

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

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

### **For the period ended September 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 September 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 1.2.9 hereinafter.

In Israel the Group sells its products under licensed brand names, including Nike ,Puma, Keds, NICI, Disney, and more 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 Far East.

##### **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)

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, which were distributed on September 6, 2011 (see immediate report on August 7 2011, ref. 2011-01-232248).

#### 1.2.2 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, 2011-01-164523, 2011-01-174876, 2011-01-187407, 2011-01-186000, 2011-01-184428, 2011-01-210261.

#### 1.2.3 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, the Company management has 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 Upper Market Division, is responsible for supplying 11% of the Company's sales, of which 9% are manufactured at the Company's plant, and the rest 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.

#### 1.2.4 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 five stores are independent, and nine are combined - and it intends to open an additional new combined stores, till the end of the year, and another three combined stores during 2012.

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.

- 1.2.5 On March 23 2011, the Company announced that it had signed a sale 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, Israel (hereinafter: "the Offices").

As part of the transaction, the Company also sold to the purchaser, the Company's leasing rights to 12 parking places, 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 sale agreement – in return for the offices and the leasing rights to the parking places [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 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 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.

For further details see the immediate report dated March 23 2011 ref. 2011-01-09057.

- 1.2.6 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.

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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.

- 1.2.7 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.
- 1.2.8 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.
- 1.2.9 On June 30 2011 the Company reported, that Delta USA, a fully owned US subsidiary, signed a purchasing agreement, for purchase of branded activity, in the field of sleepwear for women, under brand name KN Karen Neuburger. The purchased activity includes ownership of the brand, of the inventory of existing products, and open purchase orders, associated with this operation. For the purchased activity 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).
- 1.2.10 On September 15 2011, the Company published that on September 12 2011 and September 15 2011, the Audit committee and the Board of Directors, respectively, reached a resolution that the Company's officer had a personal interest in a donation at the amount of 10.000 NIS to the new wing of Tel Aviv, Museum. Mr. Gideon Chitayat, member of the Board of Directors, serves on board of governors or board of directors of the museum. It was clarified that Mr. Gideon Chitayat doesn't receive salary as a member of board of governors. Company's Audit committee confirmed that this donation doesn't inflict damage upon the Company and is in line with Company's policy .
- 1.2.11 On September 18 2011, the Company announced an appointment of Mr Zvika Shwimmer to a position of General Manger of Delta Israel. His service will commence no later than November 1 2011, for an additional details see immediate report from September 18, 2011, ref. 2011-01-276678.

According to an announcement published by the Company on October 31 2011, Mr. Shwimmer will start his service on November 15 2011, for further details see immediate report October 31 2011, ref.2011-01-311870.

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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

1.2.12 On October 11 2011, the Company informed that it negotiates an agreement for acquisition of an activity of jeans company Jones Group Inc. (public American company), including number of brands owned by the company, return capital, fixed assets which serve for the abovementioned activities and licensees of other jeans related brands. The Company estimated that the transaction's proceeds will be an amount between \$350 and \$400 million. For further details see immediate report from October 11 2011, ref. 2011-01-299670.

As of the report date, the negotiation with Jones Group Inc. and with the banking corporations continues. The Company estimates that the transaction will be completed until the end of the year<sup>3</sup>. It should be emphasized that the agreement between the parties, if will be reached and signed, might include terms different from the abovementioned stipulations. There is no certainty that the negotiations will lead to an agreement.

1.2.13 On October 23 2011 the Company announced that Midroog Ltd introduced debentures rating (series 20) into its watch list, for further details see immediate report October 23 2011, ref. 2011-01-304290.

1.2.14 On October 25 2011, the general assembly took place. Following are the decisions that were reached:

1.2.14.1 Directors appointment-appointment of the serving directors in the Company who are not external directors (Israel Baum, Isaac Dabah, Izhak Weinstock, Tzipa Carmon, Noam Lautman and Dr. Gideon Chitayat) for an additional period, until the next general assembly.

1.2.14.2 An appointment of Kesselman & Kesselman (PwC) CPA firm as an auditing CPA of the Company for the year of 2012 until the next general assembly of the Company and authorization of the Board of Directors to determinate its fees depending on the scope of the services provided to the Company in 2012.

1.2.14.3 Company's article of association change including adjustment to the recently validated amendment 16 of Companies Law and adjustments of existing set of rules to the instructions of the Effective Enforcement Law.

1.2.14.4 Provision of the Compensatory letter to the directors and Company's officers who are the shareholders of the Company or are expected to serve as directors or senior officers in eth Company or/and affiliated companies or subsidiaries. For further detailed

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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

related to the agenda of the assembly day see immediate report September 15 2011, ref. 2011-01-276396 and October 17 2011, ref.2011-01-302754. For further detailed regarding outcome of the assembly see immediate report October 25 2011, ref.2011-01-307128.

1.2.15 On November 2 2011, the Company published that on October 27 2011, the Board of Directors decided to increase an amount of the regularly shares preserved for the employees' compensation plan, officers, directors, counselors and services suppliers or other selected senior officers of the Company or of the subsidiaries by 300,000 shares, so that the total number of the shares designated for this purpose amount to 1,100,000. The Board of Directors decided to increase the number of regularly shares designated for the option plan of the American employees of the Company and of the subsidiaries, including the directors and other officers to 300,000 shares, therefore the total number of the shares amounted to 600,000. For further details see immediate report November 2 2011, ref.2011-01-315252.

1.2.16 On November 2 2011 the Company published that on November 2 2011, GMM Capital LLC sold through Mr. Isaac Dabah, 100 000 shares at the price of 23.5 NIS per share to Mr. Itzhak Weinstock, Company's director and the Chief operating officer in a subsidiary. Due to the sale, the holdings of GMM Capital LLC in the issued share capital of the Company and the voting rights in it went down to be 53.96% and to 52.44% on a fully dilutive basis.

For further details see immediate report November 2 2011, ref. 2011-01-315261.

## **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 September 30, 2011, amounted to \$457.5 million, compared to \$406.3 million as of September 30, 2010.

The Group's consolidated current assets as of September 30 2011, amounted to \$307.3 million, compared to \$ 257.7 million as of September 30 2010.

The increase in current assets and in the balance sheet total as of September 30 2011, compared to their balance on September 30 2010, derived mainly from a \$23.4 million increase in its cash and cash equivalents, mainly due to a positive operating cash flow. The increase in the total balance sheet and in current assets as of September 30 2011, was also due to \$7.3 million increase in inventory balance, mainly from the activity of Delta Israel, see Section 2.3.3 below, \$16.5 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.

The Group's consolidated current liabilities in its consolidated balance sheet as of September 30 2011 amounted to \$193.9 million, compared to \$172.1 million as of September 30 2010.

The increase in current liabilities as of September 30 2011, compared to September 30, 2010 is primarily due to current maturities of debentures of \$11.1 million and due to increase in trade payables balance due to increase in the Company's activity.

The Group's equity as of September 30 2011 amounted to \$210.4 million, representing 46.0% of total balance sheet, compared to \$191.4 million, or 47.1% of total balance sheet as of September 30 2010 and compared to \$197.3 million, or 47.0% of total balance sheet, as of December 31 2010.

The increase in Group equity as of September 30 2011, compared to December 31 2010, is due to net profit in the first nine months of 2011 amounting to \$19.2 million, less dividends distributed to the amount of \$6.0 million.



