedging the payments to the suppliers of Machine 8, as a result of the sharp drop in the euro exchange rate during the reported period. Other accounts payable for the office supplies marketing activity increased from NIS 4.7 million on June 30, 2007 to NIS 5.1 million on June 30, 2008.

The company s shareholders equity increased from NIS 434.6 million on June 30, 2007 to NIS 690.5 million on June 30, 2008. The change is primarily attributed to the net proceeds from the issue of shares by private placement to controlling shareholders and institutional investors in November 2007 in the sum of NIS 211.6 million, coupled with the net profit between the periods of NIS 64.5 million, net of the increase of the debitory capital reserve from translation differences at an associated company in the sum of approximately NIS 18.5 million and net of the Company s share in a capital reserve from the hedging of cash flows at associated companies, in the sum of approximately NIS 3.1 million.

1. Investments in Fixed Assets

Investments in fixed assets amounted to approximately NIS 128.2 million in the reported period, as compared with NIS 42.1 million in the corresponding period last year. The investments this year consisted primarily of payments on account of purchasing from equipment vendors for the new packaging paper manufacturing network (Machine 8), in the sum of approximately NIS 107.2 million. The Company also made current investments in environmental issues (effluent treatment) and current investments in equipment renewal, means of transportation and in the maintenance of buildings at the Hadera site.

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2. Financial Liabilities

The long-term liabilities (including current maturities) amounted to NIS 290.1 million as at June 30, 2008, as compared with NIS 288.4 million as at June 30, 2007. The long-term liabilities remained at a similar level as a result of the repayment of debentures on the one hand, coupled with long-term NIS loans assumed, intended for financing the payments for Machine 8, on the other hand. The long-term liabilities totaled NIS 261.7 million on December 31, 2007.

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

Series 1: NIS 7.3 million, for repayment until 2009 by private placement to institutional investors.

Series 2: NIS 187.2 million, for repayment until 2013 by private placement to institutional investors.

Long-term loans from banks: NIS 64.1 million.

The outstanding short-term credit from banks totaled NIS 106.3 million as at June 30, 2008, as compared with NIS 225.2 million as at June 30, 2007 and NIS 143.0 million as at December 31, 2007.

After balance date, during July, the Company raised approximately NIS 306 million, net of offering expenses, by way of issuing bonds to institutional investors and the public, to serve as payment for the suppliers of equipment for Machine 8.

C. Results of Operations

1. Aggregate Data

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

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

Aggregate Data

The aggregate sales amounted to NIS 1,618.6 million during the reported period, as compared with NIS 1,492.8 million in the corresponding period last year, representing growth of 8.4%.

The aggregate sales in the second quarter this year amounted to NIS 771.0 million, as compared with NIS 740.0 million in the corresponding period last year, representing growth of 4.2% and as compared with NIS 847.6 million in the first quarter of the year.

The aggregate operating profit totaled NIS 111.3 million during the reported period, as compared with NIS 70.7 million in the corresponding period last year, representing growth of 57.4%. The significant improvement in the aggregate operating profit is attributed to the performance improvement in Israel on the one hand, coupled with the continuing trend of lowering the operating loss in Turkey on the other hand.

The aggregate operating profit totaled NIS 51.5 million in the second quarter of the year, as compared with NIS 41.7 million in the corresponding quarter last year, representing growth of 23.5% and as compared with NIS 59.8 million in the first quarter of the year.

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

2. Net Profit and Earnings Per Share

The net profit totaled NIS 39.3 million during the reported period, as compared with net profit of NIS 6.3 million in the corresponding period last year.

The net profit in the reported period was affected by the improvement in the Group s profitability in Israel, coupled with the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR), amounting to NIS 25.6 million (from a share in the loss of NIS 36.1 million last year to NIS 10.5 million this year), as compared with the corresponding period last year (see Strategic Investment in Turkey, above, and Section C7, below).

The net profit for the second quarter this year amounted to NIS 18.0 million, as compared with a net profit of NIS 10.2 million in the corresponding quarter last year. The net profit in the second quarter last year appears net of our share (49.9%) in the amortization of the tax asset in Turkey (KCTR) in the sum of NIS 6.0 million.

Basic earnings per share amounted to NIS 7.77 per share ($2.32 per share) in the reported period, as compared with NIS 1.57 per share ($0.38 per share) in the corresponding period last year.

The diluted earnings per share amounted to NIS 7.76 per share ($2.31 per share) in the reported period, as compared with NIS 1.57 per share ($0.38 per share) in the corresponding period last year.

Basic earnings per share amounted to NIS 3.56 per share ($1.06 per share) in the second quarter of the year, as compared with earnings of NIS 2.53 per share ($0.59 per share) in the corresponding quarter last year.

The diluted earnings per share amounted to NIS 3.55 per share ($1.06 per share) in the second quarter of the year, as compared with earnings of NIS 2.52 per share ($0.59 per share) in the corresponding quarter last year.

3. Analysis of Operations and Profitability

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

1. Sales

The consolidated sales during the reported period amounted to NIS 275.8 million and were similar to the sales in the reported period last year that amounted to approximately NIS 277.8 million. Sales of the packaging and recycling activity amounted to NIS 216.5 million in the reported period, as compared with NIS 221.4 million in the corresponding period last year.

The decrease in the sales turnover of the packaging paper and recycling activity originated primarily from the erosion of selling prices as a result of the revaluation of the NIS vis-à-vis the US dollar in relation to last year. (The activity sales are affected by dollar-denominated import prices).

The sales of the Office Supplies Marketing activity during the reported period amounted to NIS 59.3 million, as compared with NIS 56.5 million last year, representing growth of 7.9% that originated from the continuing trend of growth in operating volumes in this activity.

The aggregate sales in the second quarter of the year totaled NIS 133.3 million, as compared with NIS 141.2 million in the corresponding quarter last year, representing reduction of approximately 5.6% and as compared with first quarter sales of NIS 142.5 million, representing reduction of approximately 6.5%.

Sales of the packaging and recycling activity amounted to NIS 107.1 million in the second quarter of the year, as compared with NIS 114.1 million in the corresponding quarter last year primarily due to the changes in exchange rate and from the impact of the cold spell in agriculture that affected export in the agriculture market in the reported period.

Sales of the office supplies marketing activity amounted to NIS 26.1 million in the second quarter of the year, as compared with NIS 27.0 million in the corresponding quarter last year, resulting from Passover orders in both periods.

2. Cost of Sales

The cost of sales amounted to NIS 208.9 million or 75.8% of sales during the reported period, as compared with NIS 214.1 million or 77.1% of sales in the corresponding period last year.

The gross profit totaled NIS 66.8 million during the reported period (approximately 24.2% of sales), as compared with NIS 63.7 million (approximately 22.9% of sales) in the corresponding period last year, representing growth of 4.9% in relation to the corresponding period last year.

The increase in profitability and in the gross profit originated primarily from continuing efficiency and the transition to manufacturing using natural gas, which more than compensated for the reduction in quantitative sales on the local market, primarily as a result of the cold spell, along with the 22% rise in electricity prices, as compared with the corresponding period last year.

Labor Wages

The labor wages within the cost of sales amounted to NIS 63.3 million during the reported period (22.9% of sales), as compared with NIS 56.9 million last year (20.5% of sales).

The labor wages within the general and administrative expenses amounted to NIS 31.1 million during the reported period (11.3% of sales), nearly identical to the sum of NIS 31.1 million last year (11.2% of sales).

The change in payroll costs in relation to the corresponding period last year reflects a certain increase in personnel, especially at Amnir and in packaging paper activity, as part of the preparations and implementation for increasing cardboard and newspaper waste collection in anticipation of the future operation of the new packaging paper manufacturing network, along with a nominal increase of approximately 4% in the wages.

The cost of labor wages also includes growth on account of options to executives, as detailed in Section 3, above.

3. <u>Selling, General and Administrative and Others</u>

The selling, general and administrative (including wages) and others amounted to NIS 36.8 million in the reported period or 13.3% of sales as compared with NIS 33.3 million or 12.0% of sales in the corresponding period last year.

The increase in selling, general and administrative and others originated primarily from growth in the Labor Wages section as a result of the recording of wage expenses on account of options to senior executives, as approved in January this year, in the sum of NIS 2.0 million, coupled with growth in other expenses on account of the valuation of a PUT option by Mondi in the sum of NIS 1.3 million, according to IFRS. Net of the aforesaid expenses selling, general and administrative and others amounted to NIS 33.5 million, similar to the corresponding period last year.

4. <u>Operating Profit</u>

The operating profit totaled NIS 30.1 million during the reported period (10.9% of sales), as compared with NIS 30.4 million (10.9% of sales) in the corresponding period last year, representing reduction of 1.0%.

The operating profit of the paper and recycling activity totaled NIS 28.7 million during the reported period, as compared with NIS 31.6 million in the corresponding period last year, primarily as a result of the impact of the exchange rate on which selling prices are presented as mentioned above, and from the impact of the cold spell on agriculture export demands.

The operating profit of the office supplies activity amounted to NIS 1.4 million, as compared with NIS -1.1 million in the corresponding period last year.

The operating profit amounted to NIS 12.6 million in the second quarter of the year, as compared with NIS 13.9 million in the corresponding quarter last year and as compared with NIS 17.5 million in the first quarter this year as mentioned above due to the erosion of the dollar exchange rate and from the impact of the cold spell in agriculture that affected export in the agriculture market.

