Delta Galil Industries Ltd.

2014 Periodic Report

DELTA

GALIL INDUSTRIES LTD.

February 25, 2015

Delta Galil Industries Ltd.

2014 Periodic Report

Table of Contents

Delta Galil Industries Ltd.

Chapter A

Description of the Corporate Business

As of December 31, 2014

Table of Contents

Page

Introduction

The Company, Delta Galil Industries Ltd., hereby submits its corporate business description report as of December 31, 2014, reviewing the corporation and the development of its business in 2014 ("the Reported Period"). This report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports) of 1970.

The materiality of the information included in this periodic report, including the description of material transactions, was considered from the point of view of the Company, with additional descriptions provided in some instances with an end to provide a more comprehensive view of the subjects described.

Glossary

For the sake of convenience, use shall be made in this periodic report of the following abbreviations, to be construed as follows:

"The Company" or "Delta"	Delta Galil Industries Ltd.
"The Group" or the "Delta Group"	Delta Galil Industries Ltd. and its subsidiaries
"Delta USA"	Delta Galil USA Inc.
"Schiesser "	Schiesser Group
"The Companies Law"	The Companies Law of 1999
"The Authority"	The Securities Authority
"The Stock Exchange"	The Tel Aviv Stock Exchange Ltd.
"The Securities Law"	The Securities Law of 1968
"Dollar"	US Dollar
“The State”	The State of Israel

Description of the Corporate Business

Part A – Description of the General Development of the Corporate Business

1. **Corporate Operations and Business Development - Introduction**

The following is information pertaining to the corporation's business as of February 23 2015.

1.1. The Company was incorporated in Israel in 1975 as a private company in accordance with the Companies Order. In 1982, the Company went public on the Tel-Aviv Stock Exchange. On March 25, 1999, the Company issued American Depositary Shares (hereinafter "ADS") where each ADS represents a single ordinary 1 NIS par value Company share and which, as of 2008, are only tradable on the US International Prime OTCQX or in the Tel Aviv Stock Exchange (subject to their conversion into ordinary Company shares).

1.2. The Company engages in the development, design, manufacture, marketing and sale of undergarments, socks, children's wear, leisure wear and activewear products.

Group’s customers include such leading retail chains as: Wal-Mart, Marmaxx, Target, Victoria's Secret, Odlo, Marks & Spencer, Primark, Ross Stores, Macy's, Kohl's, Hema, Lane Bryant, LuLulemon, Karstadt, Kaufhof, as well as leading brands which include: Nike, Calvin Klein, Hugo Boss, Maidenform, Tommy Hilfiger, Spanx, Under Armour, Triumph, J.C. Penney and others.

The Group also sells its products under franchised brands. These include: Maidenform, Converse, Wilson, Avia, MLB, Tommy Hilfiger, Kenneth Cole, Columbia, Original Penguin and others, and also under the brands KN Karen Neuburger and Little Miss Matched which it owns.

Recently, the Company entered franchise agreements for the sale of Marc O'Polo and Lacoste branded wear. Sales under these franchise agreements began in 2015.

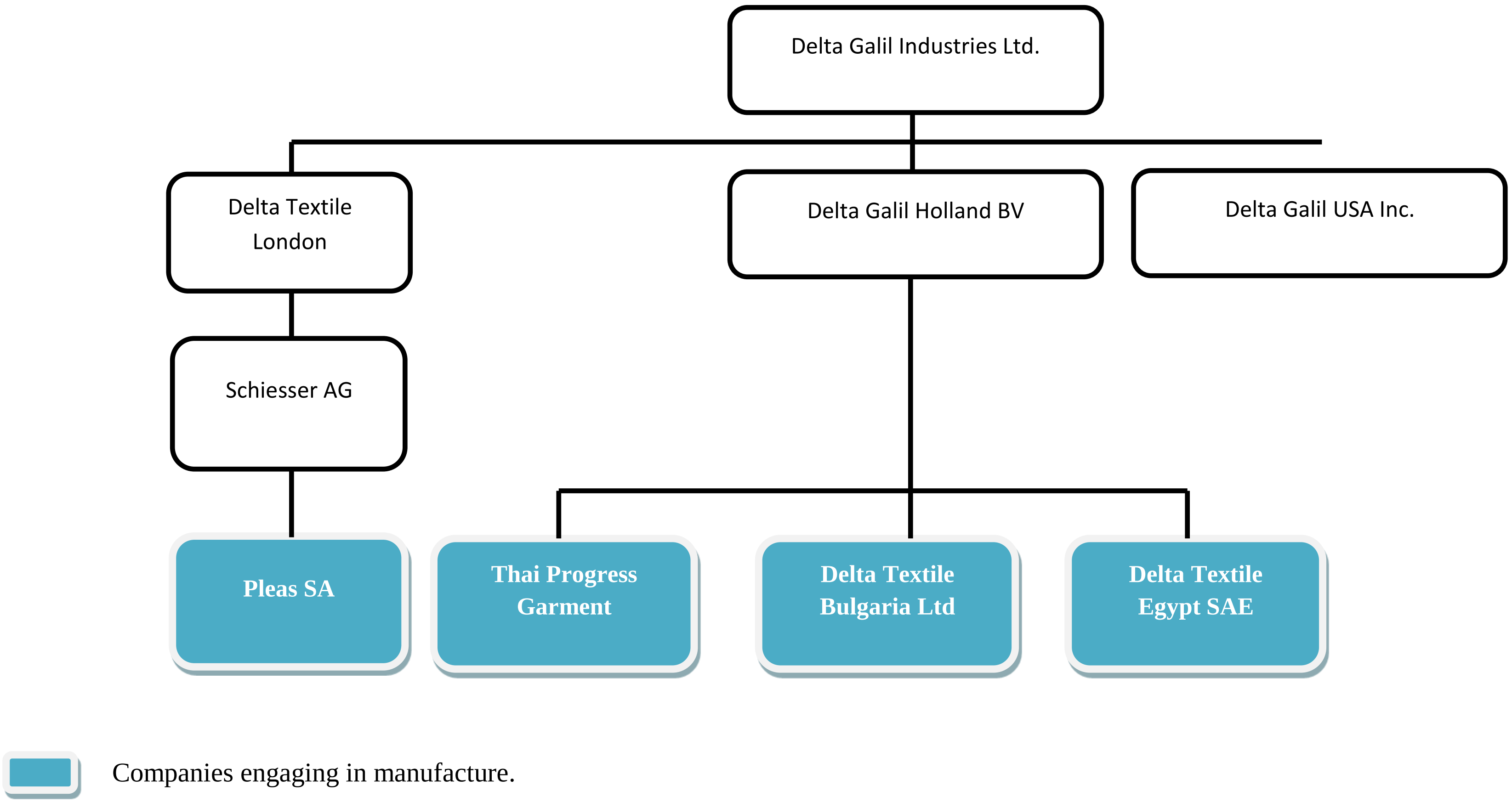
In Israel, the Company runs retail sale operations using the Delta retail chain, as well as wholesale operations. The Company sells its products under such franchised labels as Disney, NICI, Keds, Nike and Power Rangers, and also under own labels which include "Machtonim", "Yodfat", "Comfort", "Punch", "Touch" and "Delta".