## 2.2 Operating Results

2.2.1 Below are the Group's concise Statements of Operations for the third quarter and nine months of 2011 and 2010, and for all of 2010, in thousands of dollars:

	Third quarter		First 9 months		Year
	2011	2010	2011	2010	2010
	(Unaudited)				audited
Sales	184,781	169,696	502,431	466,902	620,074
Cost of sales	147,561	136,251	403,490	375,792	498,805
Gross profit	37,220	33,445	98,941	91,110	121,269
Selling and marketing expenses	18,846	16,531	54,705	48,531	65,207
Administrative and general expenses	5,979	6,608	18,770	18,917	25,347
Other income (expenses), net	411	(1,137)	2,789	425	2,494
<b>Operating income before restructuring expenses, impairment of fixed assets and capital loss from sale of a subsidiary</b>	<b>12,806</b>	9,169	<b>28,255</b>	24,087	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>12,806</b>	9,169	<b>28,255</b>	22,936	31,066
Finance expenses, net	3,235	2,098	5,987	5,729	7,817
Profit before taxes on income	9,571	7,071	22,268	17,207	23,249
Taxes on income	1,842	558	3,064	2,258	2,067
<b>Net profit for the period</b>	<b>7,729</b>	6,513	<b>19,204</b>	14,949	21,182
Attribution of net income for the period:					
To Company shareholders	7,698	6,483	19,111	14,859	21,060
To non-controlling interests	31	30	93	90	122
	<b>7,729</b>	6,513	<b>19,204</b>	14,949	21,182
<b>Net earnings per share attributable to Company shareholders:</b>					
<b>Basic</b>	<b>0.33</b>	0.28	<b>0.82</b>	0.64	0.90
<b>Diluted</b>	<b>0.32</b>	0.27	<b>0.79</b>	0.62	0.87

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

	<u>Q3 2011</u>	<u>Q3 2010</u>	<u>First 9 months 2011</u>	<u>First 9 months 2010</u>	<u>Last 12 months</u>	<u>Year 2010</u>
<b>Sales</b>	<b>184.8</b>	169.7	<b>502.4</b>	466.9	655.6	620.1
<b>Earnings before restructuring expenses, impairment of fixed assets and capital loss from sale of a subsidiary</b>	<b>12.8</b>	9.2	<b>28.3</b>	24.1	37.4	33.2
<b>Restructuring expenses</b>	-	-	-	0.5	-	0.5
<b>Impairment of fixed assets</b>	-	-	-	-	1.0	1.0
<b>Capital loss from sale of a subsidiary</b>	-	-	-	0.7	-	0.7
<b>Operating income</b>	<b>12.8</b>	9.2	<b>28.3</b>	22.9	36.4	31.1
<b>Adjusted EBITDA (*)</b>	<b>15.9</b>	11.8	<b>36.9</b>	32.3	48.9	44.3
Net profit attributed to Company shareholders before restructuring expenses, impairment of fixed assets and capital loss from realization of subsidiary	<b>7.7</b>	6.5	<b>19.1</b>	16.1	26.3	23.2
Net earnings attributed to company shareholders	<b>7.7</b>	6.5	<b>19.1</b>	14.9	25.3	21.1
Cash flow from operating activities	<b>12.5</b>	0.2	<b>15.2</b>	10.5	18.3	14.3

### EBITDA Calculating:

	<u>Q3 2011</u>	<u>Q3 2010</u>	<u>First 9 months 2011</u>	<u>First 9 months 2010</u>	<u>Last 12 months</u>	<u>Year 2010</u>
<b>Net income for the period - as reported</b>	<b>7.7</b>	6.5	<b>19.2</b>	14.9	25.4	21.2
<b>Taxes on income</b>	<b>1.8</b>	0.5	<b>3.1</b>	2.3	2.9	2.1
<b>Finance expenses, net</b>	<b>3.2</b>	2.1	<b>6.0</b>	5.7	8.1	7.8
<b>Restructuring expenses</b>	-	-	-	0.5	-	0.5
<b>Impairment of fixed assets</b>	-	-	-	-	1.0	1.0
<b>Capital loss from sale of a subsidiary</b>	-	-	-	0.7	-	0.7
<b>Depreciation and amortization</b>	<b>3.0</b>	<b>2.7</b>	<b>8.6</b>	<b>8.2</b>	<b>11.5</b>	<b>11.0</b>
<b>Adjusted EBITDA</b>	<b>15.9</b>	<b>11.8</b>	<b>36.9</b>	<b>32.3</b>	<b>48.9</b>	<b>44.3</b>

(\*) 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 third quarter of 2011 amounted to \$184.8 million, compared to \$169.7 million in the third quarter of 2010, an increase of 9%. Sales in terms of original currency increased by 7%.

In the first nine months of 2011, sales amounted to \$502.4 million dollars compared to \$466.9 million in the first nine month of 2010, an increase of 8%. Sales in terms of original currency increased by 6%.

Starting 2011 the majority of sales in UK and in Europe are performed in US dollars, see 4.3.2

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

	Third quarter						First 9 months						Year 2010	
	% change in the original currency		%	%	%	%	% change in the original currency		%	%	%	%	%	%
	change	2011	from total	2010	from total	change	2011	from total	2010	from total	2010	from total	2010	from total
<b>North America</b>	1	117.0	63	115.8	68	1	315.5	63	312.9	67	400.2	65		
<b>Europe</b>	30	27.9	15	19.9	12	25	76.8	15	58.2	12	83.1	13		
<b>Israel</b>	11	22.6	12	19.2	11	10	64.0	13	54.8	12	78.2	13		
<b>UK</b>	14	16.3	9	14.3	8	8	43.7	9	39.1	8	56.0	9		
<b>Other</b>		1.0	1	0.5	1	=	2.4	=	1.9	1	2.6	=		
<b>Total</b>	7	184.8	100%	169.7	100%	6	502.4	100%	466.9	100%	620.1	100		

#### North America

North American sales increased by 1% in the third quarter and the first nine months of the year in comparison to the corresponding periods last year due to the increase to the activity of Upper Market Segment, which was partially offset by a decrease in US Mass Market activity, see 2.3.3.

#### Europe

European sales in the third quarter and the first nine months of the year increased 40% and 32% respectively in comparison to the corresponding periods last year, mainly due to an increase in the sale of seamless products and socks.

#### Israel

Sales in Israel in the third quarter of the year increased in USD terms and NIS terms by 18% and 11% terms compared to the corresponding periods last year.

Sales in the first nine months of the year in USD and NIS terms increased by 17% and by 10% in comparison to the corresponding periods last year.

The increase in sales in the third quarter of the year and in first nine months, 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).

## UK

UK sales in the third quarter and the first nine months of 2011, increased approximately by 14% and 8% 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 third quarter of 2011, amounted to \$37.2 million, constituting 20.1% of total sales, compared to \$33.4 million in the third quarter of 2010, constituting 19.7% of total sales, an increase of 11%.

During the first nine months of 2011 gross profit amounted to \$98.9 million which are 19.7% from total sales in comparison to \$91.1 million in the first nine months of 2010 which constituted 19.5% from total sales, an increase of 9%.

The increase in gross profit and in gross margin, in the third quarter of 2011, compared to the corresponding period 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, during the first nine months of 2011 derived mostly from the above mentioned and was 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 14% and amounted to \$18.8 million, in the third quarter of 2011, compared to \$16.5 million in the third quarter of 2010.

Selling and marketing expenses in the first nine months of 2011 increased by 13% and amounted to \$54.7 million, compared to \$48.5 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:

	Third quarter 2011	Third quarter 2010	First 9 months 2011	First 9 months 2010
<b>Delta Israel</b>	<b>9.6</b>	7.3	<b>26.6</b>	21.8
<b>Percentage out of Segment of sales</b>	<b>43.0%</b>	39.2%	<b>42.2%</b>	40.7%
<b>Other Segments activity</b>	<b>9.2</b>	9.2	<b>28.1</b>	26.7
<b>Percentage out of other segments activity sales</b>	<b>5.7%</b>	6.1%	<b>6.4%</b>	6.5%
<b>Total selling and marketing expenses</b>	<b>18.8</b>	16.5	<b>54.7</b>	48.5
<b>Selling and marketing expenses as % of total sales</b>	<b>10.2%</b>	9.7%	<b>10.9%</b>	10.9%

The increase in Selling and Marketing expenses in Delta Israel's activity, in the third quarter and the first nine months 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, the expenses increase was a result of the 7% strengthening in the NIS rate 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** decreased by 9% in the third quarter of 2011 and amounted to \$6.0 million, compared to \$6.6 million in the third quarter of 2010.

The administrative and general expenses in the first nine months of 2011 decreased by 1% and amounted to \$18.8 million in comparison to \$18.9 million in the corresponding period last year.

The decrease in the administrative and general expenses in Q3 of 2011 in comparison to the third quarter of 2010 was primarily due the \$0.6 million income for decrease in provisions to doubtful accounts, see 2.3.3 below.

