

**DELTA GALIL INDUSTRIES  
LTD.  
June 30 2011 Quarterly Report**

# **Report of the Board of Directors on the State of Corporate Affairs**

## **For the period ended June 30 2011**

We hereby present to you the report of the Board of Directors of DELTA GALIL Industries Ltd. (hereinafter: “**the Company**”, “**DELTA**”) in reference to the consolidated financial statements of the Company and its subsidiaries in Israel and overseas (hereinafter: “**the Group**”) for the quarter ending June 30 2011 pursuant to Securities Regulations (Periodic and Immediate Reports), 1970.

### **1. Concise Description of the Company and its Business Environment**

#### 1.1. Overview

The Company is engaged in design, development, production, marketing and sale of underwear and socks for men, women and children.

Group customers include leading retail chains such as Wal-Mart, Target, Victoria’s Secret, Mark’s & Spencer, Kohl’s, J.C. Penney and Hema, as well as leading brands like Nike, Calvin Klein, Hugo Boss, Maidenform, Tommy Hilfiger , Spanx, Under Armour and more.

The Group also sells its products under licensed brand names, including: Maidenform®, Converse®, Wilson®, MLB®, Tommy Hilfiger ® Lucky® and others and under the brand Karen Neuburger KN (owned by “Delta”). See clause 1.2.10 hereinafter.

In Israel the Group sells its products under licensed brand names, including Nike ,Puma, Keds, NICI, Disney, and under its private labels including "Matchtonim", "Yodfat", "Comfort", "Punch", "Touch" and "Delta".

Delta designs and develops its products primarily in Israel and in the United States, whereas production is mostly done via subcontractors in its facilities in the Middle East and East Asia.

#### **1.2 Material Events in the Corporation’s Activities During and After the Reported Period**

##### 1.2.1 Dividend Distribution

On February 16, 2011 the Company declared that it would be distributing dividends to the amount of \$2 million, at 8.54 cents per share, which were distributed on March 15, 2011 (see February 17 2011 immediate report, ref. 2011-01-052227).

On May 19 2011 the Company declared that it would be distributing dividends to the amount of \$2 million, at 8.54 cents per share, which were distributed on June 14, 2011 (see immediate report on May 19 2011, ref. 2011-01-154233)

##### 1.2.2 Declaration of Dividends Distributed Subsequent to the Balance Sheet Date

On August 4, 2011 the Company’s Board of Directors decided to distribute dividends to the amount of \$2 million, constituting 8.54 cents per share, to be distributed on September 6, 2011 according to the dollar’s representative rate of exchange as published on the day prior to the payment date. The determining date for this distribution will be August 22, 2011 and the “X” date will be August 23 2011. For further details see Section 4 below and the

immediate report on distribution of dividend, published alongside with this report.

1.2.3 Purchase of Shares by Company CEO and Controlling Share holder, Mr. Isaac Dabah.

On July 12 2011, Mr. Isaac Dabah, Company CEO, purchased (via GMM Capital LLC) 8,700 Delta shares at an average price of 24 NIS, so after the purchase in question his holdings in Company's capital is 54.4 % (see ref. 2011-01-212808)

In the period between January and March 2011, the Sterling Macro investment fund (managed by Mr. Isaac Dabah) purchased 93,524 Company shares at an average price of 28 NIS, so that after the purchases in question its holdings in the Company's issued and paid-up capital and voting rights is 2% (see references nos. 2011-01-034515, 2011-01-064875, 2011-01-67182, 2011-01-072519, 2011-01-074394, 2011-01-075942, 2011-01-082107, 2011-01-096426).

In the period between May and July 2011, the Sterling Macro investment fund (managed by Mr. Isaac Dabah) purchased 113,677 Company shares at an average price of 24 NIS, so that after the purchases in question its holdings in the Company's issued and paid-up capital and voting rights is 2.5% (see references nos. 2011-01-158883, 2011-01-160599, 2011-01-162939, 2011-01-187407, 2011-01-186000, 2011-01-187407, 2011-01-210261

1.2.4 On January 30, 2011 the Company announced that in light of the situation in Egypt at the time, and the difficulty in conducting routine activity, Company management had decided, on its own initiative, not to open the factory's gates.

The activity in Egypt, which is intended largely for the operations of the Global Division, Upper Market Share, is responsible for supplying 11% of the Company's sales, of which 9% are manufactured at the Company's plant, and the balance is provided by local subcontractors.

On February 6 2011 the Company announced that its Egyptian plant had re-opened and that work was continuing as usual. Furthermore, it announced that due to the curfew in place, work at the factory would end an hour and a half before the regular closing time, and upon the renewal of the regular closing time, work will resume ending at its usual hour. One week later, work resumed during regular working hours, in light of the change in curfew times. From that date up to date of this report, work at the factory has been as usual.

For further details see immediate reports from January 31 2011, February 6 2011 ref. 2011-01-032037, 2011-01-039138.

1.2.5 On February 20 2011, the Company announced that it was intending to open, in Israel, over the course of 2011, a new chain of children's clothing stores under the "Delta Kids" brand. Opening this retail chain will serve as a step in the Company's expansion and growth strategy.

As of this report, the Company has opened fourteen shops, of which four shops are independent, and ten are combined - and it intends to open an additional five new independent shops and two combined shops this year.

The Company estimated that sales of children's clothing, which in 2010 amounted to 40 million NIS, is expected to increase to 120 million NIS over four years, and to 40 shops by 2015<sup>1</sup>.

The Company estimated that the scope of the expected investment in 2011, for the establishment of the shops, will amount to 20 million NIS, including equipment and working capital<sup>1</sup>. See clause 2.3.3 below.

For further details, see the immediate report dated February 20 2011 ref. 2011-01-053958.

- 1.2.6 On March 23 2011, the Company announced that it had signed a sales agreement, pursuant to which the Company has sold to the purchaser (a private company) an office floor (approximately 900 square meters) in its possession in the Textile Building, Tel Aviv (hereinafter: "the Offices").

As part of the transaction, the Company also sold to the purchaser, the Company's leasing rights to 12 shops, located in the building's parking and its shares in the Textile Center Building Parking Company Ltd. (hereinafter: "the Parking Company") and in the Textile Center Building Management Company. (Hereinafter: "the Management Company") subject to the precedence rights, of the other shareholders in these companies.

According to the sales agreement – in return for the offices and the leasing rights to the shops [and in return for the Company's shares in the Parking Company and in the Management Company (subject to the precedence rights) the purchaser will pay the Company a total of \$3.5 USA million (plus VAT). As of this report date, \$3.3 million of the total proceeds have been paid, and \$0.3 million were placed in trust.

The pre-tax capital gain amounts to \$2.3 USA million and is included under other net income in the first quarter of 2011.

The Offices are in use as the Company's headquarters. Therefore, alongside the sales agreement, a rental agreement was signed between the parties, according to which the Company will continue to rent the offices from the purchaser, under the terms agreed upon by the parties. For further details see the immediate report dated March 23 2011 ref. 2011-01-09057.

- 1.2.7 On March 31 2011, the Company announced that Mr. Gil Admoni, manager of Delta Israel, had concluded his service in the Company For further details, see the immediate report dated March 31 2011 ref. 2011-01-102915.
- 1.2.8 On April 3 2011, the Company announced, that Mr. Gideon Chitayat had announced his resignation as Chairman of the Board of Directors, and that Mr.Noam Lautman had been appointed Chairman of the Board instead of Mr.Chitayat. For further details see the immediate reports dated April 3 2011, ref. 2011-01-106311 and 2011-01-106329.

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<sup>1</sup> Note that the above information on the shops, the expected scope of investment, for the establishment of the Shops, and the scope of expected sales of children's clothing - is an estimate only and constitutes forward looking information, which may or may not materialize or may differ from Company estimates and forecasts, due to circumstances outside the Company's control (such as economic, social and other estimates), and due to being based, on information available as of the report date, including Company estimates as of the report date.

- 1.2.9 On April 17 2011, the Company reported that pursuant to the renewal of its insurance policy, it had expanded the insurance coverage, for its activities in Egypt and Jordan significantly, in return for an additional premium, of \$ 245,000 a year. The expanded coverage for the next 12 months was purchased through a unique policy, issued to the Company to protect its assets in these countries, up to \$20 million U.S. For further details see immediate report on April 17 2011 ref. 2011-01-125688.
- 1.2.10 On June 30 2011 the Company reported, that Delta USA, an American subsidiary company, in the Company's full ownership, signed a purchasing agreement, for purchase of branded operations, in the field of sleepwear for women, under brand name KN Karen Neuburger. The purchased operation includes ownership of the brand, of the inventory of existing products, and open purchase orders, associated with this operation. For the purchased operation the subsidiary Company paid an amount of 4 million dollars. The Company estimates that purchase of the operation, will add to its sales, an amount between 5 to 7 million dollars during 2011. According to Company's estimations, during 2012 the purchased operation will add around 20 million dollars to its sales, and will contribute to its profits starting from that year.<sup>2</sup> For further details see immediate report on June 30 2011 ref. 2011-01-197625.

### **Comments of the Board of Directors on the State of Corporate Affairs**

## **2 Analysis of Financial Position**

### **2.1 Balance Sheet**

The Group's consolidated balance sheet as of June 30, 2011 amounted to \$438.1 million, compared to \$399.6 million as of June 30, 2010.

The Group's consolidated current assets as of June 30 2011 amounted to \$283.5 million, compared to \$ 250.8 million as of June 30 2010.

The increase in current assets and in the balance sheet total as of June 30 2011 compared to their balance on June 30 2010 derived mainly from a \$12.9 million increase in its inventory balance, largely due to the activity of Delta Israel and Upper Market Segments, see Section 2.3.3 below, \$10.5 million increase in accounts receivable balance mostly due to an increase in sales and a marginal increase in accounts receivable credit days, see clause 3 below, as well as derived from a total balance and current assets as for June 30 2011 and a \$ 7.5 million increase in the balance of cash and cash equivalents.

The Group's consolidated current liabilities in its consolidated balance sheet as of June 30 2011 amounted to \$163.6 million, compared to \$171.5 million as of June 30 2010.

The decrease in current liabilities as of June 30 2011, compared to June 30, 2010 is primarily due to repayment of short-term banks loans.

The Group's equity as of June 30 2011 amounted to \$205.4 million, or 46.9% of the balance sheet total, compared to \$185.5 million, or 46.4% of the balance sheet total as of June 30 2010 and compared to \$197.3 million, or 47.0% of the

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<sup>2</sup> Note that the above is an estimate only, and constitutes forward-looking information, which may or may not materialize or may differ from Company estimates and forecasts, due to circumstances not dependent on the Company, and due to being based on information, available as of the report date, including Company estimates

balance sheet total, as of December 31 2010.

The increase in Group equity as of June 30 2011, compared to December 31 2010, is due to net profit in the first half of 2011 amounting to \$11.5 million, less dividends distributed to the amount of \$4.0 million.

## 2.2 Operating Results

2.2.1 Below are the Group's concise Statements of Operations for the second quarter and first half 2011 and 2010, and for all of 2010, in thousands of dollars.

	<u>Second quarter</u>		<u>First half</u>		<u>Year</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>
	(unaudited)				Audited
<b>Sales</b>	<b>160,226</b>	156,665	<b>317,650</b>	297,206	620,074
Cost of sales	<b>127,483</b>	127,192	<b>255,929</b>	239,541	498,805
<b>Gross profit</b>	<b>32,743</b>	29,473	<b>61,721</b>	57,665	121,269
Selling and marketing expenses	<b>18,315</b>	16,263	<b>35,859</b>	32,000	65,207
Administrative and general expenses	<b>6,377</b>	6,220	<b>12,791</b>	12,309	25,347
Other income (expenses), net	<b>(195)</b>	615	<b>2,378</b>	1,562	2,494
<b>Operating income before restructuring expenses, impairment of fixed assets and capital loss from realization of investment in subsidiary</b>	<b>7,856</b>	7,605	<b>15,449</b>	14,918	33,209
Restructuring expenses	-	-	-	485	485
Impairment of fixed assets	-	-	-	-	992
Capital loss from sale of a subsidiary	-	-	-	666	666
<b>Operating income</b>	<b>7,856</b>	7,605	<b>15,449</b>	13,767	31,066
Finance expenses, net	<b>1,717</b>	1,591	<b>2,752</b>	3,631	7,817
Profit before taxes on income	<b>6,139</b>	6,014	<b>12,697</b>	10,136	23,249
Taxes on income	<b>510</b>	1,450	<b>1,222</b>	1,700	2,067
<b>Net profit for the period</b>	<b>5,629</b>	4,564	<b>11,475</b>	8,436	21,182
Attribution of net income for the period:					
To Company shareholders	<b>5,599</b>	4,534	<b>11,413</b>	8,376	21,060
To non-controlling interests	<b>30</b>	30	<b>62</b>	60	122
	<b>5,629</b>	4,564	<b>11,475</b>	8,436	21,182
<b>Net earnings per share attributable to Company shareholders:</b>					
<b>Basic</b>	<b>0.24</b>	0.19	<b>0.49</b>	0.36	0.90
<b>Diluted</b>	<b>0.24</b>	0.19	<b>0.47</b>	0.35	0.87

2.2.2 The following tables lists major data in millions of dollars:

	<u>Q2 2011</u>	<u>Q2 2010</u>	<u>First half of 2011</u>	<u>First half of 2010</u>	<u>Last 12 months</u>	<u>Year 2010</u>
Sales	160.2	156.7	317.6	297.2	640.6	620.1
Earnings before restructuring expenses, impairment of fixed assets and capital loss from sale of a subsidiary	7.9	7.6	15.4	14.9	33.7	33.2
Restructuring expenses	-	-	-	0.5	-	0.5
Impairment of fixed assets	-	-	-	-	1.0	1.0
Capital loss from sale of a subsidiary	-	-	-	0.7	-	0.7
Operating income	7.9	7.6	15.4	13.8	32.7	31.1
Adjusted EBITDA (*)	10.6	10.5	21.0	20.6	44.7	44.3
Net earnings attributed to for Company shareholders before restructuring expenses, impairment of fixed assets and capital loss from realization of subsidiary	5.6	4.5	11.4	9.5	25.1	23.2
Net earnings attributed to company shareholders	5.6	4.5	11.4	8.4	24.1	21.1
Cash flow from operating activities	5.9	9.6	2.8	10.4	6.6	14.3

EBITDA Calculating:

	<u>Q2 2011</u>	<u>Q2 2010</u>	<u>First half of 2011</u>	<u>First half of 2010</u>	<u>Last 12 months</u>	<u>Year 2010</u>
Net income for the period - as reported	5.6	4.6	11.5	8.4	24.2	21.2
Taxes on income		1.4	1.2	1.7	1.6	2.1
Finance expenses, net	1.7	1.6	2.7	3.6	6.9	7.8
Restructuring expenses	-	-	-	0.5	-	0.5
Impairment of fixed assets	-	-	-	-	1.0	1.0
Capital loss from sale of a subsidiary	-	-	-	0.7	-	0.7
Depreciation and amortization	2.8	2.9	5.6	5.7	11.0	11.1
Adjusted EBITDA	10.6	10.5	21.0	20.6	44.7	44.3

(\*) Adjusted EBITDA is a benchmark that is not in accordance with GAAP, which the Company uses, to measure its results from continued operations; to the best of the Company's knowledge this benchmark is regularly used by other companies, in the Company's operating sector. Adjusted EBITDA is calculated as follows: net income plus taxes on income, finance expenses net, depreciation and amortization, impairment of fixed assets, restructuring expenses and capital loss from sale of a subsidiary.