The operating profit of the paper and recycling activity amounted to NIS 11.9 million in the second quarter of the year, as compared with NIS 14.5 million in the corresponding quarter last year, representing a decrease of 17.9%.

The operating profit of the office supplies activity amounted to approximately NIS 0.8 million, as compared with operating loss in the amount of NIS -0.6 million in the corresponding quarter last year.

5. <u>Financial Expenses</u>

The financial expenses during the reported period amounted to NIS 11.1 million, as compared with NIS 11.7 million in the corresponding period last year, representing a decrease of 5.1%.

The total average of the Company s net, interest-bearing liabilities decreased by an average of approximately NIS 132 million between the periods 2007 and 2008. The decrease is primarily attributed to the proceeds from the private placement last year and the positive cash flows from operating activities between the periods, net of investments in fixed assets.

The interest on the short-term credit decreased by NIS 2.7 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. Expenses related to the interest on long-term, CPI-linked liabilities (debentures) decreased somewhat as a result of the decrease in the debentures balances on account of the repayment to debentures holders, despite the rise in hedging costs of CPI-linked bonds as opposed to the rise in the CPI that rose by 2.6% per year in 2008, as compared with 1.3% in 2007.

Moreover, financial expenses of NIS 1.1 million were recorded, primarily on account of the impact of the revaluation against the dollar this year in the rate of 12.8%, as compared with a devaluation of 1.0% in the corresponding period last year on the dollar-denominated asset balances.

6. **Taxes on Income**

Taxes on income amounted to NIS 5.4 million in the reported period, as compared with NIS 7.2 million in the corresponding period last year. The decrease of approximately NIS 1.8 million originates primarily from the fact that the corresponding period last year included tax expenses of NIS 0.9 million on account of final tax assessments for the years 2002 through 2005, coupled with a reduction in the current tax rate this year, in relation to last 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 Ltd. (Carmel).

The company s share in the earnings (losses) of associated companies totaled NIS 25.8 million during the reported period, as compared with a loss of NIS (5.1) million in the corresponding period last year.

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

The Company s share in the net profit of Mondi Hadera (49.9%) increased by approximately NIS 4 million. Most of the change in profit originated primarily from Mondi s highly improved operating profitability, which recorded an increase from operating profit of NIS 13.8 million last year to an operating profit of NIS 17.7 million this year primarily as a result of the raising of selling prices in relation to last year that led to an improved gross margin. This improvement is the result of the said trend in the European paper industry.
The net profit also increased as a result of the sharp 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 profit of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 8.1 million. Hogla s operating profit grew from NIS 67.6 million to NIS 85.1 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.

The Company s share in the losses of KCTR (formerly: Ovisan) (49.9%) decreased by NIS 25.6 million. The significant decrease in the loss is attributed to the growth in the volumes of operation (see above Strategic Investment in Turkey) that led to a significant reduction in the operating loss, from NIS 46.2 million last year to approximately NIS 20.9 million this year. In the corresponding period last year, a non-recurring loss of approximately NIS 6 million ($1.5 million) was included on account of the termination of trade agreements with distributors due to the transition to distribution by Unilever, of which our share was approximately NIS 3 million. Moreover, the tax asset that was recorded in previous years in Turkey, in the sum of approximately NIS 12 million (approximately $3 million) was reduced, of which our share is NIS 6.0 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%) increased by NIS 2 million. Net off one time losses from hedging transactions, operating profit increased in the reported period by NIS 1.9 million, of which the Company s share amounted to NIS 0.7 million. The aforesaid growth occurred despite of the damages caused by the eroded profitability at Carmel originated from the impact of the cold spell in agriculture that decreased demands in the agriculture market as aforesaid. Carmel also recorded a loss of NIS 7.5 million in the reported period on account of hedging transactions for affixing exchange rate, of which the Company s share amounted to approximately NIS 1.9 million.

The Company s share in the earnings of associated companies from current operations in Israel (excluding Turkey) grew by NIS 5.3 million this year and amounted to NIS 36.3 million.

D. Liquidity

Cash Flows

The cash flows from operating activities totaled approximately NIS 56.7 million during the reported period, as compared with NIS 17.4 million in the corresponding period last year. The significant change in the cash flows from operating activities during the reported period, originated primarily from the sharp improvement in net profit, coupled with the reduction in working capital in the reported period, that amounted to NIS 11.3 million, as compared with growth of NIS 10.8 million last year. The decrease in working capital during the reported period originated primarily from the reduction in the accounts receivable balance as a result of the lower dollar exchange rate that is affecting the selling prices in NIS, especially as regards packaging paper and recycling activity.

E. Sources of Finance

See Section B2 - Financial Liabilities.

F. Exposure and Management of Market Risks

1. General

The Company conducts periodical discussions regarding market risks and exposure to exchange rate and interest rate fluctuations, with the participation of the relevant factors, so as to reach decisions in this matter. The individual responsible for the implementation of market risk management policy at the Company is Israel Eldar, the Company s Comptroller.

2. Market Risks to which the Company is Exposed

Description of Market Risks

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

Exchange Rate Risks

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

The Company periodically reexamines the need for hedging on account of this exposure. True to June 30, 2008, the Company entered into sale and purchase transactions in the sum of 20 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 194.5 million.

In early 2008, the Company entered into hedging transactions for a period of one year, to protect itself against a rise in the CPI, in the amount of NIS 190 million, pursuant to previous transactions that were made in December 2006 and January 2007 and terminated at the end of 2007.

Interest Rate Risks

The Company is exposed to changes in interest rates, primarily on account of debentures, in the sum of NIS 194.5 million.

Credit Risks

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

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

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements

Sensitivity of -linked instruments to changes in the exchange rate

Sensitive Instruments	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	Revaluation of 10%	Revaluation 5%	As at Jun-30-08	Devaluation of 10%	Devaluation of 5%
	In NIS thousands				
Transaction with supplier- Alstom	(138)	(69)	1,379	69	138
Designated deposits	6,706	3,353	67,055	(3,353)	(6,706)

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Linkage Base Report

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

NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-Monetary Items	Total
Assets					
Cash and cash equivalents	1.3		4.3		5.6
Short-term deposits and investments			67.1		67.1

NIS millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-Monetary Items	Total
Other Accounts Receivable	242.0	0.3	12.4	1.4	256.1
Inventories				69.2	69.2
Current tax assets	5.5				5.5
Investments in Associated Companies	52.2		2.7	296.3	351.2
Deferred taxes on income				21.0	21.0
Fixed assets, net				527.2	527.2
Other assets				37.3	37.3
Assets on account of employee benefits	1.2				1.2
Total Assets	302.2	0.3	86.5	952.4	1,341.4
Liabilities					
Short-term credit from banks	106.3				106.3
Other Accounts Payable	179.1		12.4		191.5
Deferred taxes on income				42.6	42.6
Long-term loans, including current maturities	64.1				64.1
Notes (bonds) including current maturities		194.0			194.0
Liabilities on account of employee benefits	20.4				20.4
Other liabilities	32.0				
Equity, funds and reserves				690.5	690.5
Total liabilities and equity	401.9	194.0	12.4	733.1	1,341.4
Surplus financial assets (liabilities) as at June 30, 2008	**(99.7)**	**(193.7)**	**74.1**	**219.3**	
Surplus financial assets (liabilities) as at December 31, 2007	**(80.9)**	**(195.1)**	**170.0**	**106.0**	

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

Associated Companies

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

g. Forward-Looking Statements

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

h. Significant Influences as a Result of the Transition to IFRS

As at June 30, 2007, no significant impact was recorded on the financial situation, results of operations, liquidity and sources of finance of the company as a result of the transition to IFRS, except for that stated in the update to Chapter A (Description of the Corporate Business) of the Company s Periodical Report dated December 31, 2007 and that stated below. As to the overall accounting implications and adjustments as a result of the transition to IFRS, see Note 10 to the Company s financial statements as at June 30, 2008.

1. Put option on an associated company

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

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

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

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

As at June 30, 2007, the liability on account of the Put option on the subsidiary company shares is presented in the sum of approximately NIS 1,791 thousand.

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

As a result of the valuation of the option, other expenses grew by approximately NIS 179 and approximately NIS 326 thousand for the period of three months and six months that ended on June 30, 2007, respectively, and grew by a sum of approximately NIS 2,289 thousand for the year ended December 31, 2007.

2. Employee Benefits

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

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

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

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

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

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

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

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

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

As at June 30, 2007, a net increase of NIS 5,766 thousand was created in liabilities on account of employee benefit plans, in addition to an increase of NIS 1,442 thousand in deferred tax assets.

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

Labor wage expenses decreased by a sum of approximately NIS 334 thousand and approximately NIS 667 thousand for the six-month and three-month periods ended June 30, 2007, respectively, and increased by a sum of approximately NIS 199 thousand for the year ended December 31, 2007. Moreover, tax expenses decreased by a sum of approximately NIS 52 thousand and increased by approximately NIS 32 thousand for the six-month and three-month periods ended June 30, 2007, respectively, and decreased by a sum of approximately NIS 46 thousand for the year ended December 31, 2007.

Moreover, Assets on account of employee benefits were reclassified from Other Payables to Non-Current Assets. Sums of NIS 1,132 thousand, NIS 1,146 thousand and NIS 1,179 thousand for the dates January1, 2007, June 30, 2007 and December 31, 2007, respectively.