The decrease in the administrative and general expenses in the first nine months of 2011 in comparison to the first nine months of 2010 was primarily due the decrease in provisions to doubtful accounts, which was offset as a result of increase in the exchange rate of dollar versus NIS, which increased the expenses in dollar terms.

**Other income, net** in the third quarter of 2011 amounted to a total of \$0.4 million compared to other expenses of \$1.1 million in the third quarter of 2010.

In the first nine months of 2011 other income, net amounted to \$2.8 million compared to \$0.4 million in the first nine months of 2010, as detailed in the following table:

	Third quarter 2011	Third quarter 2010	First 9 months 2011	First 9 months 2010
Capital gain from sale of fixed assets	-	-	2.4	0.2
Capital gain from sale of franchise agreement, see 2.3.3 above	-	-	1.3	-
Profit (loss) from the revaluation of currency transactions	0.4	(1.1)	(0.9)	0.2
Other income (expenses), net	0.4	(1.1)	2.8	0.4

**Operating profit** in the third quarter of 2011 amounted to \$12.8 million compared to \$9.2 million in the third quarter of 2010, an increase of 40%.

Operating profit in the first nine months of 2011 amounted to \$28.3 million, compared to \$22.9 million in the first nine months last year, an increase of 23%.

The improvement in the operating profit in the third quarter and the first nine months of 2011 in comparison to the correspondent periods last year, derived mostly from the increase in sales and in gross profit, as previously described.

**Finance expenses, net** increased by 53% in the third quarter of 2011 and amounted to \$3.2 million in comparison to \$2.1 million in the corresponding quarter in 2010 mainly due to higher in exchange rate differences, as described, below.

In the first nine months 2011 finance expenses net increased by 5%, amounting to \$6.0 million compared to \$5.7 million in the corresponding period last year.

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

	Third quarter 2011	Third quarter 2010	First 9 months 2011	First 9 months 2010
Interest and commission expenses	1.8	1.5	4.6	4.6
Exchange rate differences	1.2	0.5	0.9	0.7
IFRS adjustments	0.2	0.1	0.5	0.4
Total finance expenses	3.2	2.1	6.0	5.7

**Tax expenses** in the third quarter of 2011 amounted to \$1.8 million, compared to \$0.6 million in the corresponding period last year. Tax expenses in the nine months of 2011 amounted to \$3.1 million, compared to \$2.3 million in the corresponding period last year.

Company's low effective tax rate in the first nine months of 2011, derived from taxation savings in a higher tax rate than average, due to losses in Delta's US activity.

**Net Profit attributed to the Company shareholders** in the third quarter of 2011, amounted to \$7.7 million, compared to \$6.5 million, in the third quarter of 2010.

Profit attributed to Company shareholders in the first nine months of 2011, amounted to \$19.1 million, compared to \$14.9 million compared to the first nine months last year.

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 offset by the increase in finance and 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 third quarter and the first nine months of 2011 and 2010 and for the year 2010, in thousands of dollars:

<b>Third quarter ending September 30 2011</b>					
<b>(Unaudited)</b>					
	<b>Sales</b>			<b>Operating profit (loss)</b>	
	2011	2010	change %	2011	2010
Delta USA – "Mass Market"	<b>83,751</b>	88,103	(5)	<b>1,280</b>	2,533
Global Upper Market Segment	<b>79,917</b>	64,088	25	<b>9,957</b>	5,282
Delta Israel	<b>22,326</b>	18,777	19	<b>2,743</b>	3,009
Cancellation of inter-divisional sales and profit segments	<b>(1,290)</b>	(1,780)		-	-
Other adjustments	<b>77</b>	508		<b>(1,173)</b>	(1,655)
<b>Total Sales and operating profit in the consolidated report</b>	<b>184,781</b>	169,696	9	<b>12,806</b>	9,169



	First nine months ending 30 September					2010 Year	
	(Unaudited)					Audited	
	Sales			Operating profit (loss) before restructuring expenses and capital loss from realization of consolidated company			
	2011	2010	Change %	2011	2010	Sales	Operating profit (loss)
Delta USA – "Mass Market"	<b>229,358</b>	229,959	-	<b>(717)</b>	5,852	298,740	6,015
Global Upper Market Segment	<b>214,886</b>	195,394	10	<b>23,313</b>	12,677	257,449	15,965
Delta Israel	<b>63,088</b>	53,666	18	<b>8,260</b>	7,876	76,949	13,060
Cancellation of inter-divisional sales and profit	<b>(5,564)</b>	(14,415)		-	18	(15,207)	18
Other adjustments	<b>663</b>	2,298		<b>(2,601)</b>	(2,336)	2,143	(1,849)
Total sales and operating profit before restructuring expenses							
Total sales and operating profit before restructuring expenses, capital loss from sale of a subsidiary and impairment of fixed assets	<b>502,431</b>	466,902	8	<b>28,255</b>	24,087	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>28,255</b>	22,936		31,066

### 2.3.3 Analysis of Business Results by Operating Segment

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

Sales in the third quarter of 2011 amounted to \$83.8 million, compared to \$88.1 million in the corresponding period last year, a 5% decrease.

Sales in the first nine months of 2011 remain almost unchanged and amounted to \$229.4 million, compared to \$230.0 million in the corresponding period last year,.

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

Operating profit in the third quarter of 2011 amounted to \$1.3 million, compared to \$2.5 million in the correspondent quarter last year.

Transition to operating profit in the third quarter of 2011 in comparison to the previous quarters of the year, derived from change in selling prices, due to an increase in cotton prices as company reported in the previous quarter. Operating profit has increased also due to an income due to a decrease in doubtful debts provision at the amount of \$0.8 million. The decrease in operating profit in the third quarter of 2011 in comparison to the third quarter of 2010 derived mainly from reduction in sales.

The operating loss in the first nine months of 2011 amounted to \$0.7 million compared to an operating profit of \$5.9 million in the corresponding period last year.

The operating loss in the first nine months of 2011 compared to operating profit in the correspondent year was derived mainly from the erosion of gross profit due to raising product prices. This erosion was caused mainly as a result of the increase in cotton prices, which grew sharper, starting the second half of 2010, see clause 5.3 below, and due to the amount of time required to adapt the selling prices to the customers.

In order to deal with the raising prices in question, the Company adjusted its selling prices, to the customers, since this quarter.

Inventory balance for the area of activity as of September 30, 2011 includes \$8.2 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 total inventory amounted to \$11 million. Post balance sheet date, the Company sold inventory at the amount of \$0.6 million out of the above amount and the balance of \$7.6 million expected to be sold in the second and third quarters of 2012 in conjunction with the customer<sup>4</sup>. The key customer has committed to purchase this inventory.

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 1.2.9 above.

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<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.

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

Sales in the third quarter of 2011 amounted to \$79.9 million, compared to \$64.1 million in the corresponding period last year, a 25% increase.

Sales in the first nine months of 2011 amounted to \$214.9 million, compared to \$195.4 million in the corresponding period last year, a 10% increase.

The increase in sales in the area of activity in the third quarter and first nine months 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 third quarter of 2011 amounted to \$10.0 million, compared to \$5.3 million in the corresponding quarter last year, a 88% increase.

Operating income in the first nine months of 2011 amounted to \$23.3 million, compared to \$12.7 million in the corresponding period last year, 84% increase.

The improvement in operating profit in the third quarter and the first nine months 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.

Post balance sheet date until today Thailand is experiencing heavy floods that halted work on the Company's factory. The Company transferred open orders in coordination with the customers, to subcontractors in order to provide the orders. Property on factory's site, including machinery, equipment and inventory is insured. According to Company's estimate damage caused by the floods will not be material.

### **Operating Segment - Delta Israel**

Sales in the third quarter of 2011 amounted to \$22.3million, compared to \$18.8 million in the corresponding period last year, a 19% increase.

Sales in NIS in Q3 2011 amounted to 79.2 million, compared to 71.3 million NIS in Q3 2010, 11% increase.

Sales in the first nine months of 2011 amounted to \$63.1 million, compared to \$53.7 million in the corresponding period last year, a 18% increase.