## 2.3 Analysis of Operating Results

### 2.3.1 Overview

**Group sales** in the second quarter of 2011 amounted to \$160.2 million, compared to \$156.7 million in the second quarter of 2010, an increase of 2%. Sales in terms of original currency decreased by 1%.

In the first half of 2011, sales amounted to \$317.6 million dollars compared to \$297.2 million in the first half of 2010, an increase of 7%. Sales in terms of original currency increased by 5%.

The following is the distribution of Company's sales by geography, in millions of dollars:

	Second quarter						First half-year						2010	
	% of Change in Original Currency	% of Change	2011	% from total	2010	% from total	% of Change in Original Currency	% Change	2011	% from total	2010	% from total		% from total
<b>North America</b>	(8)	(8)	96.8	60	105.6	67	1	1	198.6	63	197.1	66	400.2	65
<b>Europe</b>	8	22	25.5	16	20.8	13	22	28	48.9	15	38.3	13	83.1	13
<b>Israel</b>	16	27	21.8	14	17.1	11	9	16	41.4	13	35.5	12	78.2	13
<b>UK</b>	23	23	15.3	9	12.4	8	11	11	27.4	9	24.8	8	56.0	9
<b>Others</b>	-	-	0.8	1	0.8	1	(6)	(6)	1.3	-	1.5	1	2.6	-
<b>Total</b>	(1)	2	<b>160.2</b>	100%	<b>156.7</b>	100%	5	7	<b>317.6</b>	100%	<b>297.2</b>	100%	<b>620.1</b>	100

#### North America

North American sales decreased by 8% in the second quarter of the year in comparison to the corresponding quarter last year due to the softness of majority of customers in the US Mass Market Segment, in comparison to the increase in this market during the first quarter of 2011.

In the first half of the year North American sales increased by 1% compared to the same period last year.

#### Europe

European sales in the second quarter and the first half of the year increased 22% and 28% respectively in comparison to the corresponding periods last year, most of the increase is derived from an increase in the sale of seamless products and socks.

#### Israel

Israeli sales in the second quarter of the year increased 27% in dollar terms in comparison to the corresponding quarter last year and amounted to \$21.8 million. In NIS terms, sales increased by 16%.

Sales in the first half of the year increased by 16% in dollar terms in comparison to the corresponding period last year and amounted to \$41.4 million. Sales in NIS terms increased 9% in the first half of the year in comparison to the first half of last year.

The increase in sales in the second quarter of the year in comparison to the corresponding quarter last year, derived mainly from the expansion of the Company's chain of stores, and the launching of the new chain of children's stores (Delta Kids) and the timing of the Passover holiday, which fell this year in the second quarter, while in 2010 the Holiday occurred during the first quarter.



During the first half of the year, the increase in sales, derived mostly from the expansion of the Company's chain of stores.

## UK

UK sales in the second quarter and the first half of 2011, increased approximately 23% and 11% respectively, in comparison to the corresponding periods last year. Most of the increase derived from an increase in bra sales, to existing customers.

**Gross profit** in the second quarter of 2011, amounted to \$32.7 million, constituting 20.4% of sales, compared to \$29.5 million in the second quarter of 2010, constituting 18.8% of sales, an increase of 11%.

During the first half of 2011 gross profit amounted to \$61.7 million in comparison to \$57.7 million in the corresponding period in 2010 and constituted 19.4% of sales in both periods.

The increase in gross profit and margin, in the first half and the second quarter of 2011, compared to the corresponding periods last year, was due to the increase in sales, and an improvement in the mix of products, which included innovative products, and growth in production level, in Company's factories. Gross profit increase has been achieved, despite an increase, in raw material prices and finished products that was reflected mainly in erosion of gross profit in Delta U.S. – Mass Market segment - see 2.3.3 below.

**Selling and marketing expenses** increased by 13% and amounted to \$18.3 million, in the second quarter of 2011, compared to \$16.3 million in the second quarter of 2010.

Selling and marketing expenses in the first half of 2011 increased by 12% and amounted to \$35.9 million, compared to \$32 million in the correspondent period of 2010.

The following table shows the composition of selling and marketing expenses, for the Delta Israel segment, compared to other operating segments of the group, in millions of dollars:

	Q2 2011	Q2 2010	First half 2011	First half 2010
Delta Israel	8.8	7.2	17.0	14.5
Percentage out of Segment of sales	41.0%	43.0%	41.7%	41.5%
Other Segments activity	9.5	9.1	18.9	17.5
Percentage out of other segments activity	6.9%	6.5%	6.8%	6.7%
Total selling and marketing expenses	18.3	16.3	35.9	32.0
Selling and marketing expenses as % of total sales	11.4%	10.4%	11.3%	10.8%

The increase in Selling and Marketing expenses in Delta Israel's activity, the second quarter and the first half of 2011, over the corresponding periods last year, is due to the expansion of the retail chain, as well as the launch of the Delta Kids chain of stores. In addition, in the second quarter and the first half of 2011, the expenses increased by 9% and 6% as a result of the revaluation of the NIS vs. US dollar, thus in comparison to the average exchange rate in the corresponding periods last year, which resulted in higher expenses in dollar terms.

**Administrative and general expenses** increased by 2% in the second quarter of 2011 and amounted to \$6.4 million, compared to \$6.2 million in the second quarter of 2010.

The administrative and general expenses in the first half of 2011 increased by 4% and amounted to \$12.8 million in comparison to \$12.3 million in the corresponding period last year.

The increase in the administrative and general expenses in Q2 and the first half of 2011 was primarily due the revaluation of the average rate of the NIS vs. the USD, compared to the average exchange rates in the corresponding periods last year, which increased expenses in dollar terms.

**Other expenses, net** in the second quarter of 2011 amounted to a total of \$0.2 million compared to an income of \$0.6 million in the second quarter of 2010, as detailed in the following table:

	Q2 2011	Q2 2010	First half 2011	First half 2010
Capital gain from sale of fixed assets	0.1	0.2	2.4	0.3
Capital gain from sale of franchise agreement, see 2.3.3 above	-		1.3	-
Profit (loss) from the revaluation of currency transactions	(0.3)	0.4	(1.3)	1.3
	(0.2)	0.6	2.4	1.6

Loss from the revaluation of currency transactions in the second quarter of 2011 derives mainly from the revaluation of existing transaction according to the closing rate as of the balance sheet day, which is 1.4478 dollar per 1 Euro.

**Operating profit** in the second quarter of 2011 amounted to \$7.9 million compared to \$7.6 million in the second quarter of 2010, an increase of 3%.

Operating profit in the first half of 2011 increased in 12% and amounted to \$15.4 million, compared to \$13.8 million and \$14.9 million before restructuring expenses, and a capital loss from sale of a subsidiary, in the first half of last year.

The improvement in the operational profit in the second quarter and the first half of 2011 in comparison to the correspondent periods last year, derived mostly from the increase in sales and in gross profit, offset by an increase in selling and marketing, administrative and general expenses, as previously described.

**Finance expenses** increased by 8% in the second quarter of 2011, amounting to \$1.7 million compared to \$1.6 million in the corresponding quarter last year.

In the first half of 2011 finance expenses dropped 24% and amounted to \$2.8 million compared to \$3.6 million in the first half of 2010.

The following table shows the composition of finance expenses in millions of dollars:

	Q2 2011	Q2 2010	First half 2011	First half 2010
Interest and commission expenses	1.4	1.7	2.8	3.2
Exchange rate differences	0.1	(0.2)	(0.3)	0.2
IFRS adjustments	0.2	0.1	0.3	0.2
Total finance expenses	1.7	1.6	2.8	3.6

**Tax expenses** in the second quarter of 2011 amounted to \$0.5 million, compared to \$1.4 million in the corresponding period last year. Tax expenses in the first half of 2011 amounted to \$1.2 million, compared to \$1.7 million in the corresponding period last year. Company's low effective tax rate in Q2 and the first half of 2011, derived from taxation savings in a higher tax rate than usual, due to losses in Delta's US activity.

**Profit attributed to Company shareholders** in the second quarter of 2011, amounted to \$5.6 million, compared to \$4.5 million, in the second quarter of 2010, an increase of 23%.

Profit attributed to Company shareholders in the first half of 2011, amounted to \$11.4 million, compared to \$8.4 million in the first half of 2010, an increase of 36%.

The improvement in the business results in the reported periods in comparison to the reported periods last year derives from the improvement in operating profit and the decrease in tax expenses, as noted above

2.3.2 The following is a summary of the Company's consolidated business results, divided by the three accounting segments in its Financial Statements for the second quarter and the first half of 2011 and 2010 and for the year 2010, in thousands of dollars:

	<b>Second Quarter Ending June 30</b>				
	<b>(Unaudited)</b>				
	<b>Sales</b>			<b>Operating (loss) profit</b>	
	2011	2010	% Change	2011	2010
Delta USA – "Mass Market"	<b>69,556</b>	77,210	<i>(10)</i>	<b>(1,731)</b>	1,936
Global Upper Market Segment	<b>71,249</b>	68,699	<i>4</i>	<b>7,204</b>	4,491
Delta Israel	<b>21,482</b>	16,802	<i>28</i>	<b>3,600</b>	2,537
Cancellation of inter-divisional sales and profit segments	<b>(2,215)</b>	(7,075)		-	(668)
Other adjustments	<b>154</b>	1,029		<b>(1,217)</b>	(691)
<b>Total Sales and operating profit in the consolidated report</b>	<b>160,226</b>	156,665	<i>2</i>	<b>7,856</b>	7,605

	First half Ending June 30					2010	
	(Unaudited)					Audited	
	Sales		%	Operating Profit (loss) before Restructuring Expenses, Impairment of Fixed Assets and Capital Loss from Realization of Investment in Subsidiary		Sales	Operating Profit (Loss)
2011	2010	2011		2010			
			Change				
Delta USA – "Mass Market"	<b>145,607</b>	141,856	3	<b>(1,997)</b>	3,319	298,740	6,015
Global Upper Market Segment	<b>134,969</b>	131,306	3	<b>13,266</b>	7,395	257,449	15,965
Delta Israel	<b>40,762</b>	34,889	17	<b>5,517</b>	4,867	76,949	13,060
Cancellation of inter-divisional sales and profit	<b>(4,274)</b>	(12,635)		-	18	(15,207)	18
Other adjustments	<b>586</b>	1,790		<b>(1,337)</b>	(681)	2,143	(1,849)
Total sales and operating profit before restructuring expenses, capital loss from sale of a subsidiary and impairment of fixed assets	<b>317,650</b>	297,206	7	<b>15,449</b>	14,918	620,074	33,209
Restructuring expenses				-	485		485
Impairment of fixed assets				-	-		992
Capital loss from sale of a subsidiary				-	666		666
Total operating profit in consolidated statement				<b>15,449</b>	13,767		31,066

### 2.3.3 Analysis of Business Results by Operating Segment

#### **Operating Segment DELTA USA – Mass Market**

Sales in the second quarter of 2011 amounted to \$69.6 million, compared to \$77.2 million in the corresponding period last year, a 10% decrease.

Sales in the first half of 2011 amounted to \$145.6 million, compared to \$141.9 million in the corresponding period last year, a 3% increase.

The decrease in sales in this segment in the second quarter 2011 over the same period last year derived mainly from the softness of sales in majority of retail chains on the US Mass market.

Operating loss in the second quarter of 2011 amounted to \$1.7 million, compared to \$1.9 million profit in the correspondent quarter last year.

Operating loss in the first half of 2011 amounted to \$2.0 million, compared to an operating profit of \$3.3 million in the correspondent period last year. The operating loss in the first half of 2011 includes a capital gain of \$1.3 million from the sale of a franchise agreement held by the Company for the sale of products under the name of “Nicole Miller”. The franchise agreement is supposed to expire at the end of 2011, so that the capital gain in question reflects the profit expected from the sale of the products as per the agreement until the end of 2011.