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

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

The Committee conducts its examination via detailed presentations from company executives and others, including: General Manager Avi Brenner; 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, held several days before the approval date of the financial statements, is held to discuss the material reporting issues in depth and at great length, whereas the second, held in proximity to the approval date, is held by the board of directors, to discuss the actual results. As to the supreme supervision regarding the impact of the transition to international financial reporting standards, the Committee held a detailed discussion regarding the said disclosure and the accounting policy implemented in its respect.

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

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Exhibit 3

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

HADERA PAPER LTD

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

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HADERA PAPER LTD

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(NIS in thousands)

	June 30,		December 31,
	2008	2007	2007
	(Unaudited)		
Current Assets			
Cash and cash equivalents	5,553	57,426	167,745
Designated deposits	67,055	-	-
Trade receivables	159,224	187,517	178,553

	June 30,		December 31,
Other receivables	97,011	94,515	94,415
Current tax assets	5,478	-	-
Inventories	69,201	64,682	69,607
	403,522	**404,140**	**510,320**
Non-Current Assets			
Property plant and equipment, net	527,165	388,133	405,231
Investments in associated companies	351,221	346,211	346,403
Deferred tax assets	21,037	20,622	20,622
Deferred expenses	35,797	32,661	34,900
Other non-current assets	1,503	1,922	1,578
Employee benefit assets	1,187	1,146	1,179
	937,910	**790,695**	**809,913**
	1,341,432	**1,194,835**	**1,320,233**
Current Liabilities			
Credit from banks and others	106,276	225,202	143,015
Current maturities of long-term notes and long term loans	50,984	41,770	42,775
Trade payables	103,501	107,515	108,409
Other payables and accrued expenses	82,874	65,642	73,230
Other financial liabilities	31,990	-	-
Financial liabilities at fair value through profit and loss	5,196	1,791	3,901
Current tax liabilities	-	10,039	908
	380,821	**451,959**	**372,238**
Non-Current Liabilities			
Loans from banks and others	51,617	30,840	28,127
Notes	155,487	183,758	158,134
Other financial liabilities	-	31,990	31,210
Deferred tax liabilities	42,566	41,164	40,515
Employee benefit liabilities	20,398	20,554	20,038
	270,068	**308,306**	**278,024**
Capital and reserves			
Issued capital	125,267	125,257	125,267
Reserves	289,687	98,069	308,267
Retained earnings	275,589	211,244	236,437
	690,543	**434,570**	**669,971**
	1,341,432	**1,194,835**	**1,320,233**

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

Approval date of the interim financial statements: August 10, 2008.

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

HADERA PAPER LTD

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENTS
(NIS in thousands)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	(Unaudited)		(Unaudited)		
Revenue	275,786	277,823	133,267	141,185	583,650
Cost of sales	208,937	214,149	102,958	109,682	441,381
Gross profit	**66,849**	**63,674**	**30,309**	**31,503**	**142,269**
Selling and marketing expenses	15,653	14,853	7,765	7,157	31,367
General and administrative expenses	19,670	18,232	9,546	10,125	36,377
Other income , net	1,445	179	378	326	4,467
Total expenses	**36,768**	**33,264**	**17,689**	**17,608**	**72,211**
Profit from ordinary operations	**30,081**	**30,410**	**12,620**	**13,895**	**70,058**
Finance income	3,530	4,492	1,636	3,217	10,648
Finance expenses	14,660	16,237	5,959	8,378	31,766
Finance expenses, net	**11,130**	**11,745**	**4,323**	**5,161**	**21,118**
Profit after financial expenses	**18,951**	**18,665**	**8,297**	**8,734**	**48,940**
Share in profit (loss) of associated companies, net	25,771	(5,116)	11,138	5,379	856
Profit before taxes on income	**44,722**	**13,549**	**19,435**	**14,113**	**49,796**
Taxes on income	5,420	7,207	1,403	3,894	18,261

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
Profit for the period	**39,302**	**6,342**	**18,032**	**10,219**	**31,535**
Earning for share:					
Primary	7.77	1.57	3.56	2.53	7.63
Fully diluted	7.76	1.57	3.55	2.52	7.62
Number of share used to compute the primary earnings per share	5,060,774	4,039,700	5,060,774	4,044,614	4,132,728
Number of share used to compute the fully diluted earnings per share	5,067,954	4,046,389	5,073,967	4,051,304	4,139,533

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

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES
(NIS in thousands)

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2008	2007	2008	2007	2007
	(Unaudited)		(Unaudited)		
Exchange differences arising on translation of foreign operations	(17,945)	4,362	2,063	4,960	3,810
Profit (loss) on cash flow hedges	(4,544)	282	(3,993)	432	(917)
Taxes on income in respect of income and expense recognized to equity	360	(83)	216	(125)	265
Actuarial profit (loss) and defined benefit plans	(150)	-	(150)	-	-
Net income recognized directly in equity	**(22,279)**	**4,531**	**(2,084)**	**5,255**	**3,151**

	Six months ended		Three months ended		Year ended
Transfer to profit or loss from equity on cash flow hedges, net	1,088	74	593	29	17
Profit for the period	39,302	6,342	18,032	10,219	31,535
Total recognized income and expense for the period	**18,111**	**10,977**	**16,761**	**15,515**	**34,710**

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

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CONDENSED INTERIM CONSOLIDATED CASH FLOWS STATEMENTS
(NIS in thousands)

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2008	2007	2008	2007	2007
	(unaudited)		(unaudited)		
Cash flows - operating activities					
Operating profit for the period	39,302	6,342	18,032	10,221	31,535
Taxes on income recognized in profit and loss	5,420	7,207	1,403	3,894	18,261
Finance expenses recognized in profit and loss	11,130	11,745	4,323	5,161	21,118
Capital loss on disposal of property, plant and equipment	150	(126)	158	(79)	1,403
Capital loss on sale of investment in associated company	-	28	-	-	28
Share in loss (profit) of associated companies, net	(25,771)	5,116	(11,138)	(5,379)	(856)
Depreciation and amortization	22,273	17,381	11,188	8,767	36,138
Share based payments expense	1,997	-	1,274	-	-
	54,501	**47,693**	**25,240**	**22,585**	**107,627**
Changes in assets and liabilities:					
Decrease (Increase) in trade and other receivables	17,197	(17,473)	4,863	(6,238)	(5,416)
Decrease (Increase) in inventories	406	(2,573)	(354)	1,084	(7,498)
Increase (Decrease) in trade payables and other payables	(6,292)	9,262	(8,504)	2,494	24,631
Increase (decrease) in other long term liabilities	352	179	735	(989)	268

	Six months ended		Three months ended		Year ended December 31,
	11,663	**(10,605)**	**(3,260)**	**(3,649)**	**11,985**
Tax Payments	**(9,500)**	**(19,659)**	**(5,754)**	**(4,111)**	**(27,755)**
Net cash generated by (used in) operating activities	**56,664**	**17,429**	**16,226**	**14,825**	**91,857**

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

HADERA PAPER LTD

CONDENSED INTERIM CONSOLIDATED CASH FLOWS STATEMENTS
(NIS in thousands)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2008	**2007**	**2008**	**2007**	**2007**
	(Unaudited)		**(Unaudited)**		
Cash flows - investing activities					
Acquisition of property plant and equipment	(128,188)	(42,111)	(70,203)	(30,940)	(83,363)
Proceeds from disposal of Property plant and equipment	184	30,811	39	294	31,415
Investment in designated deposits, net	(73,026)	-	40,288	-	-
Interest received	2,424	516	2,219	503	1,716
Prepaid leasing expenses	(1,397)	-	(228)	-	(2,596)
Associated companies:					
Granting of loans	-	-	-	-	(318)
Collection of loans	-	-	-	-	2,893
Proceeds from sale of investment of associated companies	-	27,277	-	-	27,277
Net cash used in investing activities	**(200,003)**	**16,493**	**(27,885)**	**(30,143)**	**(22,976)**
Cash flows - financing activities					
Proceeds gain from private share allocating	-	-	-	-	211,645
Short-term bank credit	(36,739)	22,199	23,303	22,965	(59,988)
Borrowings received from banks	35,000	-	-	-	-
Repayment of borrowings from banks	(4,916)	(2,586)	(3,586)	(1,298)	(5,212)
Deferred issuance expenses	(247)	-	(247)	-	-
Interest Paid	(4,759)	(7,008)	(2,582)	(4,162)	(24,994)
Redemption of notes	(7,192)	(4,528)	(7,192)	(4,528)	(37,167)

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
Net cash generated by (used in) financing activities	**(18,853)**	**8,077**	**9,696**	**12,977**	**84,284**
Increase in cash and cash equivalents	**(162,192)**	**41,999**	**(1,963)**	**(2,341)**	**153,165**
Cash and cash equivalents - beginning of period	167,745	13,621	7,330	58,022	13,621
Net foreign exchange difference	-	1,806	186	1,745	959
Cash and cash equivalents - end of period	**5,553**	**57,426**	**5,553**	**57,426**	**167,745**

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

HADERA PAPER LTD

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 1 DESCRIPTION OF BUSINESS AND GENERAL

A. Description Of Business

Hadera Paper Limited (former American Israeli Paper Mills Limited) and its subsidiaries (hereafter the Company) are engaged in the production and sale of paper packaging, in paper recycling activities and in the marketing of office supplies. The Company also has holdings in associated companies that are engaged in the productions and sale of paper and paper products including the handling of solid waste (the Company and its investee companies hereafter the Group). Most of the Group s sales are made on the local (Israeli) market. For segment information, see note 8.