Sales in NIS in the first nine months of 2011 amounted to NIS 222.7 million, compared to NIS 202.5 million in nine months 2010, a 10% increase.

Operating income in the third quarter of 2011 amounted to \$2.7 million, compared to \$3.0 million in the corresponding quarter last year, a 9% decrease.

Operating income in the first nine months of 2011 amounted to \$8.3 million, compared to \$7.9 million in the corresponding quarter last year, a 5% increase.

Operating income in the third quarter of 2011, in NIS terms, amounted to NIS 10.0 million, compared to NIS 11.5 million in the corresponding period last year, a 13% decrease.

Operating income in the first nine months of 2011, in NIS terms, amounted to NIS 29.6 million, compared to NIS 29.8 million in the corresponding period last year.

The decrease in operating income in the third quarter of 2011 in NIS terms, derived from the erosion of approximately 1.7% of gross profit due to promotions and discounts due to the opening of the chain of stores, and despite the increase in sales.

The decrease in the operating profit derived from increase in selling and marketing expenses due to the opening of the new chain of stores.

The inventory balance of the activity as of 30 September 2011 increased by \$10.2 million, from \$13.6 to \$23.8 million compared to 30 September 2010. Out of the above-mentioned increase, approximately \$4.2 million derived due the launce of the new chain of stores. The in-transit inventory included in the above mentioned amount, amounted to \$5.2 million compared to \$2.3 million as of 30 September last year, thus due to forwarding of shipments from the suppliers.

In the first nine months of 2011 the Company invested approximately \$2.7 million in new equipment and in the chain of stores.

### 3 Liquidity and Financing Sources

Condensed cash flow statement, in millions of dollars:

	Third quarter		First 9 months		Year ending 31 December
	2011	2010	2011	2010	2010
Net cash deriving from operating activities	<b>12.5</b>	0.2	<b>15.2</b>	10.5	14.3
Net cash deriving from (used for) investment activities	<b>(3.3)</b>	(0.7)	<b>(9.2)</b>	(1.5)	1.9
Net cash deriving from (used in) financing activities	<b>6.0</b>	(1.1)	<b>6.3</b>	(2.1)	1.9
Increase (decrease) in cash and cash equivalents	<b>15.2</b>	(1.6)	<b>12.3</b>	7.0	18.1

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

In the third quarter of 2011, the Company generated a positive operating cash flow of \$12.5 million, compared to \$0.2 million, in the corresponding period last year.

In the first nine months of 2011, the Company generated a positive operating cash flow of \$15.2 million, compared to \$10.5 million, in the corresponding period last year.

The increase in the operating cash flows from current activity, in the third quarter and the first nine months of 2011, compared to the corresponding reporting periods, derived from the increase in profitability despite increase in working capital, due to increase in the scope of the activity.

The increase in operating cash flow, used for the investment activity in the first nine months of 2011, derived from the purchase of the brand activity for \$4 million, see clause 1.2.9, and from the increase in investments due to the launching, of the new kids stores chain in Israel, as mentioned above in 2.3.3.

Following are some financial indicators for the third quarter of 2011 and 2010:

	Third quarter 2011	Third quarter 2010	Year 2010
Current ratio	<b>1.59</b>	1.50	1.77
Quick ratio	<b>0.94</b>	0.81	0.98
Customer credit days	<b>52</b>	49	53
Suppliers credit days	<b>53</b>	48	50
Inventory days	<b>76</b>	78	89
Positive operating cash flow (in millions of dollars)- Q3	<b>12.5</b>	0.2	
Positive operating cash flow (in millions of dollars)- First nine months/ Year 2010	<b>15.2</b>	10.5	14.3
Adjusted EBITDA (millions of dollars)-Q3	<b>15.9</b>	11.8	
Adjusted EBITDA (millions of dollars)-First nine months	<b>36.9</b>	32.3	
Adjusted EBITDA (millions of dollars) on the basis of the last 12 months	<b>48.9</b>	44.2	44.3
Net financial debt (millions of dollars)	<b>72.8</b>	78.6	75.0
Net financial debt coverage ratio to Adjusted EBITDA (on the basis of the last twelve months)	<b>1.5</b>	1.8	1.7
Equity/balance sheet total	<b>46.0%</b>	47.1%	47.0%
Equity (in millions of dollars)	<b>210.4</b>	191.4	197.3

The improvement in current and quick ratios, from 1.50 and 0.81 respectively on September 30 2010, to 1.59 and 0.94 respectively on September 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 September 30 2011, amounted to \$72.8 million, compared to \$78.6 million as of September 30, 2010 and \$75.0 million as of December 31, 2010.

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

##### **4.1 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.

##### **4.2 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.

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

##### 4.3.1 Cotton Prices

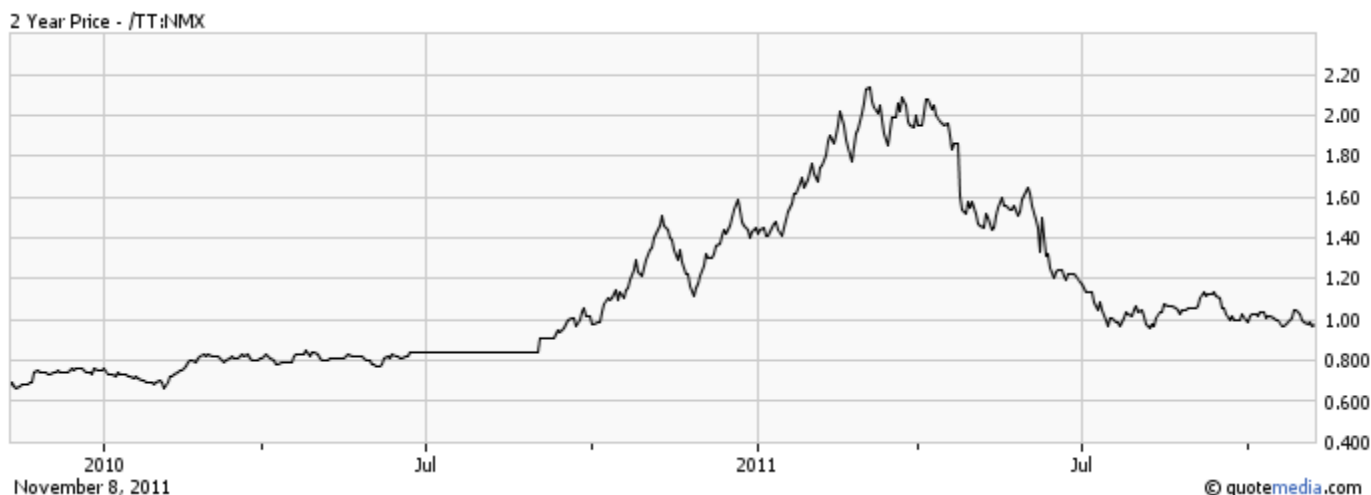
2010 saw a significant increase of 80% in average cotton prices compared to 2009. This trend continued in the first half of 2011 and led to a significant increase in the price of cotton yarns, which constitutes the Company's main raw material.

Starting July 2011 a sharp drop of cotton prices took place such as, July 2011, price per pound was approximately \$1. December 2011 cotton spot contracts stabilized at this level (see below diagram of cotton prices as of December 2011).

December 2011 price of one pound of cotton as of the date of publication of the report was \$0.98 per pound, a decrease of approximately 50% from the record price registered in the half of 2011.

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 selling prices to customers, see 2.3.3 above.

##### Cotton contracts diagram:



##### 4.3.2 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 dollars 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>\$1.414</b>	<b>\$1.291</b>	<i>10%</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.

#### 4.4 Financial Instruments

The following open positions as of September 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>
	October 11, 2011	1.381	1,200	
	November 8, 2011	1.380	1,200	
	November 28, 2011	1.395	100	
	December 8, 2011	1.380	1,100	
	December 24, 2011	1.394	1,400	
<b>2011 Q4</b>			<b>5,000</b>	<b>1.384</b>

In its results for the third quarter and the first nine months 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 profit of \$0.4 million and a loss of \$0.9 million respectively.