The shift from operating profit in 2010 results to a operating loss in the first half and the second quarter of 2011 derived mainly from the erosion of gross profits due to raising product costs. This erosion was caused mainly as a result of the increase in cotton prices, which grew sharper in the second half of 2010, see clause 5.3 below, and due to the amount of time required to adapt sales prices to the customers.

In order to deal with the raising prices in question, the Company adjusted the prices, for the customers; Note that according to Company estimates, an increase in sales prices will mostly be expressed in the second half of 2011<sup>3</sup> in a way in which the operating segment will achieve operating profitability.

Inventory balance for the area of activity as of June 30, 2011 includes \$9 million from the conversion of products, from packages of 10 units per product (10pp) to packages of 3 units per product (3pp), as demanded by a key customer. The project inventory amounted to \$11 million and it's expected to be sold during 2011 in conjunction with the customer<sup>4</sup>. The key customer is obligated to purchase this inventory. Post balance sheet date, the Company sold inventory at the amount of \$0.8 million out of the above amount.

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<sup>3</sup> Note that the above is an estimate only and constitutes forward-looking information, which may or may not materialize or may differ from Company estimates and forecasts, due to circumstances not dependent on the Company, and due to being based on information available as of the report date, including Company estimates as of the report date.

<sup>4</sup> Note that the above is an estimate only and constitutes forward-looking information, which may or may not materialize or may differ from Company estimates and forecasts, due to circumstances not dependent on the Company, and due to being based on information available as of the report date, including Company estimates as of the report date.

On June 28 2011, Delta USA purchased a branded activity in the field of ladies Sleepwear under the name KN Karen Neuburger, for \$4 million, see clause 1.2.10 above.

### **Operating Segment– Global Upper Market**

Sales in the second quarter of 2011 amounted to \$71.2 million, compared to \$68.7 million in the corresponding period last year a 4% increase.

Sales in the first half of 2011 it amounted to \$135.0 million, compared to \$131.3 million in the corresponding period last year, a 3% increase.

The increase in sales in the area of activity in the second quarter and first half of 2011 compared to the corresponding periods of 2010 derived mainly from an increase in sales of seamless products and socks to European and US customers.

Operating income in the second quarter of 2011 amounted to \$7.2 million, compared to \$4.5 million in the corresponding quarter last year, a 60% increase.

Operating income in the first half of 2011 amounted to \$13.3 million, compared to \$7.4 million in the corresponding period last year, a 79% increase.

The improvement in operating profit in the second quarter and the first half of 2011, compared to the corresponding periods of 2010, derived from the increase in sales and the improvement in the product mix, that included the sales of innovative products, as well as the increase in production level at the Company's plants in Egypt, Bulgaria and seamless knitting in Israel.

Inventory balance for this segment of activity as of June 30, 2011 increased in \$9 million, from \$27 million to \$36 million, compared to the reporting period of 2010 due to an increase in the activity and manufacturing at the Company's plants.

### **Operating Segment Delta Israel**

Sales in the second quarter of 2011 amounted to \$21.5 million, compared to \$16.8 million in the corresponding period last year a 28% increase.

Sales in NIS in Q2 2011 amounted to 74.0 million, compared to 63.6 million NIS in Q2 2010, a 16% increase.

Sales in the first half of 2011 amounted to \$40.8 million, compared to \$34.9 million in the corresponding period last year a 17% increase.

Sales in NIS in the first half of 2011 amounted to 143.5 million, compared to 131.2 million NIS in Q2 2010, a 9% increase.

The increase in sales in the second quarter of 2011 compared to the same quarter last year derived mainly from the expansion of the retail chain including the new children's stores (Delta Kids) which was launched during the first quarter of the year and from the timing of the Passover holiday which fell this year in the second quarter of the year and in 2010 in the first quarter.

Operating income in the second quarter of 2011 amounted to \$3.6 million, compared to \$2.5 million in the corresponding quarter last year, a 42% increase.

Operating income in the first half of 2011 amounted to \$5.5 million, compared to \$4.9 million in the corresponding quarter last year, a 13% increase.

Operating income in the second quarter of 2011, in NIS terms, amounted to 11.3 million, compared to 10.1 million NIS in the corresponding period last year, a 12% increase.

Operating income in the first half of 2011, in NIS terms, remained unchanged, compared to the corresponding period last year and amounted to 18.3 million NIS.

The increase in operating income in the second quarter of 2011 compared to the corresponding quarter last year derived from the increase in sales, which was partly offset by an increase in selling and marketing expenses, due to the launch of the new chain of stores.

In the first half of 2011 a stability of the operating income was recorded, compared to the corresponding period last year, due to the launching of the children's stores (Delta Kids), which contributed to the increase in selling and marketing expenses and from the retirement cost of the manager of this area of activity, which was included in the results of Q1 2011.

Inventory balance for the area of activity as of June 30, 2011 increased in \$6.5 million, from \$9.0 million to \$15.5 million, compared June 30 of 2010. Out of above-mentioned increase, approximately \$ 2.1 million derived from the launching of the new chain of stores. In addition, during the first half of 2011 the Company invested approximately \$2.0 million in stores and equipment.



### 3 Liquidity and Financing Sources

Condensed cash flow statement, in millions of dollars:

	Second quarter		First half		Year ending December 31
	2011	2010	2011	2010	2010
<b>Net cash deriving from operating activities</b>	<b>5.9</b>	9.6	<b>2.8</b>	10.4	14.3
<b>Net cash deriving from (used for) investment activities</b>	<b>(7.1)</b>	0.4	<b>(5.9)</b>	(0.8)	1.9
<b>Net cash deriving from (used in) financing activities</b>	<b>(1.9)</b>	(7.5)	<b>0.3</b>	(1.0)	1.9
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(3.1)</b>	2.5	<b>(2.8)</b>	8.7	18.1

The Company finances its operations, by its operating cash flow, by bank credit facilities and by issuance of debentures.

In the second quarter of 2011, the Company generated a positive operating cash flow of \$5.9 million, compared to \$9.6 million, in the corresponding period last year.

In the first half of 2011, the Company generated a positive operating cash flow of \$2.8 million, compared to \$10.4 million, in the corresponding period last year.

The decrease in the operating cash flows from current activity, in the second quarter and the first half of 2011, compared to the corresponding reporting periods, derived from the increase in working capital, due to an increase in the scope of the activity.

The increase in operating cash flow, used for the investment activity, derived from the purchase of the brand activity for \$4 million, see clause 1.2.10, and from the increase in investments due to the launching, of the new kids stores chain in Israel, as mentioned above.

The following are a number of financial indicators for the second quarter and the first half of 2011 and for the year of 2010:

	<u>Q2 2011</u>	<u>Q2 2010</u>	<u>Year of 2010</u>
<b>Current ratio</b>	<b>1.73</b>	<b>1.46</b>	<b>1.77</b>
<b>Quick ratio</b>	<b>1.02</b>	<b>0.86</b>	<b>0.98</b>
<b>Customer credit days</b>	<b>58</b>	<b>56</b>	<b>53</b>
<b>Supplier credit days</b>	<b>52</b>	<b>52</b>	<b>50</b>
<b>Inventory days</b>	<b>82</b>	<b>73</b>	<b>89</b>
<b>Positive operating cash flow (in millions of dollars)- Q2</b>	<b>5.9</b>	<b>9.6</b>	
<b>Positive operating cash flow (in millions of dollars)- First Half/ Year 2010</b>	<b>2.8</b>	<b>10.4</b>	<b>14.3</b>
<b>Adjusted EBITDA (millions of dollars)-Q2</b>	<b>10.6</b>	<b>10.5</b>	
<b>Adjusted EBITDA (millions of dollars)-First Half</b>	<b>21.0</b>	<b>20.6</b>	
<b>Adjusted EBITDA (millions of dollars) on the basis of the last 12 months</b>	<b>44.7</b>	<b>44.6</b>	<b>44.3</b>
<b>Net financial debt (millions of dollars)</b>	<b>84.0</b>	<b>75.0</b>	<b>75.0</b>
<b>Net financial debt coverage ratio to Adjusted EBITDA (on the basis of the last twelve months)</b>	<b>1.9</b>	<b>1.7</b>	<b>1.7</b>
<b>Equity/balance sheet total</b>	<b>46.9%</b>	<b>46.4%</b>	<b>47.0%</b>
<b>Equity (in millions of dollars)</b>	<b>205.4</b>	<b>185.5</b>	<b>197.3</b>

The improvement in current ratio and quick ratio, from 1.46 and 0.86 respectively on June 30 2010, to 1.73 and 1.02 respectively on June 30, 2011, derived from the issue of debentures, that took place in December 2010, which was used in part, to repay short-term borrowings and the balance of which was deposited, in a short-term bank deposit, included under cash and cash equivalents.

Net financial debt as of June 30 2011 amounted to \$84.0 million, compared to \$75.0 million as of June 30, 2010 and as of December 31, 2010.

#### **4 Dividends**

- 4.1 As subsequent to the balance sheet date the Company declared that it would be distributing dividends to the amount of \$2 million, constituting 8.54 cents per share, to be distributed on September 6 2011 according to the dollar's representative rate of exchange as published the day prior to the payment date. The determining date for this distribution shall be August 22 2011 and the "X" date shall be August 23 2011.

The following are details regarding the examination carried out by the Board of Directors, in relation to the receipt of the decision, to distribute dividends as stated above:

- a. The Company's Board of Directors tested whether the Company passed the profit and repayment ability test set in Section 302(a) of the Companies Law, 1999, and following this examination confirmed that the Company had passed these tests in the matter of the distribution of the dividends in question.
- b. In the matter of passing the profit test, the Board of Directors approved the dividend distribution in question on the basis of the Company's retained earnings as of June 30 2011, which exceeds the sum of dividends approved
- c. In the matter of passing the repayment test, the Board of Directors took the following into consideration: data regarding the Company's financial status including data regarding the Company's liquid reserves, the Company's debit balance and its net debit balance; the Company's unused bank credit frameworks, the projected cash flow for 2011 and 2012 and expected interest and principal payments for the debentures (Series K) issued by the Company in 2010. Following the examination of the above, the Board of Directors confirmed that the Company passes the repayment ability test regarding the distribution of dividends in question, including in conservative scenarios.
- d. The Board of Directors estimates that the dividend distribution will have no material negative effect on the Company's financial status, including its capital structure, leverage, liquidity and its ability to continue operating according to its structure, leverage, liquidity and its ability to continue operating according to its existing format.
- e. The Board of Directors did not base its estimates on the Company's ability to sell assets or on financial sources deriving from companies held by the Company.
- f. The projected data and estimates in c. and d. above are forward-looking information, as defined in the Securities Law, 1986, based on analysis of the data detailed in c. above carried out by the Company. These expectations and projections, may not be realized, in whole or in part, or be realized in a manner, materially different than projected, among other things - due to changes in economic markets in Israel and in the world, changes in capital market conditions, exchange rates, and various market conditions in which the Company operates, which may impact the Company's activities and results.

## **5 Exposure to Market Risk and Management Thereof**

### **5.1 The person responsible for market risk management at the Company:**

The Company manages the market risks based on a policy set by its Board of Directors and senior management.

Mr. Isaac Dabah, Company CEO, is the person responsible for market risk management in the Company.

Mr. Yossi Hajaj, Company CFO, is responsible for management of market risks associated with exchange rates and interest.

### **5.2 Description of market risk factors:**

The Group, in its operations, is exposed to multiple market risk factors, including the state of economies in target markets in which the Company operates, as well as fluctuations in exchange rates in those markets vs. the Company's functional currency, the USD.

For details of risk factors to which the Company is exposed, see section 1.25 of Part A of the Company's 2010 periodic report.

### 5.3 Company policy with regard to market risk management:

#### 5.3.1 Cotton Prices

2010 saw a significant increase of 80% in average cotton prices compared to 2009. This trend continued in the first half of 2011 and led to a significant increase in the price of cotton yarns, which constitutes the Company's main raw material. The price of cotton contracts as of July 2011 on March 31 2011 was \$1.92 per pound compared to \$1.3 per pound on December 31 2010. In the second quarter a gradual decrease in cotton spot contracts' prices started.

During July 2011 a sharp drop of cotton prices took place such as, October 2011 cotton spot contracts amounted to \$1.03, a 50% decrease from the registered record price of cotton.

The Company tracks fluctuations in the price in question, and tries to adapt its string and finished product inventory levels to sales projections. In addition, the Company increased prices for customers, see 2.3.3 above.

#### 5.3.2 Volatility of Exchange Rates of the Euro vs. the USD

In 2011 the Company's surplus of proceeds over payments denominated in Euro dropped to \$20 million (compared to \$40 million in 2010), thus due to partial transfer of Company's sales contracts with European customers into dollars.

The Company carried out hedging transactions with an average exchange rate of \$1.359 dollar per 1 Euro, thus in order to protect the above-mentioned surplus of proceeds, see clause 5.4 below.

The following are average Euro/USD exchange rates for 2011 and 2010 in quarterly basis.

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
<b>Q1</b>	<b>\$1.368</b>	<b>\$1.384</b>	<i>(1%)</i>
<b>Q2</b>	<b>\$1.441</b>	<b>\$1.275</b>	<i>13%</i>
<b>Q3 (*)</b>	<b>\$1.382</b>	<b>\$1.291</b>	<i>7%</i>
<b>Q4 (*)</b>	<b>\$1.384</b>	<b>\$1.360</b>	<i>2%</i>

(\*) Average rate of exchange, for hedging transactions, carried out by the Company.