B. Definitions:

The Company - Hadera Paper Limited.

The Group - the Company and its Subsidiaries.

Subsidiaries - companies in which the Company control, (as defined by IAS 27) directly or indirectly, and whose financial statements are fully consolidated with those of the Company.

Affiliated Companies - companies in which the Group has significant influence, and the Group investments in them, directly or indirectly are included in the financial statements using the equity method.

Related Parties - as defined by IAS 24.

Interested Parties - as defined in the Israeli Securities Regulations (Presentation of Financial Statements), 1993.

Controlling Shareholder - as defined in the Israeli Securities law and Regulations 1968.

NIS - New Israeli Shekel.

CPI - the Israeli consumer price index.

Dollar - the U.S. dollar.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Applying International Accounting Standards (IFRS)

(1) Basis of preparation

The condensed interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting . The principal accounting policies described in the following notes were applied in accordance to the IFRS, in a manner consistent with previous reporting periods presented in these condensed interim financial statements and in accordance to the opening balance sheet.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Applying International Accounting Standards (IFRS) (Cont.)

(1) Basis of preparation (Cont.)

The unaudited condensed interim consolidated financial statements as of March 31, 2008 and for the three months then ended (interim financial statements) of the Company and subsidiaries should be read in conjunction with the audited consolidated financial statements of the Company and subsidiaries as of December 31, 2007 and for the year then ended, including the notes thereto including the note regarding the adoption of IFRS.

(2) First term IFRS standards adoption

According to standard No. 29 Adoption of International Financial Reporting Standards IFRS (standard No. 29), the Company applies International Financial Reporting Standards and interpretations of the committee of the International Accounting Standard Board (IASB) Starting January 1, 2008.

In compliance with the abovementioned, the condensed interim financial statements, as of March 31, 2008 and for the three months then ended, including all previous reporting periods have been prepared under accounting policies consistent with International Financial Reporting Standards and interpretations published by the International Accounting Standard Board (IASB) and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

In these condensed interim financial statements the Company applied IFRS 1 First time Adoption of International Financial Reporting Standards (IFRS No. 1), which determines instructions for first time implementation of IFRS.

According to IFRS No. 1 the effective date for implementing IFRS standards is commencing January 1, 2007.

The Company has applied in a retroactive manner the IFRS standards for all reporting periods presented in the condensed interim financial statements. The Company implemented the IFRS standards which have been published as of the preparation date of the condensed interim Financial Statements and expected to be affective as of December 31, 2008.

In implementing the transitional rules as above, the Group elected to apply the following concessions permitted by IFRS 1:

1. Share based payments

The rules of IFRS 2, which deals with share based payments, were not retroactively applied with regard to capital instruments which had been granted prior to November 7, 2002 and vested before the transition date.

2. Translation differences

The company elected to desist from retroactively applying the rules of IAS 21 for translation differences accumulated as of January 1, 2007 with respect to foreign operations. As a result, accumulated translation differences have not been included in the Opening Balance Sheet.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Applying International Accounting Standards (IFRS) (Cont.)

(2) First term IFRS standards adoption (cont.)

3. Deemed cost for items of fixed assets

IFRS 1 permits the measurement of items of fixed assets as of the transition date to the IFRS, or at an earlier date, on the basis of a revaluation executed according to previously applied generally accepted accounting principles, as deemed cost as of the date of the revaluation, if, in general, the revaluation was comparable to cost or undepreciated cost according to the IFRS, adjusted for changes such as changes in the index of prices.

Through December 31, 2007, the company adjusted its financial statements to changes in the rate of exchange of the dollar, in accordance with the rules of Accounting Opinion 36 of the Institute of Certified Public Accountants. For purposes of the transition to reporting pursuant to the IFRS, the company chose to apply the concession in IFRS 1 as above and to measure the items of its fixed assets acquired or constructed through December 31, 2003 at deemed cost as of that date, based on their amounts, as adjusted to changes in the rate of exchange of the dollar up to that date.

Prior to the adoption of the IFRS, the Group prepared its financial statements according to accounting principles generally accepted in Israel. The latest annual financial statements of the company according to accounting principles generally accepted in Israel were prepared as of December 31, 2007 and for the year ended on that date. Comparative figures for that period were restated in these financial statements pursuant to the IFRS.

See Note 10 with respect to the material differences between reporting pursuant to the IFRS and reporting according to Israeli generally accepted accounting principles, as they are relevant to the Group.

B. The condensed Financial Statements were prepared in accordance with section D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

C. Basis of preparation

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the exchange rate of the U.S. dollar. As of December 31, 2003 when the economy ceases to be hyper-inflationary and the Company no longer adjusted its financial statements to the U.S. dollar, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

Derivative financial instruments measured by fair value.

Inventories are stated at the lower of cost and net realizable value.

Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.

Liabilities to employees as described in note 2S below.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in the New Israeli Shekel (NIS), which is the functional currency of the Company and the presentation currency for the consolidated financial statements, see note 2U (3) as follows with regard to the exchange rate and the changes in them during the reported period.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period which they were created, except for exchange differences on transactions entered into in order to hedge certain foreign currency risks. Hedge accounting details are set out in Note 2M below.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group s foreign operations of affiliated company (mainly because of it s investment in a subsidiary company that presents it s financial statements in foreign currency) are expressed in NIS using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

E. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

For the effect of the issuance of IAS 27 (revised) Consolidated and Separate Financial Statements see note 2V below.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

F. Investments in associated companies

An associated company is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The financial statements of the consolidated companies adopted to the accounting policies of the group.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition change in the Group s share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group s interest in that associate (which includes any long-term interest that, in substance, form part of the Group s net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. With regard to the group s examination for impairment in the investment in affiliated companies in accordance to IAS 36 see note 2I below.

Where a group entity transacts with an associate of the Group material, profits and losses are eliminated to the extent of the Group s interest in the relevant associate.

G. Property, plant and equipment

Property, plant and equipments are tangible items, which are held for use in the manufacture or supply of goods or services, or leased to others, which are predicted to be used for more than one period. The Company presents its property, plant and equipments items according to the cost model.

Under the cost method a property, plant and equipment are presented at the balance sheet at cost (net of any investment grants), less any accumulated depreciation and any accumulated impairment losses. The cost includes the cost of the asset s acquisition as well as costs that can be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Spare parts which are not used on a current basis are designated for use in the context of specific items of fixed assets, where necessary. The reason for holding them is to prevent delays in the manufacturing process and to avoid a shortage in spare parts in the future. The spare parts that are not used on a current basis have not been installed on items of fixed assets and are, therefore, not available for use in their present state. In the light of this, spare parts that are not being used currently are presented with fixed assets and are depreciated beginning from the date that they are installed on the items of fixed assets for which they were purchased.

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. The depreciation starts once the asset is ready for use and takes into consideration of the anticipated scrap value at the end of the asset s useful lives.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Property, plant and equipment (Cont.)

The annual depreciation and amortization rates are:	%
Buildings	10-50
Machinery and equipment	7-20
Motor vehicles	5-7
Office furniture and equipment	3-17

Scrap value, depreciation method and the assets useful lives are being reviewed by management in the end of every financial year. Changes are handled as a change of estimation and are applied from here on.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income statement.

H. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are assed to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. The rest of the borrowing costs are recognized in profit or loss.

For the effect of the issuance of IAS 23 (revised) Borrowing costs see Note 2V below.

I. Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Impairment of tangible assets (cont.)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

J. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production over heads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories that purchased on differed settlement terms, which contains a financing element, are stated in purchase price for normal credit terms. The difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of the financing.

Cost determined as follows:

Raw, auxiliary materials and others	Based on weighted-average basis.
Finished products	Based on overhead absorption costing.
Products	Based on weighted-average basis.

The spare parts that are in continuous use, are not associated with the specific fixed assets. Some of these spare parts are even sold to the Group s affiliated companies, as needed, and are part of the inventory. Based on the experience accumulated by the Company, these spare parts are held for no longer than 12 months. In light of the above, the spare parts that are in continuous use are presented in inventory clause, and recognized in the profit and loss report when used.

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Financial assets

(1) General

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into loans and receivables and to financial assets through profit and loss. The classification of this category arises from the reason of the financial assets holding and it is determined at its initial recognition.

(2) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(3) Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

it has been acquired principally for the purpose of selling in the near future; or

it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

(4) Impairment of financial assets

Financial assets, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

significant financial difficulty of the issuer or counterparty; or

default or delinquency in interest or principal payments; or

it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Financial assets (Cont.)

(4) Impairment of financial assets (Cont.)

For certain financial assets, such as customers as to which no indications of value impairment have been identified, the company evaluates value impairment on a specific basis, in reliance on past experience and changes in the level of delinquency in payments, as well as economic changes related to the sector and the economic environment in which it operates.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

L. Financial liabilities and equity instruments issued by the Group

(1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or Other financial liabilities for the published IAS 32 (amended), financial instruments: present an IAS-1: presentation of financial statements see note 2V as follows.

(2) Options to sell sales of an investee

The company has an obligation that is derived from an option that it gave for the sale of shares of an investee, which provide the holder thereof with the right to sell its holdings in the investee in consideration of a variable amount of cash.