#### 4.5 Linkage Basis Report, in Thousands of Dollars

	As of September 30, 2011					
	Unaudited					
	\$	Euro	NIS	Other currencies	Non-monetary balances	Total
Assets:						
Cash and Cash Equivalents	57,372	640	101	380	-	58,493
Trade receivables	78,228	12,671	15,864	1,586	-	108,349
Other accounts receivable	2,636	802	1,124	3,910	4,800	13,272
Inventory	-	-	-	-	125,469	125,469
Assets classified as held for Sale	-	-	-	-	1,766	1,766
Debit balances and long-term prepaid expenses	1,181	-	29	-	238	1,448
Deferred taxes assets	-	-	-	-	6,244	6,244
Fixed assets, net of accumulated depreciation	-	-	-	-	64,008	64,008
Intangible assets, net of accumulated amortization	-	-	-	-	78,488	78,488
<b>Total assets</b>	<b>139,417</b>	<b>14,113</b>	<b>17,118</b>	<b>5,876</b>	<b>281,013</b>	<b>457,537</b>
Liabilities:						
Credit from banking Corporations	66,079	7,384	-	-	-	73,463
Current maturities of debentures(*)	11,079	-	-	-	-	11,079
Current maturities of financial derivative	645	-	-	-	-	645
Trade payables	55,358	3,755	8,041	2,719	-	69,873
Other accounts payable	15,349	783	13,760	3,567	5,389	38,848
Long-term loans from banking Corporations	2,411	-	-	-	-	2,411
Severance pay liabilities, net of plan assets	-	-	-	-	466	466
Debentures (*)	44,369	-	-	-	-	44,369
Financial Derivatives	1,507	-	-	-	-	1,507
Long-term loans and other	4,294	55	-	165	-	4,514
<b>Total liabilities</b>	<b>201,091</b>	<b>11,977</b>	<b>21,801</b>	<b>6,451</b>	<b>5,855</b>	<b>247,175</b>
<b>Balance sheet total, net</b>	<b>(61,674)</b>	<b>2,136</b>	<b>(4,683)</b>	<b>(575)</b>	<b>275,158</b>	<b>210,362</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.



4.6 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 exchange rate of NIS compared to US dollar**

Expected exchange rate	Profit (loss) from changes			Profit (loss) from changes		
	10% Increase	5% Increase	Fair value	5% Decrease	10% Decrease	
	NIS 4.08 = 1\$	NIS 3.90 = 1\$	NIS 3.71 = 1\$	NIS 3.53 = 1\$	NIS 3.34 = 1\$	
Cash and cash equivalents	(10)	(5)	101	5	10	
Trade receivables <sup>5</sup>	(1,586)	(793)	15,864	793	1,586	
Other accounts receivable	(112)	(56)	1,124	56	112	
Long-term debit balances	(3)	(1)	29	1	3	
Trade payables	804	402	(8,041)	(402)	(804)	
Other accounts payable	1,376	688	(13,760)	(688)	(1,376)	
Other long term loans and liabilities	-	-	-	-	-	
Off-balance-sheet liabilities in aspect of rental agreements	1,048	524	(10,477)	(524)	(1,048)	
<b>Total</b>	<b>1,517</b>	<b>759</b>	<b>(15,160)</b>	<b>(759)</b>	<b>(1,517)</b>	

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

	Increase <sup>1</sup> 10%	Increase <sup>2</sup> 5%	Capitalization rate 12%	Decrease <sup>3</sup> 5%	Decrease <sup>4</sup> 10%
<b>Change in fair value, before tax<sup>6</sup></b>	<u>123</u>	<u>62</u>	<u>(10,591)</u>	<u>(63)</u>	<u>(126)</u>

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

Expected exchange rate	Gain (Loss) from Changes			Gain (Loss) from Changes		
	10% Increase	5% Increase	Fair value	5% Increase	10% Increase	
	\$1.49 = 1€	\$1.43 = 1€	\$1.36 = 1€	\$1.29 = 1€	\$1.22 = 1€	
Cash and cash equivalents	64	32	640	(32)	(64)	
Trade receivables <sup>5</sup>	1,267	634	12,671	(634)	(1,267)	
Other accounts receivable	80	40	802	(40)	(80)	
Short-term credit from banks	(738)	(369)	(7,384)	369	738	
Trade payables	(376)	(188)	(3,755)	188	376	
Other accounts payable	(78)	(39)	(783)	39	78	
Long-term loans and other	(6)	(3)	(55)	3	6	
<b>Total</b>	<b>213</b>	<b>107</b>	<b>2,136</b>	<b>(107)</b>	<b>(213)</b>	

**Sensitivity to change in capitalization 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</u> <u>12%</u>	<u>5% Decrease</u> <sup>3</sup>	<u>10% Decrease</u> <sup>4</sup>
<u>Change in Fair</u>					
<u>Value Before Tax</u>	<u>2</u>	<u>1</u>	<u>(190)</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 \$71.4 million (in thousands NIS) so that the calculated interest for loans as of September 30, 2011 is 2.2%:

Change in interest rate	<u>10% Increase</u>	<u>5% Increase</u>	<u>5% Decrease</u>	<u>10% Decrease</u>
Interest rate expected after change	2.42%	2.31%	2.09%	1.98%
Pre-tax gain (loss) due to changes	<u>(158)</u>	<u>(80)</u>	<u>80</u>	<u>157</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):

Rate of change	<u>10% Decrease</u>	<u>5% Decrease</u>	<u>Fair Value</u>	<u>5% Increase</u>	<u>10% Increase</u>
Expected exchange rate	3.34 NIS = \$1	3.53 NIS= \$1	NIS 3.712 = \$1	3.90 NIS = \$1	4.08NIS = \$1
Forward contract Value	4,664	1,076	(2,152)	(5,074)	(7,729)
Difference	6,816	3,228	-	(2,922)	(5,577)

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

Rate of change	<u>10% Decrease</u>	<u>5% Decrease</u>	<u>Fair Value</u>	<u>5% Increase</u>	<u>10% Increase</u>
Expected exchange rate	6.30%	6.70%	7%	7.35%	7.70%
Forward contract value	(1,613)	(1,884)	(2,152)	(2,419)	(2,685)
Difference	539	268	-	(267)	(533)

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

Rate of change	<u>10% Decrease</u>	<u>5% Decrease</u>	<u>Fair Value</u>	<u>5% Increase</u>	<u>10% Increase</u>
Expected exchange rate	5.47%	5.78%	6.08%	6.38%	6.69%
Forward contract value	(2,479)	(2,315)	(2,152)	(1,990)	(1,828)
Difference	(327)	(163)	-	162	324

<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.

## Corporate governance aspects

### **5 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 Statements 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 third quarter and the first nine months 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 September 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 November 7 2011, in which the Finance Committee recommended that the Company Board of Directors ratify the Financial Statements and Board of Directors' Report as of September 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 6 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 November 9, 2011 at which the Financial Statements and the Board of Directors' report as of September 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

### 6 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

### 7 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 30.9.2011. (in NIS) including linkage	205,632,000
Start date of principal repayment	19.7.2012
Number of annual installments of principal repayment	1

<b>Series</b>	<b>K</b>
Interest accrued as of September 30 2011	2.9 Million NIS
Value on stock exchange soon prior to September 30 2011.	204 million NIS
Interest type	Fixed 7%
Effective interest as of issuance date (Including issuing costs)	7.45%
Effective interest upon issue of debenture expansion (including issuance expenses)	6.62%
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: November 9, 2011

.....

Noam Lautman

Chairman of the Board of Directors

.....