It is Company policy, to maintain as high an alignment as possible, between the currency in which its products are sold, and the currency in which products and/or raw materials are purchased. The Company regularly reviews its balance sheet exposure, and its economic exposure, in accordance with forecast revenues and expenses, for the coming 12 months.

The Company's operations are exposed to macroeconomic risks, industry risks and risks unique to its operations. Full details of these risks factors can be found in Part A of the 2010 periodic report in Section 1.25.1.

#### 5.4 Financial Instruments

The following open positions as of June 30 2011 are not recognized as an accounting hedge against the euro:

	<u>Redemption Date</u>	<u>Exchange Rate for Transaction (USD per €)</u>	<u>Sum in Thousands of Dollars</u>	<u>Average rate of exchange</u>
	11/7/11	1.382	2,000	
	8/8/11	1.382	1,500	
	8/9/11	1.382	1,500	
<b>Q3 2011</b>			<b>5,000</b>	<b>1.382</b>
	11/10/11	1.381	1,200	
	8/11/11	1.380	1,200	
	28/11/11	1.395	100	
	8/12/11	1.380	1,100	
	24/12/11	1.394	1,400	
<b>Q4 2011</b>			<b>5,000</b>	<b>1.384</b>
<b>Total transactions</b>			<b>10,000</b>	<b>1.383</b>

In its results for the second quarter and the first half of 2011, the Company included the results of transactions which closed in the reporting period under other income (expenses), net, as well as the estimated results of the aforementioned open transactions, which are not recognized as an accounting hedge against the euro and which amounted to a loss of \$0.3 million and \$1.3 million respectively.

## 5.5 Linkage Basis Report, in Thousands of Dollars

	As of June 30 2011					
	Unaudited					
	<u>In Dollars</u>	<u>In Euro</u>	<u>In NIS</u>	<u>In other currency</u>	<u>Non- Monetary Balances</u>	<u>Total</u>
Assets						
Cash and Cash Equivalents	42,335	263	259	1,037	-	43,894
Trade receivables	77,004	11,863	17,162	1,657	-	107,686
Other accounts receivable	3,948	173	1,124	3,669	4,520	13,464
Inventories	-	-	-	-	116,705	116,705
Assets classified as held for Sale	-	-	-	-	1,766	1,766
Debit balances and long-term prepaid expenses	887	-	31	-	637	1,555
Financial derivative	2,660	-	-	-	-	2,660
Deferred tax assets	-	-	-	-	7,331	7,331
Fixed assets, net of accumulated depreciation	-	-	-	-	63,500	63,500
Intangible assets, net of accumulated amortization	-	-	-	-	79,588	79,588
<b>Total assets</b>	<b>126,834</b>	<b>12,229</b>	<b>18,576</b>	<b>6,393</b>	<b>274,047</b>	<b>438,149</b>
Liabilities:						
Credit from banking Corporations	58,930	6,070	2	32	-	65,034
Trade payables	39,853	4,113	8,537	2,956	-	55,459
Other accounts payable	18,003	580	15,507	3,561	5,435	43,086
Long-term loans from banking Corporations	2,559	-	-	-	-	2,559
Severance pay liabilities, net of plan assets	-	-	-	-	477	477
Debentures (*)	60,277	-	-	-	-	60,277
Long-term loans and other Liabilities	5,451	93	64	204	-	5,812
<b>Total liabilities</b>	<b>185,073</b>	<b>10,856</b>	<b>24,110</b>	<b>6,753</b>	<b>5,912</b>	<b>232,704</b>
<b>Balance sheet total, net</b>	<b>(58,239)</b>	<b>1,443</b>	<b>(5,534)</b>	<b>(360)</b>	<b>268,135</b>	<b>205,445</b>

(\*) Debentures issued in January and December 2010, are denominated in NIS, bear fixed NIS interest and are not linked. The Company has entered into a SWAP agreement with a bank to swap NIS cash flows for dollar cash flows, and vice versa, hence this liability is presented as linked to the USD.

5.6 Sensitivity tests for changes in the exchange rates of the euro and the NIS vs. the dollar and for changes in interest rates, in thousands of dollars.

**Sensitivity to changes in the discount rate of NIS compared to US dollar**

Expected exchange rate	Gain (Loss) from Changes		Fair Value	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	\$1 = 3.76 NIS	\$1 = 3.59 NIS	\$1 = 3.42 NIS	\$1 = 3.24 NIS	\$1 = 3.07NIS
Cash and cash equivalents	(26)	(13)	259	13	26
Trade receivables <sup>5</sup>	(1,716)	(858)	17,162	858	1,716
Other accounts receivable	(112)	(56)	1,124	56	112
Long-term debit balances	(3)	(2)	31	2	3
Short-term credit from Banks	-	-	(2)	-	-
Trade payables	854	427	(8,537)	(427)	(854)
Other accounts payable	1,551	776	(15,507)	(776)	(1,551)
Long-term loans and other liabilities	6	3	(64)	(3)	(6)
Off-balance-sheet liabilities in respect of rental agreements	1,235	618	(12,358)	(618)	(1,235)
<b>Total</b>	<b>1,789</b>	<b>895</b>	<b>(17,892)</b>	<b>(895)</b>	<b>(1,789)</b>

Sensitivity to changes in the discount rate of liabilities in respect of rental and franchise agreements denominated in NIS:

	<u>10% Increase<sup>1</sup></u>	<u>5% Increase<sup>2</sup></u>	<u>Discount rate of 12%</u>	<u>5% Decrease<sup>3</sup></u>	<u>10% Decrease<sup>4</sup></u>
<b><u>Change in fair value, before tax<sup>6</sup></u></b>	<u>130</u>	<u>57</u>	<u>(12,516)</u>	<u>(76)</u>	<u>(153)</u>

**Sensitivity to changes in Euro compared to Dollar**

	Gain (Loss) from Changes		Fair Value	Gain (Loss) from Changes	
	10% Increase	5% Increase		10% Increase	5% Increase
Expected exchange rate	\$1.59 = 1€	\$1.52 = 1€	\$1.45 = 1€	\$1.38 = 1€	\$1.30 = 1€
Cash and cash equivalents	26	13	263	(13)	(26)
Trade receivables <sup>5</sup>	1,186	593	11,863	(593)	(1,186)
Other accounts receivable	17	9	173	(9)	(17)
Short-term credit from banks	(607)	(304)	(6,070)	304	607
Trade payables	(411)	(206)	(4,113)	206	411
Other accounts payable	(58)	(29)	(580)	29	58
Long-term loans and other Liabilities	(9)	(5)	(93)	5	9
<b>Total</b>	<b>144</b>	<b>71</b>	<b>1,443</b>	<b>(71)</b>	<b>(144)</b>

**Sensitivity to change in discount rate of liabilities with respect to franchise agreements denominated in euros:**

	<u>10% Increase</u> <sup>1</sup>	<u>5% Increase</u> <sup>2</sup>	<u>Discount rate of 12%</u>	<u>5% Decrease</u> <sup>3</sup>	<u>10% Decrease</u> <sup>4</sup>
<u>Change in Fair Value Before Tax</u>	<u>2</u>	<u>1</u>	<u>(210)</u>	<u>(1)</u>	<u>(2)</u>

Sensitivity to changes in weighted LIBOR interest rate. The following calculation relates to cash flow exposure and not to changes in fair value to a loan portfolio amounting to \$62.9 million (in thousands of dollars) while the weighted interest on the investment portfolio of June 30 2011 is 2.4% :

<u>Change in interest rate</u>	<u>10% Increase</u>	<u>5% Increase</u>	<u>5% Decrease</u>	<u>10% Decrease</u>
<u>Interest rate expected after change</u>	<u>2.64%</u>	<u>2.52%</u>	<u>2.28%</u>	<u>2.16%</u>
<u>Pre-tax gain (loss) due to changes</u>	<u>(135)</u>	<u>(67)</u>	<u>67</u>	<u>135</u>

The following are sensitivity analyses for the value of the SWAP contract the Company entered regarding the replacement of NIS cash flows to debenture holders with a dollar cash flow. Note that changes in the value of the contract shall be attributed to a capital fund in the Company's balance sheet with no impact on the Statement of Operations.

Analysis of the sensitivity of the value of the SWAP contract to changes in the exchange rate (NIS/USD):

<u>Rate of change</u>	<u>10% Decrease</u>	<u>5% Decrease</u>	<u>Fair Value</u>	<u>5% Increase</u>	<u>10% Increase</u>
<u>Expected exchange rate</u>	<u>\$1 = 3.07 NIS</u>	<u>\$1 = 3.24 NIS</u>	<u>\$1 = 3.415 NIS</u>	<u>\$1 = 3.59 NIS</u>	<u>\$1 = 3.76 NIS</u>
<u>Forward contract value</u>	<u>11,447</u>	<u>7,236</u>	<u>2,660</u>	<u>18</u>	<u>(3,099)</u>
<u>Difference</u>	<u>8,000</u>	<u>3,789</u>	<u>-</u>	<u>(3,429)</u>	<u>(6,545)</u>

Analysis of the sensitivity of the value of the SWAP contract to changes in NIS interest:

<u>Rate of change</u>	<u>10% Decrease</u>	<u>5% Decrease</u>	<u>Fair Value</u>	<u>5% Increase</u>	<u>10% Increase</u>
<u>Expected exchange rate</u>	<u>6.30%</u>	<u>6.70%</u>	<u>7%</u>	<u>7.35%</u>	<u>7.70%</u>
<u>Forward contract value</u>	<u>3,445</u>	<u>3,047</u>	<u>2,660</u>	<u>2,277</u>	<u>1,896</u>
<u>Difference</u>	<u>785</u>	<u>387</u>	<u>-</u>	<u>(383)</u>	<u>(764)</u>

Analysis of the sensitivity of the value of the SWAP contract to changes in dollar interest:

<u>Rate of change</u>	<u>10% Decrease</u>	<u>5% Decrease</u>	<u>Fair Value</u>	<u>5% Increase</u>	<u>10% Increase</u>
<u>Expected exchange rate</u>	<u>5.47%</u>	<u>5.78%</u>	<u>6.08%</u>	<u>6.38%</u>	<u>6.69%</u>
<u>Forward contract value</u>	<u>2,217</u>	<u>2,439</u>	<u>2,660</u>	<u>2,881</u>	<u>3,100</u>
<u>Difference</u>	<u>(443)</u>	<u>(221)</u>	<u>-</u>	<u>221</u>	<u>440</u>

<sup>1</sup> For a 13.2% discount rate.

<sup>2</sup> For a 12.6% discount rate.

<sup>3</sup> For a 11.4% discount rate.

<sup>4</sup> For a 10.8% discount rate.

<sup>5</sup> The balance of trade receivables in the above tables is short-term, hence the fair value presented for it is in line with the balance reflected in the financial statements

<sup>6</sup> Most of the liabilities included in the above sensitivity analysis tables refer to rental agreements, while liabilities due to franchise and storage services agreements are of non-material sums.



## **6 Disclosure with Regard to the Financial Statement Approval Process**

The Company's Board of Directors has decided that the organ in charge of entity-level control of the Company's financial statements will be the Financial Statement Examination Committee (hereinafter: **the Committee**”).

This committee consists of three directors, as follows:

- Yehezkel Dovrat, Chair of the Committee – External director, with expertise in accounting and finance.
- Shaul Ben Ze'ev – External director, with expertise in accounting and finance.
- Gideon Chitayat – director, with expertise in accounting and finance.

Prior to their appointment, the three members of the Committee provided the Company with a statement in accordance with Section 3 of the Companies Regulations (Instructions and Conditions Pertaining to the Financial Statement Approval Process), 2010. For additional information regarding the committee members in question, including as pertains to their qualifications, education, experience and knowledge, based upon which the Company considers them as possessing accounting and financial expertise, see Part D of the Company's 2010 periodic report – “Additional Information Regarding the Corporation”, published February 17 2011 (ref. 2011-01-052224).

Ratification of the second quarter and the first half of 2011 Financial Statements involved two meetings, as detailed below:

- (1) A meeting in which the Committee held a comprehensive and in-depth discussion, of material reporting issues and formulated its recommendations to the Board of Directors, regarding the Financial Statements.
- (2) A meeting of the Board of Directors, to discuss and ratify the Financial Statements.

Prior to the approval of the Company's Financial Statements by the Board of Directors, a draft of the Financial Statements and associated reports and notes, to these Statements, was sent to members of the Committee, 2 days before the meeting.

Invited to the meeting of the Committee discussing the approval of the Financial Statements are: the CEO, the CFO and Company Comptroller, the Auditor as well as the independent CPAs, who present the Financial Statements to the Committee members, and answer any questions.

Over the course of the Committee's meeting, the Company's Financial Statements are reviewed and discussed, examining key changes, internal controls pertaining to financial reporting, estimates and evaluations made regarding the Financial Statements, the completeness and propriety of disclosure and the accounting policy adopted and the accounting treatment applied to the Company's material issues. In addition, reference is made to comments by Company management and the Auditor and the compliance between the Financial Statements and events that have occurred in the Company and standards used by the Company in the preparation of its Financial Statements are tested.

After the discussion, the Chair of the Financial Statement Examination Committee calls a vote on the recommendation of the Committee to the Board of Directors to approve the Financial Statements, and queries whether any Committee members still have any unanswered questions or issues.

The Committee formulated recommendations regarding the approval of the Company's 2011 Financial Statements for the period ending on June 30 2011 which were passed on

to the Company's Board of Directors 2 business day prior to the Board convening, a reasonable amount of time in the opinion of the Board of Directors, taking the scope and complexity of the recommendations into account. After the Committee recommends approval of the Financial Statements as set forth above, the Financial Statements and attached notes were brought to the Company Board of Directors for approval.