The value of the option was computed according to the economic value of the option and is presented with non current liabilities, and classified as a liability at fair value through operations.

Any gain or loss that results from changes in the fair value of the option is recognized in operations.

See Note 10 E (4) below for further details on the conditions of the option.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Financial liabilities and equity instruments issued by the Group (Cont.)

(3) Other financial liabilities

Other financial liabilities (capital note issued to an investee), are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

For the treatment at CPI-linked other financial liabilities see note 2L(4) below.

(4) CPI-linked liabilities

The Company has liabilities that are linked to the Consumer Price Index (hereinafter the CPI), which are not measured at fair value under the statement of income. The Company determines the effective interest rate in respect of these liabilities as a real rate with the addition of linkage differences in line with actual changes in the CPI until the balance sheet date. This is also the approach used under generally accepted accounting principles in Israel.

The vast majority of loans and long-term and medium-term financing arrangements in Israel are linked to the CPI. Therefore, the Israeli Institute for Accounting Standards has submitted a request to the International Financial Reporting Interpretation Committee (IFRIC) to clarify the applicable method in the measurement of the effective interest rate of such assets and liabilities under IFRS.

The Committee s response in this matter and the implications thereof cannot be reliably predicted. If the Committee s response indicates that the method used in Israel and which was implemented in these financial statements is not appropriate in accordance with IFRS, the Company will have to change the method of measurement of these assets and liabilities and it may have to do so by way of restating its financial statements. Under the present circumstances, the Company is unable to reliably measure the potential impact on its financial statements in such a case.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Derivative financial instruments

(1) General

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts on exchange rate, options on exchange rate and contracts on the CPI due to notes.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The company implements a cash flow hedge accounting in respect of future transaction for the acquisition of foreign currency and option transactions that are intended to secure payments for the acquisition of fixed assets linked to foreign currency.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in capital fund. Since the hedge is for expected acquisition of fixed assets, the company chose to add the capital fund to the initial cost of the hedges item immediately. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the finance income or finance expenses lines of the income statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Derivative financial instruments (Cont.)

(2) Hedge accounting (Cont.)

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in fixed assets at that time remains in fixed assets and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

N. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

(1) Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the entity; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(2) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset s net carrying amount.

(3) Dividends

Revenue is recognized when the Group s right to receive the payment is established.

(4) Reporting of revenues on a gross basis or a net basis

The Company s revenues as an agency or intermediary from providing electricity, water, steam, and logistical services to the Group without bearing the risks and returns that derive from the transaction, are presented on a net basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Leasing

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Leases of land from the Israel Lands Administration

Leases of land from the Israel Lands Administration are classified as operating leases. The deferred lease payments that were made on the date of the start of the lease are presented in the balance sheet with long term receivables , and are amortized on the straight line basis over the balance of the lease period, including the extension option.

The company has land lease rights from the Municipality of Tel Aviv which comply with the definition of investment real estate, and, pursuant to IAS 40, have been classified as operating leases and not as investment real estate.

P. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Q. Share Based payments

In accordance with IFRS 2 and IFRIC 11, equity-settled share based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Company determines the fair value of equity-settled share-based transaction according to the Black-Scholes model. Details regarding the determination of the fair value of share-based transactions are set out in note 6.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group s estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. Share Based payments (Cont.)

For the effect of the issuance of amendment to IFRS 2 Share Based Payment- Vesting and Revocation Conditions, see note 2V below.

R. Taxation

(1) General

Income tax expense represents the sum of the tax currently payable and change in deferred tax excluding deferred tax as result of transaction that was attribute directly to the equity.

(2) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(3) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

R. Taxation (Cont.)

(3) Deferred tax (Cont.)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

S. Employee benefits

(1) Benefits after termination of employment

Company benefits after the termination of employment include mainly benefits to pensioners (Most of the employees of the company fall under Section 14 of the Severance Pay Law).

Actuarial gains and losses recognized when incurred are recorded to the statement of income and expenses. Past service cost is recognized immediately in the company s statements of operations up to the extent that the benefit has vested. Unvested past service cost is amortized over the average vesting period under the date of vesting.

(2) Other long term employee benefits

Other long term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that exceeds 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Other employee benefits of the company include liabilities for vacation pay. These liabilities are recorded to operations in accordance with the projected unit credit method, through the use of actuarial estimates which are performed at each balance sheet date. The present value of the company s obligation for vacation pay was determined by means of the capitalization of anticipated future cash flows from the program at market yields of government bonds, denominated in the currency in which the benefits for vacation will be paid and having redemption dates nearly identical to the forecasted payment dates of the vacation pay.

Gains and losses are recorded to the statement of operations at the time that they are created. Past service cost is immediately recognized in the financial statements of the company.

(3) Short term employee benefits

Short term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that does not exceed 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

S. Retirement benefit costs (cont.)

(3) Short term employee benefits (Cont.)

Short term company benefits include the company s liability for short term absences, payment of grants, bonuses and compensation. These benefits are recorded to the statement of operations when created. The benefits are measured on a non capitalized basis. The difference between the amount of the short term benefits to which the employee is entitled and the amount paid is therefore recognized as an asset or liability.

T. Net income per share

The computation of basic net income per share is generally based on earnings available for distribution to holders of ordinary shares, divided by the weighted average number of ordinary shares outstanding during the period.

In computing diluted net incomeper share, the weighted average number of shares to be issued, assuming that all dilutive potential shares are converted into shares, is to be added to the average number of ordinary shares used in the computation of the basic income (loss) per share. Potential shares are taken into account, as above, only when their effect is dilutive (reducing net income per share from continuing activities).

U. Exchange Rates and Linkage Basis

(1) Foreign currency balance, or balances linked to foreign currency are included in the financial statements according to the exchange rate announced by the Bank of Israel on the balance sheet date.

(2) Balances linked to the CPI are presented according to index of the last month of the report period (the index of the month of the financial reports).

(3) Following are the changes in the representative exchange rates of the Euro and the U.S. dollar vis-a-vis the NIS and in the Israeli Consumer Price Index (CPI):

As of:	Representative exchange rate of the Euro (NIS per 1)	Representative exchange rate of the dollar (NIS per $1)	CPI "in respect of" (in points)
June 30, 2008	5.285	3.352	195.62
June 30, 2007	5.713	4.249	186.67
December 31, 2007	5.659	3.846	191.15
Increase (decrease) during the:	**%**	**%**	**%**
Three months ended June 30, 2008	(5.9)	(5.6)	2.2
Three months ended June 30, 2007	3.2	2.3	1.2
Six months ended June 30, 2008	(6.6)	(12.8)	2.3
Six months ended June 30, 2007	2.7	0.6	1.0
Year ended December 31, 2007	1.7	(9.0)	3.4

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Adoption of new and revised Standards and interpretations

Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption

IAS 1 (Amended) Presentation of Financial Statements

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

The standard will be effective for reporting periods beginning from January 1, 2009. The standard permits earlier application.

At this stage, the management of the Group is unable to assess the effect of the standard on the financial statements.

IAS 23 (Amended) Borrowing Costs

The standard stipulates the accounting treatment of borrowing costs. In the context of the amendment to this standard, the possibility of immediately recognizing borrowing costs related to assets with an uncommon period of eligibility or construction in the statement of operations was cancelled. The standard will apply to borrowing costs that relate to eligible assets as to which the capitalization period began from January 1, 2009. The standard permits earlier implementation.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

IFRS 8, Operating Segments

The standard, which replaces IAS 14, details how an entity must report on data according to segments in the annual financial statements. The standard, among other things, stipulates that segmental reporting of the company will be based on the information that management of the company uses for purposes of evaluating performance of the segments, and for purposes of allocating resources to the various operating segments. The standard will apply to annual reporting periods commencing on January 1, 2009, with restatement of comparative figures for prior reporting periods. The standard permits earlier adoption. At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Adoption of new and revised Standards and interpretations (cont.)

Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)

IAS 27 (Amended) Consolidated and Separate Financial Statements

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The minority interest in the losses of a subsidiary, which exceed its share in shareholders equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneous with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively. At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

IFRS 3 (Amended) Business Combinations

The new standard stipulates the rules for the accounting treatment of business combinations. Among other things, the standard determines measurement rules for contingent consideration in business combinations which is to be measured as a derivative financial instrument. The transaction costs directly connected with the business combination will be recorded to the statement of operations when incurred. Minority interests will be measured at the time of the business combination to the extent of their share in the fair value of the assets, including goodwill, liabilities and contingent liabilities of the acquired entity, or to the extent of their share in the fair value of the net assets, as aforementioned, but excluding their share in goodwill.

As for business combinations where control is achieved after a number of acquisitions (acquisition in stages), the earlier purchases of the acquired company will be measured at the time that control is achieved at their fair value, while recording the difference to the statement of operations.

The standard will apply to business combinations that take place from January 1, 2010 and thereafter. Earlier adoption is possible, on the condition that it will be simultaneous with early adoption of IAS 27 (amended).

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Adoption of new and revised Standards and interpretations (cont.)

Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)

IFRIC 13, Customer Loyalty Programs

The clarification stipulates that transactions for the sale of goods and services, for which the company confers reward grants to its customers, will be treated as multiple component transactions and the payment received from the customer will be allocated between the different components, based upon the fair value of the reward grants. The consideration attributed to the grant will be recognized as revenue when the reward grants are redeemed and the company has made a commitment to provide the grants.