Isaac Dabah

CEO and Director



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

**September 30 2011**

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

**Table of Contents**

	Page
<b>Independent CPA's Review</b>	4
<b>Consolidated Financial Statements - in USD:</b>	
Balance Sheet	5-6
Statements of Comprehensive Income	7
Statements of Changes to Equity	8-9
Cash Flow Reports	10-12
Notes to the Concise Consolidated Financial Statements	13-23



## **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 September 30, 2011 and the related condensed consolidated statements of comprehensive income, changes to equity and cash flows for the nine-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 September 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  
November 9, 2011

Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A member firm of PricewaterhouseCoopers International Limited

**DELTA GALIL INDUSTRIES LTD.**

Concise Consolidated Balance Sheets

As of September 30, 2011

	<b>September 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	58,493	35,140	46,215
Other accounts receivable:			
Trade receivables	108,349	91,895	90,317
Taxes on income receivable	1,112	900	725
Others	12,160	8,631	12,028
Inventories	125,469	118,167	121,275
Assets classified as held for sale	1,766	2,916	2,838
<b>Total current assets</b>	<b>307,349</b>	<b>257,649</b>	<b>273,398</b>
<b>Non-current assets:</b>			
Long-term pre-paid expenses	224	199	198
Long-term receivables	1,224	1,080	890
Surplus of plan assets over liabilities from the termination of employer - employee relations	-	85	-
Fixed assets, net of accumulated depreciation	64,008	65,468	62,704
Intangible assets, net of accumulated depreciation	78,488	77,257	75,464
Deferred tax assets	6,244	4,586	5,127
Financial derivative instrument	-	-	1,830
<b>Total non-current assets</b>	<b>150,188</b>	<b>148,675</b>	<b>146,213</b>
<b>Total assets</b>	<b>457,537</b>	<b>406,324</b>	<b>419,611</b>

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

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**Isaac Dabah**  
**CEO**

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**Yossi Hajaj**  
**CFO**

Approval date of financial information for the interim period by the Company Board of Directors: November 9, 2011

	<b>September 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	71,353	76,591	57,439
Current maturities of long-term loans from banking corporations	2,110	2,110	2,110
Other accounts payable	11,079	-	-
Current maturities of derived financial instrument	645	-	-
Other accounts payable:			
Trade payables	69,873	55,573	52,959
Taxes on income – payable	910	997	854
Others	37,938	36,830	41,506
<b>Total current liabilities</b>	<b>193,908</b>	<b>172,101</b>	<b>154,868</b>
<b>Non-current liabilities:</b>			
Loans from financial institutions, less			
Current maturities	2,411	4,520	3,614
Severance pay liabilities less plan assets	466	409	472
Other non-current liabilities	4,514	6,334	5,296
Reserve for deferred taxes	-	959	-
Debentures	44,369	30,515	58,023
Derived financial instrument	1,507	74	-
<b>Total non-current liabilities</b>	<b>53,267</b>	<b>42,811</b>	<b>67,405</b>
<b>Total liabilities</b>	<b>247,175</b>	<b>214,912</b>	<b>222,273</b>
<b>Equity:</b>			
Equity attributable equity holders of the parent company:			
Share capital	23,098	23,090	23,091
Share premium	121,130	120,946	120,966
Other capital reserves	825	202	1,465
Unassigned income balance	72,842	54,299	58,969
Treasury shares	(9,700)	(9,700)	(9,700)
	208,195	188,837	194,791
Minority interests	2,167	2,575	2,547
<b>Total equity</b>	<b>210,362</b>	<b>191,412</b>	<b>197,338</b>
<b>Total liabilities and equity</b>	<b>457,537</b>	<b>406,324</b>	<b>419,611</b>

**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 9-month periods ending September 30, 2011

	Nine months ended September 30		Three months ended September 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>	502,431	466,902	184,781	169,696	620,074
Cost of sales	403,490	375,792	147,561	136,251	498,805
<b>Gross profit</b>	98,941	91,110	37,220	33,445	121,269
Selling and marketing expenses	54,705	48,531	18,846	16,531	65,207
Administrative and general expenses	18,770	18,917	5,979	6,608	25,347
Other income (expenses), net	2,789	425	411	(1,137)	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>	28,255	22,936	12,806	9,169	31,066
Finance expenses, net	5,987	5,729	3,235	2,098	7,817
Profit before tax on income	22,268	17,207	9,571	7,071	23,249
Taxes on income	3,064	2,258	1,842	558	2,067
<b>Income for the period</b>	19,204	14,949	7,729	6,513	21,182
<b>Other Comprehensive Income(losses):</b>					
Actuary losses –					
defined employee benefit plan	-	-	-	-	(139)
Net change in cash flow hedging transactions	(1,504)	(469)	281	(606)	47
Differences from the translation of financial statements prepared in foreign currency					
prepared in foreign currency	543	571	(807)	1,166	1,429
Taxes on income and expenses charged directly to other comprehensive income (losses)	321	100	(65)	100	54
Net comprehensive loss for the period	(640)	202	(591)	660	1,391
Total comprehensive earnings for the period	18,564	15,151	7,138	7,173	22,573
<b>Attribution of net earnings for the period:</b>					
To shareholders of the parent company	19,111	14,859	7,698	6,483	21,060
To minority interests	93	90	31	30	122
	19,204	14,949	7,729	6,513	21,182
<b>Attribution of total comprehensive earnings for the period</b>					
To shareholders of the parent company	18,471	15,061	7,107	7,143	22,451
To minority interests	93	90	31	30	122
Total recognized revenues and expenses	18,564	15,151	7,138	7,173	22,573
			<b>Dollars</b>		
<b>Earnings per share attributed to shareholders of the parent company:</b>					
Basic	0.82	0.64	0.33	0.28	0.90
Diluted	0.79	0.62	0.32	0.27	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 9-month period and the 3-month periods ending September 30, 2011

Attributable to Company Shareholders											
Ordinary Share Capital											
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	Treasury Shares	Total	Non- Control- ling Rights	Total Equity	
In Thousands		In 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
Movement in period of 9 months, ending September 30, 2011 (Unaudited)											
Comprehensive earnings(losses)	-	-	-	543	(1,183)	-	19,111	-	18,471	93	18,564
Proceeds from exercise of options	24	7	164	-	-	-	-	-	171	-	171
Dividend distribution	-	-	-	-	-	-	(6,000)	-	(6,000)	-	(6,000)
Dividends paid holders of minority interests	-	-	-	-	-	-	-	-	-	(473)	(473)
Benefit component of options granted	-	-	-	-	-	-	762	-	762	-	762
<b>Balance as of September 30 2011 (unaudited)</b>	<u>24,629</u>	<u>23,098</u>	<u>121,130</u>	<u>1,972</u>	<u>(1,147)</u>	<u>(1,499)</u>	<u>74,341</u>	<u>(9,700)</u>	<u>208,195</u>	<u>2,167</u>	<u>210,362</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
Movement in period of 9 months, ending September 30, 2010 (unaudited):											
Comprehensive earnings (losses)	-	-	-	571	(369)	-	14,859	-	15,061	90	15,151
Proceeds from exercise of options	13	4	92	-	-	-	-	-	96	-	96
Dividends paid holders of minority	-	-	-	-	-	-	-	-	-	(60)	(60)
Dividend distribution	-	-	-	-	-	-	(3,000)	-	(3,000)	-	(3,000)
Benefit component of options granted	-	-	-	-	-	-	719	-	719	-	719
<b>Balance as of September 30, 2010 (unaudited)</b>	<u>24,599</u>	<u>23,090</u>	<u>120,946</u>	<u>571</u>	<u>(369)</u>	<u>(1,425)</u>	<u>55,724</u>	<u>(9,700)</u>	<u>188,837</u>	<u>2,575</u>	<u>191,412</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>Movements in 2010 (audited):</b>											
Comprehensive earnings(losses)	-	-	-	1,429	36	(74)	21,060	-	22,451	122	22,573
Proceeds from exercise of options	19	5	112	-	-	-	-	-	117	-	117
Dividends paid holders of minority	-	-	-	-	-	-	-	-	-	(120)	(120)
Dividend distribution	-	-	-	-	-	-	(5,000)	-	(5,000)	-	(5,000)
Benefit component of options granted	-	-	-	-	-	-	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 Statement of Changes in Equity  
 For the 9-month period and the 3-month periods ending September 30, 2011