The names of the Finance Committee members who attended the meeting on August 2 2011, in which the Finance Committee recommended that the Company Board of Directors ratify the Financial Statements and Board of Directors' Report as of June 30 2011 are: Yehezkel Dovrat, Committee Chairman; Shaul Ben-Ze'ev and Gideon Chitayat.

Also present were Company CEO Isaac Dabah, Board member, CFO Yossi Hajaj and Company Comptroller and Secretary Miki Laxer.

The remaining members of the Board of Directors received a draft of the Financial Statements to study 4 days before the date of the Board Meeting set to approve the Financial Statements and the Committee's recommendation were provided for them to study. Over the course of the Board meeting, the financial results and material issues in the Financial Statements were studied by the Company CFO, along with the Committee's recommendations. Questions were raised by the various members of the Board of Directors regarding Financial Statement data. The questions were asked and answered by Company management and by the Auditor. The Statements were ratified and signed by the authorized parties.

Note also that if, during compilation of the financial statements, the CFO or the Company CEO have any material questions or issues requiring preliminary discussion before submitting the Financial Statements to the Board of Directors for approval, the CFO or the Company CEO will instruct that the Board of Directors convene for a preliminary meeting to discuss and resolve these issues.

The names of Board members who attended the Board of Directors' meeting on August 4, 2011 at which the Financial Statements and the Board of Directors' report as of June 30 2011 were approved, were: Chairman of the Board Noam Lautman, Gideon Chitayat, Israel Baum, Itzhak Weinstock, Shaul Ben-Ze'ev, Tzipa Carmon, Yehezkel Dovrat and Isaac Dabah. Also present at the Meeting were: CFO Yossi Hajaj, Deputy CEO and VP of Operations Shlomo Doron, and Company's Comptroller and Secretary Miki Laxer.

## **Disclosure Provisions with Regard to the Corporation's Financial Reporting**

### **7 Disclosure on Critical Accounting Estimates**

In preparing the Financial Statements according to generally accepted accounting practices, Management is required to use estimates and assessments which impact the reported information on assets and liabilities, on data on contingent assets and pending liabilities disclosed in the Financial Statements and on revenue and expense data for the reported period.

Some of these estimates that may have a material impact on the presentation of data in the Financial Statements require discretion in an uncertain environment.

Details regarding accounting estimates and assumptions can be found in Note 3 to the 2010 Yearly Financial Statements published February 17 2011.

## Special Disclosure for Debenture Holders

### 8 Outstanding Obligatory Notes

The following is a description of outstanding Company debenture series as of this report:

Series	K
Issuing Date	113,000,000 NIS NV debentures listed for trade on January 24 2010 pursuant to a shelf offering report published by the Company on January 18, 2010 pursuant to the Company's shelf prospectus dates May 29, 2008.  92,632,000 NIS NV debentures listed for trade on December 28 2010 pursuant to a shelf offering report published by the Company on December 23 2010 pursuant to the Company's shelf prospectus dated December 22 2010.
Extent of N.V. debentures at issuance (in NIS)	205,632,000
Extent of N.V. debentures as of June 30 2011 (in NIS) including linkage	205,632,000
Start date of principal repayment	19.7.2012
Number of annual installments of principal repayment	1
Interest accrued as of June 30 2011	6.4 Million NIS
Value on stock exchange soon prior to June 30 2011.	214 million NIS
Interest type	Fixed 7%
Effective interest as of issuance date (Including issuing costs)	7.45%
Effective interest upon issue of	6.62%

Series	K
debenture expansion (including issuance expenses)	
Interest payment dates	Semi-annual installments on July 19 and on January 19, of each of the years from 2010 through 2016 (including).
Linkage type	Not-linked.
Conversion right	The debentures are not convertible.
Right to early redemption or forced Conversion	Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series, below the threshold determined by the stock exchange, the Company will not allow early redemption of debentures due to said de-listing.
Guarantee to secure payment	Not guaranteed by any liens.
Rating	Rated A3/Stable by Midrug Ltd. (see report dated December 31 2009 (ref. 2009-01-338541) and December 19 2010 (ref: 2010-01-721767)).
Details and contact information of trustee	Strauss Lazar Trust Company (1992) Ltd., 17 Yitzhak Sadeh Str. Tel Aviv (Tel. 03-623777, Fax: 03-5613824). The contact at the trustee is :  Mr. Ori Lazar, email: <a href="mailto:ori@slcpa.co.il">ori@slcpa.co.il</a> .

As of the report date, the Company is in compliance with all terms and conditions and commitments to holders of outstanding debentures, including pursuant to the deed for said debentures, and no cause existed to demand the immediate repayment of said debentures. The Board of Directors and management; express their deep appreciation to Delta employees and managers.

Signed: August 4 2011

.....  
Noam Lautman  
Chairman of the Board of Directors

.....  
Isaac Dabah  
CEO and Director

**DELTA GALIL Industries Ltd.**  
**Interim Financial Information**  
**(Unaudited)**

**June 30 2011**

**DELTA GALIL INDUSTRIES LTD.**  
**Interim Financial Information**  
**(Unaudited)**  
**June 30 2011**

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## **Auditors' review Report to the Shareholders of Delta Galil Industries Ltd.**

### **Introduction**

We have reviewed the accompanying financial information of DELTA GALIL Industries Ltd. and its subsidiaries (hereafter: the group), which includes the condensed consolidated statement of financial position as of June 30, 2011 and the related condensed consolidated statements of comprehensive income, changes to equity and cash flows for the six-month and the three-month periods then ended. The Board of Directors and management are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting", and they are also responsible to draw up interim financial information based on Chapter D to the Israel Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 9% of total consolidated assets as of June 30, 2011. The condensed interim financial information of these companies were reviewed by other independent auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to financial information for those companies, is based on review reports of the other auditors.

### **Scope of Review**

We conducted our review in accordance with Israeli Review Standard No. 1, issued by the Israeli Institute of Certified Public Accountants, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review and the review reports of the other independent auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34. In addition to what is said in the previous paragraph, based on our review and the review reports of the other independent auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure provisions of Chapter D of the Israel Securities Regulations (Periodic and Immediate Reports) 1970.

Tel-Aviv, Israel Kesselman & Kesselman  
August 4, 2011 Certified Public Accountants (Isr.)  
A member firm of PricewaterhouseCoopers International Limited

**DELTA GALIL INDUSTRIES LTD.**

Concise Consolidated Balance Sheets

As of June 30, 2011

	<b>June 30</b>		<b>December 31</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>Thousands of Dollars</b>		
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	43,894	36,375	46,215
Other accounts receivable:			
Trade receivables	107,686	97,231	90,317
Taxes on income receivable	29	1,239	725
Others	13,435	9,201	12,028
Inventories	116,705	103,832	121,275
Assets classified as held for sale	1,766	2,916	2,838
Total current assets	<u>283,515</u>	<u>250,794</u>	<u>273,398</u>
<b>Non-current assets:</b>			
Long-term pre-paid expenses	222	197	198
Long-term receivables	1,333	1,085	890
Surplus of plan assets over liabilities from the termination of employer - employee relations	-	85	-
Fixed assets, net of accumulated depreciation	63,500	66,800	62,704
Intangible assets, net of accumulated Amortization	79,588	77,278	75,464
Deferred tax assets	7,331	3,324	5,127
Financial derivative	2,660	-	1,830
Total non-current assets	<u>154,634</u>	<u>148,769</u>	<u>146,213</u>
<b>Total assets</b>	<u>438,149</u>	<u>399,563</u>	<u>419,611</u>

\_\_\_\_\_  
**Noam Lautman,**  
Chairman of the Board Of Directors

\_\_\_\_\_  
**Isaac Dabah**  
CEO

\_\_\_\_\_  
**Yossi Hajaj**  
CFO

Approval date of financial information for the interim period by the Company Board of Directors: August 4, 2011



	<b>June 30</b>		<b>December 31</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>Thousands of Dollars</b>		
<b>Liabilities and Equity</b>			
<b>Current liabilities:</b>			
Short-term bank loans	62,924	75,739	57,439
Current maturities of long-term loans from banking corporations	2,110	2,110	2,110
Other accounts payable			
Trade payables	55,459	59,841	52,959
Taxes on income – payable	1,867	816	854
Others	41,219	33,018	41,506
<b>Total current liabilities</b>	<u>163,579</u>	<u>171,524</u>	<u>154,868</u>
<b>Non-current liabilities:</b>			
Loans from financial institutions, less Current maturities	2,559	4,669	3,614
Severance pay liabilities less plan assets	477	385	472
Other non-current liabilities	5,812	6,526	5,296
Reserve for deferred taxes	-	976	-
Debentures	60,277	28,856	58,023
Derived financial instrument	-	1,132	-
Total non-current liabilities	<u>69,125</u>	<u>42,544</u>	<u>67,405</u>
<b>Total liabilities</b>	<u>232,704</u>	<u>214,068</u>	<u>222,273</u>
<b>Equity:</b>			
Equity attributable equity holders of the parent company:			
Share capital	23,097	23,090	23,091
Share premium	121,121	120,946	120,966
Other capital reserves	1,416	(458)	1,465
Unassigned income balance	66,963	49,042	58,969
Treasury shares	(9,700)	(9,700)	(9,700)
	<u>202,897</u>	<u>182,920</u>	<u>194,791</u>
Minority interests	2,548	2,575	2,547
<b>Total equity</b>	<u>205,445</u>	<u>185,495</u>	<u>197,338</u>
<b>Total liabilities and equity</b>	<u>438,149</u>	<u>399,563</u>	<u>419,611</u>

**The enclosed notes constitute an integral part of these Financial Statements**

**DELTA GALIL INDUSTRIES LTD.**  
Concise Consolidated Statement of Comprehensive Income  
For the 3-month and 6-month periods ending June 30, 2011

	Six months ended June 30		Three months ended June 30		Year ending December 31
	2011	2010	2011	2010	2010
	(Unaudited)				(Audited)
Thousands of Dollars					
Except for Net Earnings per Share Data					
<b>Sales</b>	<b>317,650</b>	297,206	<b>160,226</b>	156,665	620,074
Cost of sales	<b>255,929</b>	239,541	<b>127,483</b>	127,192	498,805
<b>Gross profit</b>	<b>61,721</b>	57,665	<b>32,743</b>	29,473	121,269
Selling and marketing expenses	<b>35,859</b>	32,000	<b>18,315</b>	16,263	65,207
Administrative and general expenses	<b>12,791</b>	12,309	<b>6,377</b>	6,220	25,347
Other income (expenses), net	<b>2,378</b>	1,562	<b>(195)</b>	615	2,494
Restructuring expenses, net	-	485	-	-	485
Impairment of fixed assets	-	-	-	-	992
Capital loss from sale of a subsidiary	-	666	-	-	666
<b>Operating income</b>	<b>15,449</b>	13,767	<b>7,856</b>	7,605	31,066
Finance expenses, net	<b>2,752</b>	3,631	<b>1,717</b>	1,591	7,817
Profit before tax on income	<b>12,697</b>	10,136	<b>6,139</b>	6,014	23,249
Taxes on income	<b>1,222</b>	1,700	<b>510</b>	1,450	2,067
<b>Income for the period</b>	<b>11,475</b>	8,436	<b>5,629</b>	4,564	21,182
<b>Other Comprehensive Income:</b>					
Actuary losses – defined employee benefit plan	-	-	-	-	(139)
Net change in cash flow hedging transactions	<b>(1,785)</b>	137	<b>(315)</b>	(123)	47
Differences from the translation of financial statements prepared in foreign currency	<b>1,350</b>	(595)	<b>464</b>	(829)	1,429
Taxes on income and expenses charged directly to other comprehensive losses	<b>386</b>	-	<b>69</b>	-	54
Net comprehensive loss for the period	<b>(49)</b>	(458)	<b>218</b>	(952)	1,391
Total comprehensive earnings for the period	<b>11,426</b>	7,978	<b>5,847</b>	3,612	22,573
<b>Attribution of net earnings for the period:</b>					
To shareholders of the parent company	<b>11,413</b>	8,376	<b>5,599</b>	4,534	21,060
To minority interests	<b>62</b>	60	<b>30</b>	30	122
	<b>11,475</b>	8,436	<b>5,629</b>	4,564	21,182
<b>Attribution of total comprehensive earnings for the period</b>					
To shareholders of the parent company	<b>11,364</b>	7,918	<b>5,817</b>	3,582	22,451
To minority interests	<b>62</b>	60	<b>30</b>	30	122
Total recognized revenues and expenses	<b>11,426</b>	7,978	<b>5,847</b>	3,612	22,573
<b>Dollars</b>					
<b>Earnings per share attributed to shareholders of the parent company</b>					
Basic	<b>0.49</b>	0.36	<b>0.24</b>	0.19	0.90
Diluted	<b>0.47</b>	0.35	<b>0.24</b>	0.19	0.87

The enclosed notes are an integral part of these financial statements.