The directives of the clarification apply to annual reporting periods commencing on January 1, 2009. Earlier implementation is permissible.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

Amendment to IFRS 2, Share Based Payment- Vesting and Revocation Conditions

The amendment to the standard stipulates the conditions under which the measurement of fair value must be considered on the date of the grant of a share based payment and explains the accounting treatment of instruments without terms of vesting and revocation. The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

Amendment to IAS 32, Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements

The amendment to IAS 32 changes the definition of a financial liability, financial asset and capital instrument and determines that certain financial instruments, which are exercisable by their holder, will be classified as capital instruments.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Adoption of new and revised Standards and interpretations (cont.)

Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)

Improvement to International Financial Reporting Standards (IFRS) 2008

In May 2008 the IASB published a series of improvements for IFRS:

Improvements include amendments to some of the standards, which change the manner of presentation, recognition and measurement of different items in the financial statements. In addition, amendments have been made to terms that have a negligible impact, if any, on the financial statements.

Most of the amendments will become effective as of the annual reporting period commencing January 1, 2009 or thereafter, with an option for early adoption. The implementation of most amendments will be carried out by retrospective adjustment of comparative figures.

Some of the amendments to the standards are expected, under relevant circumstances, to have a material impact on the financial statements. The prominent amendments are the new or amended requirements with respect to the following:

Amendment to IAS 28 Investments in Associated Companies , which stipulates that the impairment of investment in an associated company shall be treated as an impairment of a single asset and that the amount of impairment can be cancelled in subsequent periods.

The amendment will apply to annual periods commencing on January 1, 2009. This amendment allows for the early implementation while implementing the amendments relating to Section 4 in IAS 32 Financial Instruments: Presentation , Section 1 in IAS 21 Rights in Joint Transactions and Section 3 in IFRS 7 Financial Instruments: Disclosure . The amendments can be applied retrospectively.

At this stage the Group s management cannot assess the effect of implementation of the amendment on its financial statements.

Amendment IAS 38 Intangible Assets , which stipulates that payments in respect of advertising and sales promotion activities will be recognized as an asset until the date in which the entity has the right to access the acquired goods or in the event of a receipt of services, the date of receipt of the services.

The amendment will apply to annual periods commencing on January 1, 2009 and shall be carried out retroactively. The amendment allow for early adoption.

The Group s management estimates that the effect of implementing the amendment on the Group s financial statements is immaterial.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

V. Adoption of new and revised Standards and interpretations (cont.)

Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)

Improvement to International Financial Reporting Standards (IFRS) 2008 (Cont.)

IFRIC 15 "Agreements for the Construction of Real Estate"

The interpretation establishes the accounting treatment of revenues and related expenses of entities that build real estate independently or through subcontractors, and the provision of goods or services that are included under agreements for the construction of real estate.

The interpretation deals with the question: is an agreement for the construction of real estate covered by IAS 11 construction contracts or by IAS 18 revenue . Revenues from agreements, which, in accordance with the provisions of the interpretation, are covered by IAS 11, shall be recognized in accordance with the percentage of completion method of accounting. Revenues from agreements which, in accordance with the provisions of the interpretation, constitute agreements for the sale of goods will be recognized on the date of transfer of the risks and benefits to the buyer, while revenues from agreements for the rendering of services will be recognized by reference to the stage of completion of the transaction at the balance sheet date.

The provisions of the interpretation apply to annual reporting periods commencing on January 1, 2009. An early adoption is permitted.

The Group s management estimates that the implementation of the interpretation will not have any impact on the financial statements of the Group.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

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

The provisions of the interpretation apply to annual reporting periods commencing on January 1, 2009. An early adoption is permitted.

The Group s management estimates that the implementation of the interpretation will not have any impact on the financial statements of the Group.

Amendment of IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements

This amendment stipulates, *inter alia*, the method of measurement of investments in subsidiaries, companies under joint control and associated companies on the date of the first-time adoption of IFRS and the method of recognition of revenue from dividends received from said companies. The provisions of the amendment apply to the separate financial statements of the entity.

The provisions of the amendment apply to annual reporting periods commencing on January 1, 2009. An early adoption is permitted.

At this stage the Group s management cannot assess the effect of implementation of the amendment on its financial position and operating results.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A. General

In the application of the Group s accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

B. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management have made in the process of applying the entity s accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Deferred taxes the company recognizes deferred tax assets for all of the deductible temporary differences up to the amount as to which it is anticipated that there will be taxable income against which the temporary difference will be deductible. During each period, for purposes of calculation of the utilizable temporary difference, management uses estimates and approximations as a basis which it evaluates each period.

Approximation of length of life of items of fixed assets- each period, the company s management evaluates salvage values, depreciation methods and length of useful lives of the fixed assets.

Measuring provisions and contingent liabilities and contingent liabilities see C(1) below.

Measuring obligation for defined benefits and employee benefits see C(2) below.

Measuring share based payments see Note 6 below.

Measuring the fair value of financial instruments see C(3) below.

Measuring the fair value of an option to sell shares of an associated company see C (4) below.

C. Key sources of estimation uncertainty.

1. Provisions for legal proceeding

Against the company and its subsidiaries there are 4 claims pending and open in a total amount of approximately NIS 5,524 thousands (June 30, 2007: NIS 15,124 thousands, December 31, 2007: NIS 23,154 thousands), in respect of them a provision not required (March 31, 2007: NIS 300 thousands, December 31, 2007: NIS 300 thousands was recorded). For purposes of evaluating the legal relevance of these claims, as well as determining the reasonableness that they will be realized to its detriment, the company s management relies on the opinion of legal and professional advisors. After the company s advisors expound their legal position and the probabilities of the company as regards the subject of the claim, whether the company will have to bear its consequences or whether it is will be able to rebuff it, the company approximates the amount which it must record in the financial statements, if at all.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)

C. Key sources of estimation uncertainty (Cont.)

An interpretation that differs from that of the legal advisors of the company as to the existing legal situation, a varying understanding by the company s management of the contractual agreements as well as changes derived from relevant legal rulings or the addition of new facts may influence the value of the overall provision with respect to the legal proceedings that are pending against the company and, thus affect the company s financial condition and operating results.

2. Employee benefits

The present value of the company s obligation for the payment of benefits to pensioners and severance pay to employees that are not covered under Section 14 to the Severance Pay Law is based upon a great amount of data, which are determined on the basis of an actuarial estimation, through the utilization of a large number of assumptions, including the capitalization rate. Changes in the actuarial assumptions could affect the book value of the obligation of the company for employees benefits. The company approximates the capitalization rate once annually, on the basis of the capitalization rate of government bonds. Other key assumptions are determined on the basis of conditions present in the market, and on the basis of the cumulative past experience of the company.

3. Fair value of financial instruments

The company s management exercised discretion in the selection of proper valuation techniques for financial instruments, which do not have a quoted market price in an active market. The valuation techniques used by the company s management are those implemented by market participants. The fair value of other financial instruments is established based on he discounted cash flows expected to flow from them, based on assumptions supported by anticipated market prices and rates. The estimated fair value of financial instruments not listed for trading in an active market includes several assumptions that are not supported by anticipated market prices and rates. The book value of the financial instruments that are estimated through valuation techniques as of June 30, 2008 amounts to NIS 872 thousand and as of December 31, 2007 amounts to NIS 4,416 thousand.

4. Fair value of an option to sell shares of an associated company

As stated in note 2L (2), the company has a liability that arises from an option to sell shares of an associated company, which is classified as a fair value liability through profit or loss. In establishing the fair value of the option, the company bases its decision on the valuation of an independent external expert with the required expertise and experience. This valuation is carried out once a quarter.

The company strives to establish a fair value that is as objective as possible, but at the same time the process of establishing the fair value includes some objective elements, since changes in the assumptions used in determining the fair value can have a material impact on the financial situation and operating results of the company.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 4 SEGNIFICANT TRANSACTIONS AND EVENTS

During the first quarter of the year, the company signed material agreements with various suppliers in connection with the construction of a new production system for packaging paper (Machine 8).

On January 14, 2008, the Board of Directors of the company decided to approve the issuance of options to executive employees, see Note 6 below.

On May 20, 2008 an affiliated company, Hogla-Kimberly Ltd received from the Israeli tax authority compensation in the amount of about NIS 4,500 thousands. The compensation is due to loss of earnings during a security situation that occurred in July 2006 in northern Israel and caused the affiliated company to partially stop its manufacturing activity in its Naharia plant. The affiliated company will record a pre tax income for the second quarter of 2008. The Company s share in the compensation mention above is approximately NIS 2,250 thousands.

NOTE 5 FIXED ASSETS

Acquisition of items of fixed assets

During the period of six months and three months ended June 30, 2008 the company became committed in agreements to purchase fixed assets at a cost of approximately NIS 128,188 thousands and NIS 70,203 thousands, respectively.

During the period of six months and three months ended June 30, 2007 the company became committed in agreements to purchase fixed assets at a cost of approximately NIS 42,111 thousands and NIS 30,940 thousands, respectively.

Most of the acquisitions of the fixed assets during the first half of the year in sum of NIS 107,200 thousand were made for Machine 8- a machine for the new packaging paper system. The total fixed assets acquired for suppliers credit amounted to NIS 3,443 thousands as of June 30, 2008.