Attributable to Company Shareholders

	Ordinary Share Capital		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-controlling interest	Total Equity	
	Number of Shares	Amount									Share Premium
	In Thousands										
	In Thousands of Dollars										
<b>Balance as of July 1, 2011 (unaudited)</b>	24,627	23,097	121,121	2,779	(1,363)	(1,499)	68,462	(9,700)	202,897	2,548	205,445
<b>Movement in period of 3 months, ending September 30, 2011 (Unaudited)</b>											
Comprehensive earnings(losses)	-	-	-	(807)	216	-	7,698	-	7,107	31	7,138
Proceeds from exercise of options	2	1	9	-	-	-	-	-	10	-	10
Dividend distribution	-	-	-	-	-	-	(2,000)	-	(2,000)	-	(2,000)
Dividends paid holders of minority interests	-	-	-	-	-	-	-	-	-	(412)	(412)
Benefit component of options granted	-	-	-	-	-	-	181	-	181	-	181
<b>Balance as of September 30 2011 (unaudited)</b>	<b>24,629</b>	<b>23,098</b>	<b>121,130</b>	<b>1,972</b>	<b>(1,147)</b>	<b>(1,499)</b>	<b>74,341</b>	<b>(9,700)</b>	<b>208,195</b>	<b>2,167</b>	<b>210,362</b>
<b>Balance As of July 1, 2010 (audited)</b>	24,599	23,090	120,946	(595)	137	(1,425)	50,467	(9,700)	182,920	2,575	185,495
<b>Movement in period of 3 months, ending September 30, 2010 (unaudited):</b>											
Comprehensive earnings	-	-	-	1,166	(506)	-	6,483	-	7,143	30	7,173
Proceeds from exercise of options	-	-	-	-	-	-	-	-	-	(30)	(30)
Dividends paid holders of minority	-	-	-	-	-	-	(1,500)	-	(1,500)	-	(1,500)
Dividend distribution	-	-	-	-	-	-	274	-	274	-	274
<b>Balance as of September 30, 2010 (unaudited)</b>	<b>24,599</b>	<b>23,090</b>	<b>120,946</b>	<b>571</b>	<b>(369)</b>	<b>(1,425)</b>	<b>55,724</b>	<b>(9,700)</b>	<b>188,837</b>	<b>2,575</b>	<b>191,412</b>



**DELTA GALIL INDUSTRIES LTD.**

Notes to the Concise Consolidated Financial Statements

For the periods of 9 months and 3 months ending on September 30 2011

	Nine months ending September 30		Three months ending September 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	19,204	14,949	7,729	6,513	21,182
Adjustments required to reflect cash flows deriving from operating activities	4,088	179	9,611	(4,247)	448
Interest paid in cash	(4,433)	(2,418)	(2,388)	(829)	(4,002)
Taxes on income, paid in cash, net	(3,611)	(2,163)	(2,458)	(1,255)	(3,368)
Net cash generated from operating activities	15,248	10,547	12,494	182	14,260
<b>Cash flows from investment activities:</b>					
Proceeds from the sale of subsidiary, net (Appendix A)	-	816	-	-	816
Acquisition of activity, (Appendix B)	(4,000)	-	-	-	-
Acquisition of fixed assets and intangible assets	(9,071)	(3,677)	(3,427)	(1,022)	(5,217)
Proceeds from sale of fixed assets	202	643	11	133	710
Proceeds from the issue of option to sell asset available for sale	-	682	-	144	682
Proceeds from the sale of land, net of net of attached tax payments	-	-	-	-	4,218
Loan to a subcontractor	(500)	-	(100)	-	-
Proceeds from the sale of asset held for sale	4,209	-	174	-	644
Repayment of long-term receivables	-	132	-	5	132
Loans granted to employees	(26)	(9)	(16)	-	(12)
Repayment of loans from employees	28	21	6	12	25
Long term pre-paid expenses	-	-	-	-	(80)
Long-term deposits	(43)	(79)	9	2	-
Net cash (used in) generated by Company Investment Activities	(9,201)	(1,471)	(3,343)	(726)	1,918
<b>Cash flows from financing activities:</b>					
Dividends paid holders of minority rights in consolidated Subsidiary	(102)	(60)	(41)	(30)	(120)
Dividend paid	(6,000)	(3,000)	(2,000)	(1,500)	(5,000)
Repayment of loans and other long-term liabilities	(1,207)	(1,312)	(150)	(255)	(2,220)
Short-term credit from banking corporations, net	13,479	(27,922)	8,229	683	(47,205)
Proceeds from the issuance of debentures, less issuance Expenses	-	30,132	-	-	56,331
Proceeds from exercise of employee options	171	96	10	-	117
Net cash deriving from financing activities (used for financing activities)	6,341	(2,066)	6,048	(1,102)	1,903
<b>Net increase (decrease) in cash and cash equivalents</b>	12,388	7,010	15,199	(1,646)	18,081
<b>Profit (loss) due to exchange rate differentials on cash and cash equivalents</b>	(110)	237	(600)	411	241
<b>Balance of cash and cash equivalents at the beginning of the period</b>	46,215	27,893	43,894	36,375	27,893
<b>Balance of cash and cash equivalents at the end of the Period</b>	58,493	35,140	58,493	35,140	46,215

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

**DELTA GALIL INDUSTRIES LTD.**

Notes to the Concise Consolidated Financial Statements  
For the periods of 9 months and 3 months ending on September 30 2011

	Nine-month ending in September 30		Three-month ending September 30		Year ending December 31
	2011	2010	2011	2010	2010
	(Unaudited)				(Audited)
	Thousands of Dollars				

**Adjustments required to reflect cash flows from operating activities:**

Revenues and expenses not involving cash flow::

Depreciation	7,268	6,971	2,567	2,260	9,291
Amortization	1,439	1,272	517	438	1,739
Impairment of fixed assets	-	-	-	-	992
Capital loss from sale of a subsidiary	-	666	-	-	666
Cash erosion, net	110	(237)	600	(411)	(241)
Interest paid in cash, net	4,433	2,418	2,388	829	4,002
Taxes on income paid in cash, net	3,611	2,163	2,458	1,255	3,368
Deferred taxes on income, net	(796)	(765)	1,022	(1,163)	(2,319)
Severance pay liability, net	(6)	34	(11)	22	44
Restructuring expenses	-	327	-	-	327
Capital gain from sale of fixed assets	(106)	-	(5)	-	(249)
Capital gain from realization of asset classified as held for sale	(2,330)	(235)	-	15	(483)
Change in benefit component of options granted to employees	762	719	181	274	1,262
Change in fair value of financial instruments derived from hedging against currency exposure	694	529	(224)	-	(505)
Long-term pre-paid expenses	(26)	(6)	(2)	2	(6)
Others	525	438	288	160	760
	<u>15,578</u>	<u>14,294</u>	<u>9,779</u>	<u>3,681</u>	<u>18,648</u>
Changes to operating assets and liabilities:					
Decrease (increase) in trade receivables	(17,531)	11,415	(335)	6,207	13,645
Decrease (increase) in other receivable and balances	(2,454)	(371)	(259)	803	(1,379)
Increase (decrease) in trade payables	16,667	10,984	14,438	(4,673)	7,926
Increase (decrease) in other payables	(4,142)	1,885	(3,564)	3,483	2,403
Increase in inventory	(4,030)	(38,028)	(10,448)	(13,748)	(40,795)
	<u>(11,490)</u>	<u>(14,115)</u>	<u>(168)</u>	<u>(7,928)</u>	<u>(18,200)</u>
	<u>4,088</u>	<u>179</u>	<u>9,611</u>	<u>(4,247)</u>	<u>448</u>

**Further information on investment and finance operations not involving cash flows:**

Trade payables with respect to fixed assets and other non-

Cash	<u>(618)</u>	<u>(353)</u>	<u>(504)</u>	<u>142</u>	<u>(89)</u>
Receivables with respect to non-cash fixed assets	<u>-</u>	<u>(48)</u>	<u>-</u>	<u>(43)</u>	<u>-</u>
Receivables from the realization of fixed assets intended for Sale	<u>174</u>	<u>-</u>	<u>174</u>	<u>-</u>	<u>(997)</u>
Liability for minimum royalty payments	<u>1,618</u>	<u>4,831</u>	<u>6</u>	<u>724</u>	<u>1,358</u>
Payables as a result of the sale of subsidiary	<u>-</u>	<u>139</u>	<u>-</u>	<u>-</u>	<u>63</u>
Receivables as a result of the sale of subsidiary	<u>-</u>	<u>(1,414)</u>	<u>-</u>	<u>-</u>	<u>(1,454)</u>
Non cash dividend to non-controlling share holders	<u>372</u>	<u>-</u>	<u>372</u>	<u>-</u>	<u>-</u>

**DELTA GALIL INDUSTRIES LTD.**

Notes to the Concise Consolidated Financial Statements  
For the periods of 9 months and 3 months ending on September 30 2011

**Appendix A:**

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

	<b>Year Ending 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)
	<u>816</u>

\* 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.