**DELTA GALIL INDUSTRIES LTD.**  
 Concise Consolidated Statement of Changes in Equity  
 For the 3-month period and the 3-month periods ending June 30, 2011  
 Attributable to Company Shareholders

<b>Ordinary Share Capital</b>											
	Number of Shares	Amount	Share Premium	Capital Reserve from Translation Differences	Capital Reserves in Respect of Cash Flow Hedging	Actuary Loss due to Severance Pay Liabilities	Unassigned Income Balance	Treasury Shares	Total	Non-Control-ling Interest	Total Equity
Thousands of Dollars											
<b>Balance as of January 1, 2011 (audited)</b>	24,605	23,091	120,966	1,429	36	(1,499)	60,468	(9,700)	194,791	2,547	197,338
<b>Movement in period of 6 months ending June 30 2011, (unaudited):</b>											
Comprehensive earnings				1,350	(1,399)		11,413		11,364	62	11,426
Proceeds from exercise of options	22	6	155						161		161
Dividend distribution							(4,000)		(4,000)		(4,000)
Dividends paid to holders of minority rights										(61)	(61)
Benefit component of options granted							581		581		581
<b>Balance as June 30, 2011 (unaudited)</b>	<u>24,627</u>	<u>23,097</u>	<u>121,121</u>	<u>2,779</u>	<u>(1,363)</u>	<u>(1,499)</u>	<u>68,462</u>	<u>(9,700)</u>	<u>202,897</u>	<u>2,548</u>	<u>205,445</u>
<b>Balance As of January 1, 2010 (audited)</b>	24,586	23,086	120,854	-,-	-,-	-,-	41,721	(9,700)	175,961	2,545	178,506
<b>Movement in period of 6 months, ending June 30, 2010 (unaudited):</b>											
Comprehensive earnings					(458)		8,376		7,918	60	7,978
Proceeds from exercise of options	13	4	92						96		96
Benefit component of options granted										(30)	(30)
Dividend distribution							(1,500)		(1,500)		(1,500)
Benefit component of options granted							445		445		445
<b>Balance as of June 30, 2010 (unaudited)</b>	<u>24,599</u>	<u>23,090</u>	<u>120,946</u>	<u>-,-</u>	<u>(458)</u>	<u>-,-</u>	<u>49,042</u>	<u>(9,700)</u>	<u>182,920</u>	<u>2,575</u>	<u>185,495</u>
<b>Balance As of January 1, 2010 (audited)</b>	24,586	23,086	120,854	-,-	-,-	(1,425)	43,146	(9,700)	175,961	2,545	178,506
<b>Movement in 2010 (audited):</b>											
Comprehensive earnings				1,429	36	(74)	21,060		22,451	122	22,573
Proceeds from exercise of options	19	5	112						117		117
Dividends to non-controlling interest Holders										(120)	(120)
Dividend distribution							(5,000)		(5,000)		(5,000)
Benefit component of options granted					36	(1,499)	1,262		1,262		1,262
<b>Balance as of December 31, 2010 (audited)</b>	<u>24,605</u>	<u>23,091</u>	<u>120,966</u>	<u>1,429</u>	<u>36</u>	<u>(1,499)</u>	<u>60,468</u>	<u>(9,700)</u>	<u>194,791</u>	<u>2,547</u>	<u>197,338</u>

**DELTA GALIL INDUSTRIES LTD.**  
 Concise Consolidated Cash Flow Reports  
 For the 3-month and 6-month periods ending June 30, 2011

**Attributable to Company Shareholders**

<b>Ordinary Share Capital</b>											
<b>Number of Shares</b>	<b>Amount</b>	<b>Share Premium</b>	<b>Capital Reserve from Translation Differences</b>	<b>Capital Reserves in Respect of Cash Flow Hedging</b>	<b>Actuary Loss due to Severance Pay Liabilities</b>	<b>Unassigned Income Balance</b>	<b>Treasury Shares</b>	<b>Total</b>	<b>Non-Control -ling Interest</b>	<b>Total Equity</b>	
<b>In Thousands</b>	<b>Thousands of Dollars</b>										
<b>Balance as of April 1, 2011 (audited)</b>	24,627	23,097	121,121	2,315	(1,117)	(1,499)	64,585	(9,700)	198,802	2,579	201,381
<b>Movement in period of 3 months, ending June 30, 2011 (Unaudited)</b>											
Comprehensive earnings				464	(246)		5,599		5,817	30	5,847
Proceeds from exercise of options											
Dividend distribution							(2,000)		(2,000)		(2,000)
Dividends paid holders of minority interests										(61)	(61)
Benefit component of options granted							278		278		278
<b>Balance as of June 30 2011 (unaudited)</b>	<u>24,627</u>	<u>23,097</u>	<u>121,121</u>	<u>2,779</u>	<u>(1,363)</u>	<u>(1,499)</u>	<u>68,461</u>	<u>(9,700)</u>	<u>202,897</u>	<u>2,548</u>	<u>205,445</u>
<b>Balance As of April 1, 2010 (audited)</b>	24,599	23,090	120,942	494	--	--	45,844	(9,700)	180,670	2,575	183,245
<b>Movement in period of 3 months, ending June 30, 2010 (unaudited):</b>											
Comprehensive earnings				(952)			4,534		3,582	30	3,612
Proceeds from exercise of options			4						4		4
Dividends paid holders of minority rights										(30)	(30)
Dividend distribution							(1,500)		(1,500)		(1,500)
Benefit component of options granted							164		164		164
<b>Balance as of June 30, 2010 (unaudited)</b>	<u>19,948</u>	<u>23,090</u>	<u>120,946</u>	<u>(458)</u>	<u>--</u>	<u>--</u>	<u>49,042</u>	<u>(9,700)</u>	<u>182,920</u>	<u>2,575</u>	<u>185,495</u>

**DELTA GALIL INDUSTRIES LTD.**  
 Concise Consolidated Cash Flow Reports  
 For the 3-month and 6-month periods ending June 30, 2011

	Six months ending June 30		Three months ending June 30		Year ending December 31
	2011	2010	2011	2010	2010
	(Unaudited)				(Audited)
	Thousands of Dollars				
<b>Cash flows from operating activities:</b>					
Net profit for the period	11,475	8,436	5,629	4,564	21,182
Adjustments required to reflect cash flows deriving from operating activities	(5,523)	4,426	1,891	6,773	448
Interest paid in cash	(2,045)	(1,589)	(497)	(811)	(4,002)
Taxes on income refunded (paid) in cash, net	(1,153)	(908)	(1,153)	(897)	(3,368)
Net cash generated from operating activities	<u>2,754</u>	<u>10,365</u>	<u>5,867</u>	<u>9,629</u>	<u>14,260</u>
<b>Cash flows from investment activities:</b>					
Proceeds from the sale of subsidiary, net (see Appendix A)	-	816	-	816	816
Acquisition of fixed assets and intangible assets	(5,644)	(2,055)	(3,056)	(876)	(4,617)
Acquisition of trademark/ Acquisition of activity(Appendix B)	(4,000)	(600)	(4,000)	-	(600)
Proceeds from sale of fixed assets	191	510	121	472	710
Proceeds from the issue of option to sell asset available for sale	-	538	-	-	682
Proceeds from the sale of land, net of attached tax payments				-	4,218
Loans to subcontractors	(400)		(400)	-	
Proceeds from the sale of asset held for sale	4,035		268	-	644
Repayment of long-term receivables	-	127	-	83	132
Loans granted to employees	(10)	(9)	(8)	(2)	(12)
Employees' loans return	22	9	7	4	25
Long-term deposits	(52)	(81)	(52)	(97)	(80)
Net cash used in (generated by) Company Investment Activities	<u>(5,858)</u>	<u>(745)</u>	<u>(7,120)</u>	<u>400</u>	<u>1,918</u>
<b>Cash flows from financing activities:</b>					
Dividends paid holders of minority rights in consolidated Subsidiary	(61)	(30)	(61)	(30)	(120)
Dividend paid	(4,000)	(1,500)	(2,000)	(1,500)	(5,000)
Repayment of loans and other long-term liabilities	(1,057)	(1,057)	(907)	(907)	(2,220)
Short-term credit from banking corporations, net	5,250	(28,605)	1,091	(5,123)	(47,205)
Proceeds from the issuance of debentures, less issuance Expenses	-	30,132	-	-	56,331
Proceeds from exercise of employee options	161	96	-	4	117
Net cash deriving from financing activities (used for financing activities)	<u>293</u>	<u>(964)</u>	<u>(1,877)</u>	<u>(7,556)</u>	<u>1,903</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(2,811)</u>	<u>8,656</u>	<u>(3,130)</u>	<u>2,473</u>	<u>18,081</u>
<b>Profit (loss) due to exchange rate differentials on cash and cash equivalents</b>	490	(174)	230	(167)	241
<b>Balance of cash and cash equivalents at the beginning of the period</b>	46,215	27,893	46,794	34,069	27,893
<b>Balance of cash and cash equivalents at the end of the Period</b>	<u>43,894</u>	<u>36,375</u>	<u>43,894</u>	<u>36,375</u>	<u>46,215</u>

The enclosed notes constitute an integral part of these Financial Statements

**DELTA GALIL INDUSTRIES LTD.**  
 Concise Consolidated Cash Flow Reports  
 For the 3-month and six-month periods ending June 30, 2011

	Six months ended		Three months ended		Year
	June 30		June 30		ending
	2011	2010	2011	2010	December
	(Unaudited)				31
	Thousands of Dollars				2010
					(Audited)
<b>Adjustments required to reflect cash flows from operating activities:</b>					
Revenues and expenses not involving cash flow::					
Depreciation	4,701	4,931	2,333	2,517	9,291
Amortization	922	834	458	401	1,739
Impairment of fixed assets	-	-	-	-	992
Capital loss from sale of a subsidiary	-	666	-	-	666
Cash erosion, net	(490)	174	(230)	167	(241)
Interest paid in cash, net	2,045	1,589	497	811	4,002
Taxes on income paid in cash, net	1,153	908	1,153	897	3,368
Deferred taxes on income, net	(1,818)	398	(767)	468	(2,319)
Severance pay liability, net	5	12	16	7	44
Restructuring expenses	-	327	-	(158)	327
Capital gain from sale of fixed assets	(101)	-	(108)	-	(249)
Capital gain from realization of asset classified as held for sale	(2,330)	(250)	-	(224)	(483)
Change in benefit component of options granted to employees	581	445	278	164	1,262
Change in fair value of financial instruments derived from hedging against currency exposure	918	529	161	914	(505)
Long-term pre-paid expenses	(24)	(8)	(26)	-	(6)
Others	237	58	(135)	59	760
	<u>5,799</u>	<u>10,613</u>	<u>3,633</u>	<u>6,023</u>	<u>18,648</u>
Changes to operating assets and liabilities:					
Decrease (increase) in trade receivables	(17,196)	5,208	(7,593)	4,289	13,645
Decrease (increase) in other receivable and balances	(2,195)	(1,174)	(2,195)	(1,151)	(1,379)
Increase (decrease) in trade payables	2,229	15,657	7,063	12,647	7,926
Increase (decrease) in other payables	(578)	(1,598)	5,444	1,199	2,403
Decrease (increase) in inventory	6,418	(24,280)	(4,461)	(16,234)	(40,795)
	<u>(11,322)</u>	<u>(6,187)</u>	<u>(1,742)</u>	<u>750</u>	<u>(18,200)</u>
	<u>(5,523)</u>	<u>4,426</u>	<u>1,891</u>	<u>6,773</u>	<u>448</u>
<b>Further information on investment and finance operations not involving cash flows:</b>					
Trade payables with respect to fixed assets and other non-cash					
Assets	(114)	(495)	356	(54)	(89)
Receivables with respect to non-cash fixed assets	-	(5)	-	30	-
Liability for minimum royalty payments	1,612	4,107	141	1,057	1,358
Receivables as a result of the sale of subsidiary	-	(1,454)	-	-	(1,454)
Payables as a result of the sale of subsidiary	-	139	-	-	63
Receivables from the realization of fixed assets intended for Sale	510	-	268	-	(997)
Payables from the realization of fixed assets intended for sale	79	-	(41)	-	-

**The enclosed notes constitute an integral part of these Financial Statements**

**DELTA GALIL INDUSTRIES LTD.**  
 Concise Consolidated Cash Flow Reports  
 For the 3-month and six-month periods ending June 30, 2011

**Appendix A:**  
**Yield from the sale of company consolidated in the past:**

	<b>Year Ending</b>
	<b>December 31 2010</b>
	<b>(Audited)</b>
	<b>Thousands of Dollars</b>
Trade receivables	223
Other receivables and balance due	202
Inventories	888
Long-term deposits	122
Fixed assets	1,536
Suppliers	(307)
Payables and credit balance	232
Capitalization component from the sale of Company	40
Capital loss	(666)
Total proceeds	2,270
Less receivables due to sale of subsidiary	(1,454)
	816

\* Over the course of the second quarter of 2010, the Company completed the sale of its Indian subsidiary. Total yield from the sale is \$2.3 million, \$0.9 million of which was received in cash, with the balance expected by April 2012.

**Appendix B-Acquisition of activity, see note 8:**

	<b>The 3-month and 6-</b>
	<b>month period ending</b>
	<b>June 30, 2011</b>
	<b>(Unaudited)</b>
	<b>Thousands of Dollars</b>
Inventories	921
Intangible assets	3,469
Payables and credit balance	(390)
Total proceeds	4,000

**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
As of June 30, 2011 (un-audited)

**Note 1 - Overview**

DELTA GALIL Industries Ltd. (hereinafter: "the Company") is an Israeli corporation that, together with its subsidiaries (hereinafter: "the Group"), is primarily engaged in the manufacturing and marketing of undergarments, and is active in three different major operating segments – Delta USA Mass Market, Global Upper Market Segment and Delta

Israel. Information on major operating segments is presented in Note 4.

The main stock exchange on which the Company's shares are traded is the Israeli Tel Aviv Securities Exchange Ltd.

The financial information for the interim period, is reviewed and not audited.

**Note 2 - Preparation Basis of Concise Financial Statements:**

**a. General**

Following de-listing of Company shares from NASDAQ (March 2008), the Company started reporting to the stock exchange pursuant to provisions of Chapter F of the Securities Act, and to compile its financial statements, starting with the 2007 annual report, pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970.