During June 2008, the Company agreed with the tax authorities for payment of a betterment levy in the amount of NIS 3,782 thousands in respect of change of land use, which is designed for the construction of a new production line for the manufacture of packaging papers. This cost was added to the land cost of machine 8 project.

NOTE 6 SHARE BASED PAYMENT

In January 2008, the Board of Directors of the Company approved a program for the allotment, for no consideration, of non marketable options to the CEO of the company, to employees and officers of the company and investees. In the context of the program, an allotment of 285,750 options was approved, of which 40,250 options were to the CEO of the company, 135,500 to management of the subsidiaries and 74,750 to management of the affiliates.

On May 11, 2008, the board of directors of the company approved the allotment to a trustee of the balance of the options that had not been allotted through that date, in the amount of 32,250 options as a pool for the future grant to officers and employees of investees, subject to the approval of the board of directors.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 6 SHARE BASED PAYMENT (Cont.)

Each option is exercisable into one ordinary share of the company with NIS 0.01 par value against the payment of an exercise increment in the amount of NIS 223.965. The options will vest in installments as follows: 25% of the total options will be exercisable from January 14, 2009; 25% of the total options will be exercisable from January 14, 2010; 25% of the total options will be exercisable from January 14, 2011; and 25% of the total options will be exercisable from January 14, 2012. The vested options are exercisable through January 14, 2012, 2013, 2014 for the first and second, third and fourth portions, respectively.

The cost of the benefit embedded in the allotted options as above, on the basis of the fair value as of the date they are granted, was approximated to be the amount of approximately NIS 13.5 million. This amount will be charged to the statement of operations over the vesting period. The debt for the grant to officers of the affiliates will be paid in cash.

The fair value of the options granted as aforementioned was estimated by applying the Black and Scholes model. In this context, the effect of the terms of vesting will not taken into account by the company, other than the market condition of fair value of the capital instruments granted.

The parameters which were used for implementation of the model are as follows:

Share price (NIS)	217.10-245.20
Exercise price (NIS)	223.965
Anticipated volatility (*)	27.04%
Length of life of the options (years)	3-5
Non risk interest rate	5.25%

(*) The anticipated volatility is determined on the basis of historical fluctuations of the share price of the company. The average length of life of the option was determined in accordance with management s forecast as to the holding period by the employees of options granted to them, in consideration of their functions in the company and past experience of the company with employees leaving.

NOTE 7 INCOME TAX CHARGE

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law (Inflation Adjustments) (Amendment 20) (Limitation of Term of Validity) 2008 (hereinafter: The Amendment), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention it is to prevent distortions in tax calculations.

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 8 SEGMENT INFORMATION

Six months

(Unaudited)

	Six months					
	Paper and recycling		Marketing of office supplies		Total	
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2008	2007	2008	2007	2008	2007
Revenue	216,470	221,356	59,316	56,467	275,786	277,823
Segment results	28,717	31,591	1,364	(1,088)	30,081	30,410

	Three months					
	(Unaudited)					
	Paper and recycling		Marketing of office supplies		Total	
	Apr-Jun	Apr-Jun	Apr-Jun	Apr-Jun	Apr-Jun	Apr-Jun
	2008	2007	2008	2007	2008	2007
Revenue	107,123	114,141	26,144	27,044	133,267	141,185
Segment results	11,851	14,515	769	(620)	12,620	13,895

	Year ended December 31, 2007		
	Paper and recycling	Marketing of office supplies	Total
Revenue	464,653	118,997	583,650
Segment results	69,594	464	70,058

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 9 CHANGES IN EQUITY

	Share capital	Total

		Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Hedging reserves	Foreign currency translation reserves	Retained earnings	
	NIS in thousands							
Six months ended June 30, 2008 (unaudited)								
Balance - January 1, 2008	**125,267**	**301,695**	**-**	**3,397**	**(635)**	**3,810**	**236,437**	**669,971**
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(17,945)	-	(17,945)
Cash flow hedges	-	-	-	-	(3,096)	-	-	(3,096)
Actuarial profits and losses recorded in retained earnings	-	-	-	-	-	-	(150)	(150)
Share based payment	-	-	2,461	-	-	-	-	2,461
Profit for the period	-	-	-	-	-	-	39,302	39,302
Balance - June 30, 2008	**125,267**	**301,695**	**2,461**	**3,397**	**(3,731)**	**(14,135)**	**275,589**	**690,543**

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 9 CHANGES IN EQUITY (Cont.)

	Share capital	Capital reserves	Capital reserves resulting from tax benefit on exercise of employee options	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total
	NIS in thousands						
Six months ended June 30, 2007 (unaudited)							
Balance - January 1, 2007	**125,257**	**90,060**	**2,414**	**-**	**-**	**204,902**	**422,633**
Exchange differences arising on translation of foreign operations	-	-	-	-	4,362	-	4,362
Cash flow hedges	-	-	-	273	-	-	273
Exercise of employee option into shares	-	-	960	-	-	-	960
Profit for the period	-	-	-	-	-	6,342	6,342

	Share capital	Capital reserves	Capital reserves resulting from tax benefit on exercise of employee options	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total
Balance - June 30, 2007	**125,257**	**90,060**	**3,374**	**273**	**4,362**	**211,244**	**434,570**

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 9 CHANGES IN EQUITY

	Share capital	Capital reserves	Share based payments reserves	Capital reserves resulting from tax benefit on exercise of employee options	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total
	NIS in thousands							
Three months ended June 30, 2008 (unaudited)								
Balance - April 1, 2008	**125,267**	**301,695**	**723**	**3,397**	**(547)**	**(16,198)**	**257,707**	**672,044**
Exchange differences arising on translation of foreign operations	-	-	-	-	-	2,063	-	2,063
Cash flow hedges	-	-	-	-	(3,184)	-	-	(3,184)
Actuarial profits and losses recorded in retained earnings	-	-	-	-	-	-	(150)	(150)
Share based payment	-	-	1,738	-	-	-	-	1,738
Profit for the period	-	-	-	-	-	-	18,032	18,032
Balance - June 30, 2008	**125,267**	**301,695**	**2,461**	**3,397**	**(3,731)**	**(14,135)**	**275,589**	**690,543**

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 9 CHANGES IN EQUITY

	Share capital	Capital reserves	Capital reserves resulting from tax benefit on exercise of employee options	Hedging reserves	Foreign currency translation reserves	Retained earnings	Total
	NIS in thousands						
Three months ended June 30, 2007 (unaudited)							
Balance - April 1, 2007	**125,257**	**90,060**	**2,673**	**(63)**	**(598)**	**201,025**	**418,354**
Exchange differences arising on translation of foreign operations	-	-	-	-	4,960	-	4,960
Cash flow hedges	-	-	-	336	-	-	336
Exercise of employee option into shares	-	-	701	-	-	-	701
Profit for the period	-	-	-	-	-	10,219	10,219
Balance - June 30, 2007	**125,257**	**90,060**	**3,374**	**273**	**4,362**	**211,244**	**434,570**

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 9 CHANGES IN EQUITY (Cont.)

	Share capital	Capital reserves	Foreign currency translation reserves	Capital reserves resulting from tax benefit on exercise of employee options	Hedging reserves	Retained earnings	Total
	NIS in thousands						
Year ended December 31, 2007							
Balance - January 1, 2007	**125,257**	**90,060**	**-**	**2,414**	**-**	**204,902**	**422,633**
Issuance of shares (deduction of cost issuance in the amount of NIS 1,581 thousands)	10	211,635	-	-	-	-	211,645
Exchange differences arising on translation of foreign operations	-	-	3,810	-	-	-	3,810

	Share capital	Capital reserves	Foreign currency translation reserves	Capital reserves resulting from tax benefit on exercise of employee options	Hedging reserves	Retained earnings	Total
Cash flow hedges	-	-	-	-	(635)	-	(635)
Exercise of employee options into shares	-	-	-	983	-	-	985
Profit for the year	-	-	-	-	-	31,535	31,535
Balance - December 31, 2007	**125,267**	**301,695**	**3,810**	**3,397**	**(635)**	**236,437**	**669,971**

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS

A. General

Following the publication of Accounting Standard No. 29, the Adoption of International Financial Reporting Standards (IFRS) in July 2006, the Company adopted IFRS starting January 1, 2008.

Pursuant to the provisions of IFRS1, which deals with the first-time adoption of IFRS, and considering the date in which the Company elected to adopt these standards for the first time, the financial statements which the Company must draw up in accordance with IFRS rules, are the consolidated financial statement as of December 31, 2008, and for the year ended on that date. The date of transition of the Company to reporting under IFRS, as it is defined in IFRS 1, is January 1, 2007 (hereinafter: the transition date), with an opening balance sheet as of January 1, 2007 (hereinafter: Opening Balance). The Company s interim financial statements for 2008 will also be drawn up in accordance with IFRS, and shall include comparative figures for the year.

Under the opening balance sheet, the Company performed the following reconciliations:

Recognition of all assets and liabilities whose recognition is required by IFRS.

De-recognition of assets and liabilities if IFRS do not permit such recognition.

Classification of assets, liabilities and components of equity according to IFRS.

Application of IFRS in the measurement of all recognized assets and liabilities.

IFRS 1 states that all IFRS shall be adopted retroactively for the opening balance sheet. At the same time, IFRS 1 includes 14 reliefs, in respect of which the mandatory retroactive implementation does not apply. As to the reliefs implemented by the Company, see section F below.