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

	<b>The 9-month period ending September 30, 2011</b>
	<b>(Unaudited)</b>
	<b>Thousands of Dollars</b>
Inventories	921
Intangible assets	3,469
Payables and credit balance	(390)
Total proceeds	<u>4,000</u>

## **DELTA GALIL INDUSTRIES LTD.**

Notes to the Concise Consolidated Financial Statements  
For the periods of 9 months and 3 months ending on September 30 2011

### **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 September 30, 2011 and for the nine and 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 34 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;

## **DELTA GALIL INDUSTRIES LTD.**

### Notes to the Concise Consolidated Financial Statements

For the periods of 9 months and 3 months ending on September 30 2011

- 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.

- 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 9-month interim periods ending September 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.

## **DELTA GALIL INDUSTRIES LTD.**

### Notes to the Concise Consolidated Financial Statements

For the periods of 9 months and 3 months ending on September 30 2011

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

At this point the Company is examining the implementations timing and replications on it in the future.

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 .

## **DELTA GALIL INDUSTRIES LTD.**

### Notes to the Concise Consolidated Financial Statements

For the periods of 9 months and 3 months ending on September 30 2011

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 13 expands 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.

## **DELTA GALIL INDUSTRIES LTD.**

### Notes to the Concise Consolidated Financial Statements

For the periods of 9 months and 3 months ending on September 30 2011

- 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 whether they are intended to be "recycled" as profit or 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.
- 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.



## **DELTA GALIL INDUSTRIES LTD.**

### Notes to the Concise Consolidated Financial Statements

For the periods of 9 months and 3 months ending on September 30 2011  
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:

- a. Changes in assets books that are not included in IAS 19, in respect to changes in cost of the employee's benefit that are included in assets books prior to the earliest period presented in primary financial reports in which the entity adopted IAS 19.
- b. 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 of September 30, 2011 (un-audited)

**Note 4 – Segment-Based Reporting:**

	<u>Delta USA – Mass Market</u>	<u>Global Upper Market Segment</u>	<u>Delta Israel</u>	<u>Other</u>	<u>Inter- Divisional Write-Offs</u>	<u>Total</u>
	<b>Thousands of Dollars</b>					
<b>For the nine-month period ending September 30 2011:</b>						
Sales to external customers	229,358	209,478	63,088	507		502,431
Inter-segment	-	5,408	-	156	(5,564)	-
Total sales, net	<u>229,358</u>	<u>214,886</u>	<u>63,088</u>	<u>663</u>	<u>(5,564)</u>	<u>502,431</u>
Segment profit (loss)	<u>(717)</u>	<u>23,313</u>	<u>8,260</u>	<u>(2,601)</u>	<u>-</u>	<u>28,255</u>
Finance expenses, net				<u>5,987</u>		<u>5,987</u>
Profit before taxes on income						<u>22,268</u>
	<u>Delta USA – Mass Market</u>	<u>Global Upper Market Segment</u>	<u>Delta Israel</u>	<u>Other</u>	<u>Inter- Divisional Write-Offs</u>	<u>Total</u>
	<b>Thousands of Dollars</b>					
<b>For the nine-month period ending September 30 2010:</b>						
Sales to external customers	229,959	181,254	53,666	2,023	-	466,902
Inter-segment	-	14,140	-	275	(14,415)	-
Total sales, net	<u>229,959</u>	<u>195,394</u>	<u>53,666</u>	<u>2,298</u>	<u>(14,415)</u>	<u>466,902</u>
Segment profits (losses) before restructuring expenses, capital loss from the sale of subsidiary	5,852	12,677	7,876	(2,336)	18	24,087
Restructuring expenses	-	485	-	-	-	485
Capital loss from sale of a subsidiary	-	666	-	-	-	666
Segment profits (losses) before restructuring expenses, capital loss from the sale of subsidiary	<u>5,852</u>	<u>11,526</u>	<u>7,876</u>	<u>(2,336)</u>	<u>18</u>	<u>22,936</u>
Finance expenses, net				<u>5,729</u>		<u>5,729</u>
Profit before taxes on income						<u>17,207</u>

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

	<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 September 30 2011:</b>						
Sales to external customers	83,751	78,627	22,326	77	-	184,781
Inter-segment	-	1,290	-	-	(1,290)	-
Total sales, net	<u>83,751</u>	<u>79,917</u>	<u>22,326</u>	<u>77</u>	<u>(1,290)</u>	<u>184,781</u>
Segment profit (loss)	<u>1,280</u>	<u>9,957</u>	<u>2,743</u>	<u>(1,173)</u>	<u>-</u>	<u>12,806</u>
Finance expenses, net				<u>3,235</u>		<u>3,235</u>
Profit before taxes on income						<u>9,571</u>

	<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 September 30 2010:</b>						
Sales to external customers	88,103	62,392	18,777	424	-	169,696
Inter-segment	-	1,696	-	84	(1,780)	-
Total sales, net	<u>88,103</u>	<u>64,088</u>	<u>18,777</u>	<u>508</u>	<u>(1,780)</u>	<u>169,696</u>
Segment profits (losses)	<u>2,533</u>	<u>5,282</u>	<u>3,009</u>	<u>(1,655)</u>	<u>-</u>	<u>9,169</u>
Finance expenses, net				<u>2,098</u>		<u>2,098</u>
Profit before taxes on income						<u>7,071</u>

**DELTA GALIL INDUSTRIES LTD.**  
Notes to the Concise Consolidated Financial Statements  
As of September 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 September 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.

On August 4, 2011 the Company Board of Directors resolved to grant to 2 employees in an affiliated company in USA, 25,000 out of options available for allocation under the 2009 plan, at an expiries price of \$ 6.69 per option.

On September 15, 2011 the Company Board of Directors resolved to grant to 2 employees of the Company, 30,000 out of the options available for allocation under the 2006 plan and 50,000 out of options available for allocation under the 2009 plan at an expiries price of \$ 5.36 per share.

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 parking places 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.

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 was August 22 2011 and the "X" date was August 23 , 2011.

### **Note 8-Acquisition of 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 for the activity amounted to \$4 million.

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

- a. On November 9, 2011 the Company Board of Directors decided to allocate 66,000 options to 19 US employees and 115,000 options to 27 non-US employees, out of options available for allocation under the 2009 plan, at an exercise price of \$5.65 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.
- b. On October 30, 2011, the Government of the State of Israel decided to adopt the recommendation of the Committee for social economical change (known as Trachtenberg committee) from September 26, 2011.

Among other decisions, the Government decided to set the rate of company tax for the year of 2012 at 25%, instead of 23% in 2012 and gradually decreased to 18% in 2016 according to the current legislation. A continuance of tax decrease will be considered in the future, not later then 2014, in the context of economic and fiscal conditions of the Israeli market and the conditions of the international markets.

The memorandum, issued following Committee's recommendations is yet to become legislation.

The abovementioned changes do not influence the measurement of the deferred taxes assets, deferred taxes liabilities in interim consolidated financial statements as of September 30 2011, since the legislation is yet to be completed as of that period.

If the legislation of new tax rates would have been completed until September 30 2011, changes of Companies tax rate would have been introduced into Law's amendments as is in governmental decision, it would have influence the interim financial statement as of September 30 2011 in a following manner: an increase of approximately \$0.6 million in deferred taxes assets, out of which approximately \$0.4 million would have been attributed as income to the profit and loss statement in the third quarter and in the first nine months of 2011, and \$0.2 million would have been attributed as profit, to the other comprehensive income.

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## **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. 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 September 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) to the period ended on September 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. 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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November 9 2011

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Isaac Dabah, CEO

Statement of the Most Senior Executive from the Field of Finance as per Regulation 38c (d) (2)

**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 on Septemebr 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 insomuch as its 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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November 9 2011

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Yossi Hajaj, CFO