**b. Preparation Basis of Concise Financial Statements**

The Group's concise consolidated financial information as of June 30, 2011 and for the three-month interim period ending that date (hereinafter - "the Financial Information for the Interim Period") has been prepared in accordance with IAS 34 "Financial Reporting for Interim Periods" (hereinafter – "IAS 34"), and includes the supplementary disclosure required in accordance with Securities Regulations (Periodic and Immediate Reports), 1970. The financial information for the interim period should be perused along with the 2010 Yearly Financial Statements and attached notes, which have been prepared in accordance with International Financial reporting Standards (IFRS), and included the supplementary disclosure required in accordance with Securities Regulations (Yearly Financial Statements), 2010.

**Note 3 – Principal Accounting Policies:**

Principal accounting policies and calculation methods applied in preparation of the financial information for the interim period are consistent with those used in preparation of the 2010, Yearly Financial Statements, except as described below.

Taxes on income for interim periods are recognized based on management's best estimate with regard to the average tax rate which would apply to total expected annual income.

Standards, amendments and interpretations for the existing standards coming into effect and binding for accounting periods starting January 1 2011:

- 1) Revision to International Accounting Standard 34 – "Financial Reporting for Interim Periods" (Hereinafter – the IAS 34 Revision). The revision in question constitutes part of the IFRS improvement paper published May 2010. The IAS Revision clarifies and corrects the disclosure requirements in the interim reports regarding material transactions or events and regarding other matters, while adding disclosure requirements regarding:
  - a. Material changes in business or economic conditions influencing the fair value of financial instruments in the Financial Statement, whether they are measured at fair value or are measured at depreciated cost;
  - b. Transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
  - c. Changes in the classification of financial assets as a result of changes in the purpose of use of these assets; as well as
  - d. Changes in pending liabilities or pending assets.

The Group applied the revision in question starting January 1 2011 and expanded accordingly, when relevant, the disclosure given pursuant to interim financial information.



**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
As of June 30, 2011 (un-audited)

2) Standards, amendments and interpretations for the existing standards coming into effect and binding for accounting periods starting January 1 2011, but the first-time application of which has no material impact on the Group's financial information for the 3-month and 6-month interim periods ending June 30 2011 (including comparison numbers).

- a. Revisions to IFRS 3 - "Business Combinations (hereinafter – IFRS 3R): the revisions in question constitute part of the IFRS improvement paper published May 2010. The following are the key revisions:

A clarification that treatment of conditional proceeds due to business combinations occurring prior to the application of IFRS 3R shall be in accordance with the provisions of the previous version of IFRS 3 (published 2004).

The statement that the selection options of for measuring non-controlling interests on the date of purchase at fair value or according to the relative portion of the net identified assets of the purchased item recognized, shall only refer to non-controlling interests granting present ownership and awarding their owners with the relative portion of the entity's net assets in the event of liquidation. All other components of non-controlling interests shall be measured according to their fair value on the date of the business combination, unless a different basis of measurement is required in accordance with the IFRS.

A clarification that IFRS 3R measurement provisions shall apply to all of the purchased party's share-based payment transactions, whether or not they were replaced with the purchaser's share-based payment transactions. In addition, a statement that share-based payment transactions of the purchased party shall be measured according to IFRS 2, "Share Based Payment", as of the date of the purchase.

- b. Revision to International Financial Reporting Standard 7 – "Financial Instruments: Disclosure". The revision in question constitutes part of the IFRS improvement paper published May 2010. The revision in question corrects several of the required qualitative and quantitative disclosures resulting from the nature and scope of risks deriving from financial instruments and clarifies the interaction between these qualitative and quantitative disclosures.
- c. Revision to International Accounting Standard 1 – "Presentation of Financial Statements" (hereinafter – the IAS 1 Revision). The revision in question constitutes part of the IFRS improvement paper published May 2010. The IAS 1 Revision allows entities to present an analysis of the components of other comprehensive earnings, pursuant to the report on changes in equity or as part of the notes to the Financial Statements.

The IAS 1 Revision has no impact on the Group's Financial Statements, as an analysis of the components of other comprehensive earnings is presented in its Financial Statements, pursuant to the report on changes in equity

- d. Revision to International Accounting Standard 27 – "Presentation of Consolidated and Separate Financial Statements" (hereinafter – the IAS 27R Revision). The revision in question constitutes part of the IFRS improvement paper published May 2010. The IAS 27R Revision clarifies which of the following revisions to international standards: IAS 21 "Influence of Changes in Exchange Rates of Foreign Currency", IAS 28 "Investments in Associates" and IAS 31 "Rights to Shared Transactions", which were revised pursuant to the publication of IAS 27R, will be applied on a prospective basis, and which will be applied on a retroactive basis.

3) New standards and revisions of existing standards that are yet to be valid and were selected by the Group not to be implemented are detailed in 2010 annual financial reports of the Group. In addition to the above-mentioned standards and revisions, in May 2011 additional standard's and standards" revisions were published:

- International Financial Reporting standard 10-" International Financial Reporting" (Hereinafter-IFRS 10)
- International Accounting Standard 27- "Separated Financial Reports" (Hereinafter –IAS 27)
- International Accounting Standard 13-"Fair value measurement" (Hereinafter- IFRS 13)
- International Accounting Standard 1 Revision-"Financial reports presentation"(Hereinafter Revision-IAS1)

**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
As of June 30, 2011 (un-audited)

- International Accounting Standard 19 Revision-"Employees' benefits" (Hereinafter-Revision IAS 19)

Revision of IAS1 will be implemented for the annual period starting from July 1 2012. An early implementation is possible. The above-mentioned revision will be implemented in a retrospective way for all of the reported periods.

Following is a summary of above-mentioned standards, relevant to Company's field of operation:

- a. IFRS 10 substitutes the existing instructions concerning control and consolidation of financial reports based upon International Accounting Standard 27-" Separated and Consolidated Financial Report" (Hereinafter- IAS 27) , based upon interpretation 12 of Continues Interpretations Committee-"Consolidation-entities for special purposes", IFRS 10 changes the definition of control . The new definition focuses on a requirement of existence of 'power" and shifting yields in order for "control" to exist.  
"Power" is an ability to direct activities that significantly influence on yield. IFRS 10 includes instructions attributed to distinction between hedging rights and participation rights in cases when the investor operates on behalf of another entity or on behalf of group of entities. the core principle, according to which the consolidated entity presents parent company and its subsidiaries as one entity remained valid, as well as consolidation technique. IFRS 10 is to be implemented for annual periods starting from January 1, 2013.An entity which will chose an early implementation will be obliged to disclose and implement at the same time IFRS11,IFRS 12,IAS 27R,IAS 28R.
- b. IAS 27R substitutes IAS27 and referrers solely to separated financial reports. Regulations, existing today as part of IAS27 concerning an accounting treatment of separated financial reports, remain unchanged under IAS27R. IAS has to be implemented for annual periods starting from January 2013.Early implementation will require disclosure and implementation of IFRS 10, IFRS11, and IFRS 12.
- c. IFRS 13 provides guidance and instructions of fair value measurements but does not set when which items from financial reports are obliged with fair value measurements. IFRS 13 defines fair value as a fair price received from sale of an assets or paid for transfer of liability when performed on the main market on which the asset and the liability are traded. In case there is no main market, the most profitable price of the asset will be considered as fair value. Fair value will be measured while using assumptions used by market participants and taking into consideration specific characteristics of the asset or of the liabilities.IFRS13 includes multiple detailed instructions concerning use of appraising technique and data in fair value measurements based on types of data used in fair value measurement and prioritizing technique.IFRS13 includes instructions regarding use of "bid-ask" gap (when exists) while measuring fair value and notes that use of bid prices for assets' positions and use of ask-price for liabilities' positions are allowed but not obligatory. The disclosure requirement in IFRS 13expands the level of disclosure compared to IFRS standards of fair value measurements existing today. IFRS 13 is to be implemented for annual periods starting from January 1 2011. Early implementation is possible but requires disclosure of the fact of early implementation. IFRS 13 will be implemented in a prospective way (from now on) starting from the annual period in which it was implemented for the first time. The above mentioned disclosure requirements in IFRS 13 do not required to be implemented on comparison numbers related to periods before the commencement of the implementation.
- d. Revision of IAS 1 changes the manner of disclosure of comprehensive income items including others (Hereinafter-OCI) as part of comprehensive income report.

Following is a summary of IAS1 revisions:

- Items presented in OCI are to be separated into two groups, based on a distinction weather they are intended to be 'recycled" as profit of loss in the future. Accordingly items that are not intended to be "recycled" will be presented separately from items that might be recycled in the future.

**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
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- An entity which chose to present OCI items before tax will be required to present tax influence upon each of the mentioned groups, separately.
- The name of the report has been changed into "Income or loss or loss and other comprehensive income report". Nevertheless, IAS 1 allows an entity to use other names.

Revision of IAS1 will be implemented for the annual period starting from July 1 2012. An early implementation is possible. The above-mentioned revision will be implemented in a retrospective way for all of the reported periods.

- e. Revision of IAS 19 includes material changes in the way of measurement and recognition of defined benefit plans and severance plans as well as disclosures required in respect to all types of employee's benefits discussed in IAS19.

Following is a summary of main revisions:

- Term "Actuary profits and losses" will be substituted by "renewed measurements". The renewed measurements will be immediately recognized in OCI. This cancelled a possibility of their recognition as part of profit or loss and a possibility to use "the Corridor" method.
- The past services cost will be recognize immediately in the period in which the change occurred and will not be deployed from the future service period until maturity.
- Expenses for benefit plans will include interest expenses/income, net, will be calculated on asset balance or liability of employee's benefit, net, while using the capitalization rate which is used in the current version of IAS19 for measurement of liability for a defined benefit. This accounting treatment will substitute the use of "interest cost" and "forward yield on plan's assets" which exists in current version of IAS19.
- A distinction between long and short term employee's benefits for the sake of measurement in financial reports will be based upon the anticipated date of payment and not on the date on which the plan may be required.
- Any benefit subjected to future services does not constitute a severance benefit. The severance liability will be recognized when an entity cannot cancel its severance offer or when an entity recognizes restructuring expenses.
- Disclosure requirements were expanded compared to IAS19 in its existing form.
- Revision IAS 19 will be implemented for annual period starting from January 1 2013. Early implementation is possible. The above-mentioned revision will be implemented retrospectively in accordance with the International Accounting Standard 8 – "Accounting policy, changes in accounting estimates and mistakes" excluding:
  - e. Changes in assets books that are not included in UAS 19, in respect to changes in cost of the employee's benefit that are included in assest books prior to the earliest period presented in primary financial reports in which the entity adopted IAS119.
  - f. In financial reports for the period beginning prior to January 1,2014, the entity will not be required to present comparative information concerning certain disclosures required in IAS 19's revision in respect to defined benefit liability's sensitivity.

**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
As June 30, 2011 (un-audited)

**Note 4 – Segment-Based Reporting:**

	<b>Delta USA – Mass Market</b>	<b>Global Upper Market Segment</b>	<b>Delta Israel</b>	<b>Other</b>	<b>Inter- Divisional Write-Offs</b>	<b>Total</b>
	<b>Thousands of Dollars</b>					
<b>For the three-month period ending June 30 2011:</b>						
Sales to external customers	69,556	69,034	21,482	154	-	160,226
Inter-segment	-	2,215	-	78	(2,293)	-
Total sales, net	<u>69,556</u>	<u>71,249</u>	<u>21,482</u>	<u>232</u>	<u>(2,293)</u>	<u>160,226</u>
Segment profit (loss)	<u>(1,731)</u>	<u>7,204</u>	<u>3,600</u>	<u>(1,217)</u>	<u>-</u>	<u>7,856</u>
Finance expenses, net				<u>(1,717)</u>		<u>1,717</u>
Profit before taxes on income						<u>6,139</u>
	<b>Delta USA – Mass Market</b>	<b>Global Upper Market Segment.</b>	<b>Delta Israel</b>	<b>Other Reconciliations</b>	<b>Inter- Divisional Write-Offs</b>	<b>Total</b>
	<b>Thousands of Dollars</b>					
<b>For the three-month period ending June 30 2010:</b>						
Sales to external customers	77,210	61,708	16,802	945	-	156,665
Inter-segment	-	6,991	-	84	(7,075)	-
Total sales, net	<u>77,210</u>	<u>68,699</u>	<u>16,802</u>	<u>1,029</u>	<u>(7,075)</u>	<u>156,665</u>
Segment profit (loss)	<u>1,936</u>	<u>4,491</u>	<u>2,537</u>	<u>(691)</u>	<u>(668)</u>	<u>7,605</u>
Finance expenses, net				<u>1,591</u>		<u>1,591</u>
Profit before taxes on income						<u>6,014</u>