Changes in the accounting policy which the Company implemented retroactively in the opening balance sheet under IFRS, compared to the accounting policy in accordance with Generally Accepted Accounting Principles in Israel, were recognized directly under Retained Earnings or another item of Shareholders Equity, as the case may be.

This note is formulated on the basis of International Financial Reporting Standards and the notes thereto as they stand today, that have been published and shall enter into force or that may be adopted earlier as at the Group s first annual reporting date according to IFRS, December 31, 2008. Pursuant to the above, the Company s management has made assumptions regarding the anticipated financial reporting regulations that are expected to be implemented when the first annual financial statements are prepared according to IFRS, for the year ended December 31, 2008.

The IFRS standards that will be in force or that may be adopted in the financial statements for the year ended December 31, 2008 are subject to changes and the publication of additional clarifications. Consequently, the financial reporting standards that shall be applied to the represented periods will be determined finally only upon preparation of the first financial statements according to IFRS, as at December 31, 2008.

Listed below are the Company s consolidated balance sheets as of January 1, 2007, March 31, 2007 and December 31, 2007, the consolidated statement of income and the shareholders equity for the year ended on December 31, 2007 and the three months ended March 31, 2007 prepared in accordance with International Accounting Standards. In addition, the table presents the material reconciliations required for the transition from reporting under Israeli GAAP to reporting under IFRS.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

B. Reconciliation of balance sheets from Israeli GAAP to IFRS:

		June 30, 2007		
		Israeli GAAP	Effect of Transition to IFRS	IFRS
	Note	NIS in thousands		
Current Assets				
Cash and cash equivalents		57,426	-	57,426
Trade receivables		187,739	(222)	187,517
Other current assets	E1	105,758	(11,243)	94,515
Inventories		64,682	-	64,682
		415,605	**(11,465)**	**404,140**
Non-Current Assets				
Property, plant and equipment	E2	425,944	(37,811)	388,133
Investment in associated companies	E8	343,801	2,410	346,211
Deferred tax assets	E1	6,490	14,132	20,622
Lease receivables	E2	-	32,661	32,661
Other assets		-	1,922	1,922
Employee benefit assets		-	1,146	1,146
		776,235	**14,460**	**790,695**
		1,191,840	**2,995**	**1,194,835**

		June 30, 2007		
Current Liabilities				
Credit from banks and others		225,202	-	225,202
Current maturities to long term notes and term loans		41,770	-	41,770
Trade payables		107,515	-	107,515
Other payables and accrued expenses	E4, E3	89,323	(23,681)	65,642
Financial liabilities at fair value through Profit and loss	E4	-	1,791	1,791
Current tax liabilities		-	10,039	10,039
		463,810	**(11,851)**	**451,959**
Non-Current Liabilities				
Loans from banks and others		30,840	-	30,840
Notes		183,758	-	183,758
Other non-current liabilities		32,770	(780)	31,990
Deferred tax liabilities	E1	41,164	-	41,164
Employee benefit liabilities	E3	-	20,554	20,554
		288,532	**19,774**	**308,306**
Capital and reserves		**439,498**	**(4,928)**	**434,570**
		1,191,840	**2,995**	**1,194,835**

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

B. Reconciliation of balance sheets from Israeli GAAP to IFRS (Cont.)

		December 31, 2007		
		Israeli GAAP	Effect of Transition to IFRS	IFRS
	Note	NIS in thousands		
Current Assets				
Cash and cash equivalents		167,745	-	167,745
Trade receivables		178,771	(218)	178,553
Other current assets	E1	105,109	(10,694)	94,415
Inventories		69,607	-	69,607
		521,232	**(10,912)**	**510,320**

		December 31, 2007		
Non-Current Assets				
Property, plant and equipment	E2	445,566	(40,335)	*405,231
Investment in associated companies	E8	346,186	217	346,403
Deferred tax assets	E1	6,083	14,539	20,622
Lease receivables	E2	-	34,900	*34,900
Other assets		-	1,578	1,578
Employee benefit assets		-	1,179	1,179
		797,835	**12,078**	**809,913**
		1,319,067	**1,166**	**1,320,233**
Current Liabilities				
Credit from banks and others		143,015	-	143,015
Current maturities to long term notes and term loans		42,775	-	42,775
Trade payables		108,409	-	108,409
Other payables and accrued expenses	E4, E3	87,235	(14,005)	73,230
Financial liabilities at fair value through Profit and loss		-	3,901	3,901
Current tax liabilities	E4	-	908	908
		381,434	**(9,196)**	**372,238**
Non-Current Liabilities				
Loans from banks and others		28,127	-	28,127
Notes		158,134	-	158,134
Other non-current liabilities		32,770	(1,560)	31,210
Deferred tax liabilities	E1	40,515	-	40,515
Employee benefit liabilities	E3	-	20,038	20,038
		259,546	**18,478**	**278,024**
Capital and reserves		**678,087**	**(8,116)**	**669,971**
		1,319,067	**1,166**	**1,320,233**

* Amount of NIS 5,609 thousands was reclassified from fixed assets to lease receivables.

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

C. Reconciliation of Income Statements from Israeli GAAP to IFRS

		Six months ended			Three months ended			Year ended		
		June 30, 2007			June 30, 2007			December 31, 2007		
	Note	Israeli GAAP	Effect of Transition to IFRS	IFRS	Israeli GAAP	Effect of Transition to IFRS	IFRS	Israeli GAAP	Effect of Transition to IFRS	IFRS
		NIS in thousands			NIS in thousands			NIS in thousands		
		(Unaudited)			(Unaudited)					
Revenue		277,823	-	277,823	141,185	-	141,185	583,650	-	583,650
Cost of sales		214,171	(22)	214,149	110,105	(423)	109,682	440,854	527	441,381
Gross profit		**63,652**	**22**	**63,674**	**31,080**	**423**	**31,503**	**142,796**	**(527)**	**142,269**
Operating costs and expenses										
Selling expenses		14,853	-	14,853	7,157	-	7,157	31,367	-	31,367
General and administrative expenses		18,222	10	18,232	10,214	(89)	10,125	36,060	317	36,377
Other expenses, net	E6	-	179	179	-	326	326	2,178	2,289	4,467
Operating profit		**30,577**	**(167)**	**30,410**	**13,709**	**186**	**13,895**	**73,191**	**(3,133)**	**70,058**
Finance income	E5	5,984	(1,492)	4,492	4,709	(1,492)	3,217	10,648	-	10,648
Finance expenses	E5	16,411	(174)	16,237	8,942	(564)	8,378	30,206	1,560	31,766
Finance expenses, net		10,427	1,318	11,745	4,233	928	5,161	19,558	1,560	21,118
Profit after financial expenses		**20,150**	**(1,485)**	**18,665**	**9,476**	**(742)**	**8,734**	**53,633**	**(4,693)**	**48,940**
Share of profit (loss) of associated companies-net	E8	(9,487)	4,371	(5,116)	1,311	4,068	5,379	(2,884)	3,740	856
Profit before tax		**10,663**	**2,886**	**13,549**	**10,787**	**3,326**	**14,113**	**50,749**	**(953)**	**49,796**
Taxes on income		7,602	(395)	7,207	4,199	(305)	3,894	19,307	(1,046)	18,261
Profit for the period		**3,061**	**3,281**	**6,342**	**6,588**	**3,631**	**10,219**	**31,442**	**93**	**31,535**

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

D. Reconciliation of Income Statements from Israeli GAAP to IFRS (Cont.)

	Six months ended June 30, 2007			Three months ended June 30, 2007			Year ended December 31, 2007		
	Israeli GAAP	Effect of Transition to IFRS	IFRS	Israeli GAAP	Effect of Transition to IFRS	IFRS	Israeli GAAP	Effect of Transition to IFRS	IFRS
	NIS in thousands			NIS in thousands			NIS in thousands		
	(Unaudited)			(Unaudited)			(Audited)		
Earnings per share:									
Primary	0.76	0.81	1.57	1.63	0.90	2.53	7.61	0.02	7.63
Fully diluted	0.76	0.81	1.57	1.63	0.89	2.52	7.60	0.02	7.62
Number of share used to compute the primary earnings per share	4,039,700	4,039,700	4,039,700	4,044,614	4,044,614	4,044,614	4,132,728	4,132,728	4,132,728
Number of shares used to compute the fully diluted earnings per share	4,046,389	4,046,389	4,046,389	4,051,304	4,051,304	4,051,304	4,139,533	4,139,533	4,139,533

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NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2008

NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)

D. Capital and Reserves Reconciliation (cont.)

	Share Capital	Premium on shares	Capital surplus Share-based payment (in respect of options of employee options)	Hedging reserves	Capital surplus from translation differences	Retained Earnings	Total
	NIS thousands						

	Share Capital	Premium on shares	Capital surplus Share-based payment (in respect of options of employee options)	Hedging reserves	Capital surplus from translation differences	Retained Earnings	Total
As of June 30, 2007 (unaudited)							
Israeli GAAP	**125,257**	**90,060**	**3,374**	**-**	**(3,706)**	**224,513**	**439,498**
Effect of Transition to IFRS:							
Adjustments of investment in associated companies by the equity method	-	-	-	-	-	3,970	3,970
Classification of adjustments deriving from translations of financial statements of foreign operations	-	-	-	-	8,341	(8,341)	-
Cash flow hedges	-	-					