**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
As of June 30, 2011 (un-audited)

**Note 4 – Segment-Based Reporting** (continuance):

	<b>Delta USA – Mass Market</b>	<b>Global Upper Market Segment.</b>	<b>Delta Israel</b>	<b>Reconciliations Others</b>	<b>Inter- Divisional Write-Offs</b>	<b>Total</b>
	<b>Thousands of Dollars</b>					
<b>For Six month period ending on June 30 2011:</b>						
Sales to external customers	145,607	130,851	40,762	430	-	317,650
Inter-segment	-	4,118	-	156	(4,274)	-
Total sales, net	<u>145,607</u>	<u>134,969</u>	<u>40,762</u>	<u>586</u>	<u>(4,274)</u>	<u>317,650</u>
Segment profit (loss)	<u>(1,997)</u>	<u>13,266</u>	<u>5,517</u>	<u>(1,337)</u>		<u>15,449</u>
Financing expenses, net				<u>2,752</u>		<u>2,752</u>
Profit before taxes on income						<u>12,697</u>
	<b>Delta USA – Mass Market</b>	<b>Global Upper Market Segment.</b>	<b>Delta Israel</b>	<b>Reconciliations- Others</b>	<b>Inter- Divisional Write-Offs</b>	<b>Total</b>
	<b>Thousands of Dollars</b>					
<b>For Six month period ending on June 30 2010:</b>						
Sales to external customers	141,856	118,862	34,889	1,599	-	297,206
Inter-segment	-	12,444	-	191	(12,635)	-
Total sales, net	<u>141,856</u>	<u>131,306</u>	<u>34,889</u>	<u>1,790</u>	<u>(12,635)</u>	<u>297,206</u>
Segment profits (losses) before restructuring expenses, capital loss from the sale of subsidiary and impairment of fixed assets	3,319	7,395	4,867	(681)	18	14,918
Restructuring expenses	-	485	-	-	-	485
Capital loss from sale of a subsidiary	-	666	-	-	-	666
Segment (loss) earnings	<u>3,319</u>	<u>6,244</u>	<u>4,867</u>	<u>(681)</u>	<u>18</u>	<u>13,767</u>
Finance expenses, net				<u>3,631</u>		<u>3,631</u>
Profit before taxes on income						<u>10,136</u>

**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
As of June 30, 2011 (un-audited)

**Note 4 – Segment-Based Reporting** (continuance):

	<b>Delta USA – Mass Market</b>	<b>Global Upper Market Segment.</b>	<b>Delta Israel</b>	<b>Reconciliations Others</b>	<b>Inter- Divisional Write-Offs</b>	<b>Total</b>
<b>For the year ending December 31, 2010:</b>	<b>Thousands of Dollars</b>					
Sales to external customers	298,740	242,645	76,949	1,740	-	620,074
Inter-segment	-	14,804	-	403	(15,207)	-
Total sales, net	<u>298,740</u>	<u>257,449</u>	<u>76,949</u>	<u>2,143</u>	<u>(15,207)</u>	<u>620,074</u>
Segment profits (losses) before restructuring expenses, capital loss from The sale of subsidiary and impairment of fixed assets	6,015	15,965	13,060	(1,849)	18	33,209
Restructuring expenses	-	485	-	-	-	485
Capital loss from sale of a subsidiary	-	666	-	-	-	666
Impairment of fixed assets	-	-	-	992	-	992
Segment profits (loss) after restructuring expenses, capital loss from the sale of subsidiary and impairment of fixed assets	<u>6,015</u>	<u>14,814</u>	<u>13,060</u>	<u>(2,841)</u>	<u>18</u>	<u>31,066</u>
Finance expenses, net				<u>7,817</u>		<u>7,817</u>
Profit before taxes on income						<u>23,249</u>

**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
As of June 30, 2011 (unaudited)

**Note 5 – Employees Options**

On February 16 2011, the Company Board of Directors resolved to grant an executive at a U.S. subsidiary 15,000 options, out of options available for allocation under the 2009 plan, at an exercise price of \$8.91 per option.

On May 19 2011 the Company Board of Directors resolved to grant an executive to 2 employees on the Company 7,000 out of options available for allocation under the 2006 plan, at an expiries price of \$ 7.56 per option.

The exercise price is equal to the average share price on the 30 days of trade days preceding the date of the decision.

**Note 6 – Sale of Real Estate Property**

On March 23 2011 the Company signed a sale agreement pursuant to which it sold a floor of an office building (900 square meters) in its possession, in the Textile Building in Tel Aviv (hereinafter: “the Offices”), as well as leasing rights to 12 shops located in the building’s parking area and its shares in the Textile Center Building Parking Company.

According to the sale agreement, the proceeds amounted to a total of \$3.5 million U.S. (plus VAT).

The pre-tax capital gain amounted to \$2.3 million US and is included under other income net in the results of the first quarter of 2011.

The Offices are used as the Company’s headquarters. Therefore, alongside the sale agreement, a rental agreement was signed between the parties, according to which the Company will continue to rent the offices, from the purchaser, under the terms agreed upon by the parties.

**Note 7 –Dividend distribution**

On May 19 2011 the Company declared that it would be distributing dividends to the amount of \$2 million, constituting 8.54 cents per share, to be distributed on June 14 2011, according to the dollar’s representative rate of exchange as published on the day prior to payment. The determining date for this distribution was May 31 2011 and the “X” date was June 1, 2011.

**Note 8-Acquisition of the activity**

On June 28 2011, the US subsidiary purchased a licensed activity in the field of ladies sleepwear under a brand name KN Karen Neuburger. The activity was purchased inclusive of brand ownership, products inventories and open purchase orders. The total consideration of \$4 million was paid for the activity.

**Note 9 – Events Subsequent to the Balance Sheet Date**

- 1) On August 4 2011 the Company declared that it would be distributing dividends to the amount of \$2 million, constituting 8.54 cents per share to be distributed on September 6 2011 according to the dollar’s representative rate of exchange as published on the day prior to payment. The determining date for this distribution shall be August 22 2011. The “X” date shall be August 23 2011.
- 2) On August 4 2011 the Board of Directors decided to allocate 25,000 shares to two Company’s employees, out of shares allocated in 2006 plan, at the exercise price of 6.69 dollar per share. Exercise money set equal to an average share price during 30 days of trade prior to the decision day.

## **Part C**

**Quarterly report on the effectiveness of internal  
control on financial reporting anon disclosure as per  
Regulation 38c of the  
Securities Regulations (Periodic and  
Immediate Reports) 1970:**



Attached herein is a quarterly report on the effectiveness of internal control on financial reporting and disclosure as per Regulation 38.c.(a) of the Securities Regulations (Periodic and Immediate Reports), 1970 as well as according to the guiding principles for implementing an evaluation of the effectiveness of internal controls on financial reporting and disclosure on the Board of Directors and management, as published by the Securities Authority in Legal Position 199-9 from November 23 2010:

Management, under the supervision of the Board of Directors of Delta Galil Industries Ltd. (hereinafter– the Corporation), is responsible for establishing and maintaining adequate internal controls, over financial reporting and disclosure in the corporation.

In this regard, senior executives and members of management consist of:

1. Mr. Isaac Dabah, CEO and director;
2. Shlomo Doron, Deputy CEO, Chief Operations Officer and Head of Global Division, Upper Market Segment;
3. Yossi Hajaj, CFO;
4. Esti Maoz, VP of Marketing and Strategic Development;
5. Tim Regan, Manager, Delta Galil USA;
6. Steve Klein, Manager, Burlen;
7. Motti Feirmann, VP of Human Resources;
8. Avi Avital, VP of Information Systems;
9. Gil Shimon, Manager of Socks and Seamless Knitting Operations
10. Miki Laxer, Accountant and Secretary;

Internal controls for financial reporting and disclosure includes existing Corporation controls and procedures, designed by the CEO and the senior finance executive or under their supervision, or by the parties carrying out the duties in question in practice, under the supervision of the Corporation's Board of Directors, which were designed to provide a reasonable level of certitude regarding the reliability of financial reporting and the preparation of the reports in accordance with the law, and to guarantee that information the corporation is required to disclose that it has published in accordance with the law has been collected, processed, summarized and reported in the date and in the format set in law.

Internal control includes, among other things, controls and procedures designed to ensure that this information the corporation is required to disclose has been accumulated and passed on to the Corporation's management, including the CEO, the COO and the senior executive from the field of finance or whoever carries out these duties in practice, in order to allow decisions to be made in a timely manner, taking the disclosure requirements into account.

Due to its structural limitations, internal control of financial reporting and disclosure is not intended to provide absolute certainty that misrepresentation or omission of information in the reports will be avoided or discovered.

In the yearly report on the effectiveness of internal controls on financial reporting and disclosure attached to the periodic report for the period ending December 31 2010 (hereinafter – the Latest Yearly Report on Internal Controls), the Board of Directors

and management have assessed internal controls in the corporation; based on this evaluation, the Corporation's Board of Directors and management have reached the conclusion that the internal controls in question as of June 30, 2011 are effective.

As of the date of the report, the Board of Directors and management have not been informed of any event or issue changing the evaluation of the effectiveness of internal controls, as presented pursuant to the Latest Yearly Report on Internal Controls. At the beginning of the year the Company replaced the financial system it employed in its Israeli HQ and in Burlen in the U.S. with the corporation's ERP system.

The system's replacement was carried out and reviewed according to the Company's existing change procedure on changes in information systems. The Company has confirmed that the separation of duties and relevant controls has also been saved in the new system.

As of the report, based on an evaluation of the effectiveness of internal controls in the Latest Yearly Report on Internal Controls, and based on information brought to the attention of management and the Board of Directors as noted above: internal controls are effective.

**Executive statements:**

CEO Statement According to Regulation 38.c.(d).(1)

**Executive Statement**  
**CEO's Statement**

I, Isaac Dabah, hereby state that:

1. I have studied the interim financial statements and the other financial information included in the interim reports of Delta Galil Industries Ltd. (hereinafter – the Corporation) for the second quarter of 2011 (hereinafter – the Statements or the Interim Reports)
2. To the best of my knowledge, the Interim Financial Statements and other financial information included in the reports for the interim period do not contain any untrue statement of a material fact, nor omit to state a material fact necessary so that the exhibits included therein, in light of the circumstances under which such exhibits were made, will not be misleading with respect to the reported period;
3. In my opinion, the Interim Financial Statements and any other financial information included in the Interim Reports adequately reflect, in all material aspects, the financial standing, operating results and cash flows of the Corporation for the dates and periods referred to in the Statements;
4. I have disclosed, to the Corporation's independent auditor, the Board of Directors and the Audit and Financial Statements Committees, based on my most up-to-date evaluation of internal controls of financial reporting and disclosure:
  - a. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting and disclosure inasmuch as it refers to the Interim Financial Statements and other financial information included in the Interim Reports, that are reasonably likely to negatively impact the Corporation's ability to record, process, summarize and report financial information in such a manner so as to cast doubt on the reliability of the financial reporting and the preparation of the Financial Statements in accordance with the law, and –
  - b. Any fraud, material or not, involving the CEO or his direct subordinates or other employees who have a significant role in internal controls over financial reporting and disclosure;
5. I, by myself or along with others in the Corporation:
  - a. Have established controls and procedures, or confirmed that the establishment and upholding of controls and procedures under our supervision, intended to ensure that material information referring to the Corporation, including its subsidiaries as defined in the Securities Regulations (Yearly Financial Statements), 2010, has been brought to my attention by others in the Corporation and in its subsidiaries, particularly over the course of the preparation of the reports; and –

- b. Have established controls and procedures, or confirmed that the establishment and upholding of controls and procedures under my supervision, designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements in accordance with the law, including in accordance with generally accepted accounting practices;
  
- c. No event or issue has come to my attention which has occurred during the period between the last report date (the 2010 periodic report) and this report date, that refers to the Interim Financial Statements and any other financial information featured in the Interim Reports, with the exception of the replacement of the financial system as noted above, that may change, in my estimate, the conclusions of the Board of Directors and management regarding the effectiveness of internal controls over the Corporation's financial reporting and disclosure.

The above does not detract from my responsibility or the responsibility of any other person in accordance with the law.

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August 4 2011

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Isaac Dabah, CEO

**Executive Statement**  
**Statement of the Most Senior Executive from the Field of Finance**

I, Yossi Hajaj, do hereby state that:

1. I have studied the interim financial statements and the other financial information included in the interim reports of Delta Galil Industries Ltd. (hereinafter – the Corporation) for the period ending June 30 2011 (hereinafter – the Statements or the Interim Reports)
2. To the best of my knowledge, the Interim Financial Statements and other financial information included in the reports for the interim period do not contain any untrue statement of a material fact, nor omit to state a material fact necessary so that the exhibits included therein, in light of the circumstances under which such exhibits were made, will not be misleading with respect to the reported period;
3. To the best of my knowledge, the Interim Financial Statements and other financial information included in the Interim Reports adequately reflect, in all material aspects, the corporation's financial status, operating results and cash flows for the dates and periods referred to in the Reports;
4. I have disclosed, to the Corporation's independent auditor, the Board of Directors and the Audit and Financial Statements Committees, based on my most up-to-date evaluation of internal controls of financial reporting and disclosure:
  - a. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting and disclosure inasmuch as it refers to the Interim Financial Statements and other financial information included in the Interim Reports, that are reasonably likely to negatively impact the Corporation's ability to record, process, summarize and report financial information in such a manner so as to cast doubt on the reliability of the financial reporting and the preparation of the Financial Statements in accordance with the law, and –
  - b. Any fraud, material or not, involving the CEO or his direct subordinates or other employees who have a significant role in internal controls over financial reporting and disclosure;
5. I, by myself or along with others in the Corporation:
  - a. Have established controls and procedures, or confirmed that the establishment and upholding of controls and procedures under our supervision, intended to ensure that material information referring to the Corporation, including its subsidiaries as defined in the Securities Regulations (Yearly Financial Statements), 2010, has been brought to my attention by others in the Corporation and in its subsidiaries, particularly over the course of the preparation of the reports; and –
  - b. Have established controls and procedures, or confirmed that the establishment and upholding of controls and procedures under my supervision, designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements in accordance with the law, including in accordance with generally accepted accounting practices;

- c. No event or issue has come to my attention which has occurred during the period between the last report date (the 2010 periodic report) and this report date that refers to the Interim Financial Statements and any other financial information featured in the Interim Reports, with the exception of the replacement of the financial system as noted above, that may change, in my estimate, the conclusions of the Board of Directors and management regarding the effectiveness of internal controls over the Corporation's financial reporting and disclosure.

The above does not detract from my responsibility or the responsibility of any other person in accordance with the law.

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August 4 2011

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Yossi Hajaj, CFO