In Germany, the Company sells own products through Schiesser under the Schiesser, Schiesser Revival and Uncover brand names it owns, and also under the franchised brand Seidensticker.

In Germany and Western Europe (mostly in the Benelux countries), Schiesser runs retail sale operations in own chain of stores, as well as wholesale operations.

The Company develops and designs its products primarily in Israel, Germany and the US, whereas production is mostly pursued by subcontractors and at Group's own plants in the Middle East, in Eastern Europe and in the Far East.

1.3. Presented below is the structure of Company (all 100%) holdings in own material subsidiaries as of December 31, 2014.



2. **Corporate Segments of Operation**

2.1. The Company runs four segments of operation which it reports as business sectors in its Consolidated Financial Statements as of December 31, 2014: **(a)** Delta USA; **(b)** Global Upper Market; **(c)** Delta Israel; **(d)** Schiesser.

2.2. Group Management has established these operating segments based on the reports reviewed regularly by the Company CEO and Board of Directors. The CEO and the Board of Directors have been identified jointly as the strategic steering committee, acting as the Company's Chief Operating Decision Maker (hereinafter "CODM").

2.3. Following are brief descriptions of the individual segments of operations listed above:

2.3.1. Delta USA Segment

In this segment, the Group engages in the development, design and marketing of private label women's, men's and children's undergarments, socks and activewear products purchased from subcontractors in the Far East and sold to large retail chains in the US and also under labels franchised or owned by the Company. This segment also runs all undergarment and socks operations in the UK.

For further detail, see sections 7 through 16 hereunder.

2.3.2. Global Upper Market Segment

In this segment, the Group mostly engages in the development, design, manufacture and marketing of men's and women's undergarments and also socks and women's seamless wear as manufactured in the Company plants and through Far Eastern subcontractors and sold to retail chains and leading labels in Europe and in the USA. Most sales in this segment are made to Private Labels.

For further detail, see sections 7 through 16 hereunder.

2.3.3. Delta Israel

In this segment, the Group engages in the development, design and marketing of labeled women's and men's undergarments, socks and activewear products, and also children's wear products, mostly under the "Delta label" and mostly purchased form subcontractors in the Far East and distributed through Company's own retail stores in Israel as well as by other Israeli retail chains through wholesale purchases.

For further detail, see sections 17 through 26 hereunder.

2.3.4. Schiesser

In this segment, the Group engages in the development, design, manufacture and marketing of labeled women's, men's and children's undergarments and also activewear products, mostly under the "Schiesser" brand and sold mostly in Germany and in other West European countries both by Schiesser's own retail stores and by other retail chains through wholesale purchases. The Schiesser products are mostly manufactured in two Group owned manufacturing plants in the Czech Republic and in Slovakia; In addition, Schiesser runs a buying office in Hong-Kong.

For further detail, see sections 17 through 26 hereunder.

3. Investments in the Corporation's Capital and Transactions with Its Shares

Following are details of material transactions made by Delta stakeholders over the past two years (starting January 1, 2013):

Name of Stakeholder	Date	Number of Ordinary Shares Purchased (Sold)	Share Price (In USD)	Sum of Transaction (In USD)
Sterling Macro Fund		**2013**		
Fund managed by Mr. Dabah	April and total	1,000,000	14.64	14,640,000
	transactions in			
	*2013			
Isaac Dabah		**2013**		
	April and total transactions in 2013 **	320,000	14.07	4,502,400
GMM Capital LLC		**2013**		
(American fund held by Isaac Dabah and wife Yvette Dabah)	April and total transactions in 2013 *	(1,000,000)	14.64	14,640,000

* These shares were sold by Mr. Isaac Dabah through GMM Capital LLC and Sterling Marco Fund, managed by Mr. Dabah. For detail, see immediate report of August 8, 2013, Ref. 2013-01-030760.

** For options exercise to shares, see immediate report of April 14, 2013, Ref. 2013-01-037696.

4. Dividend Distribution

4.1. As of the date of This Periodic Report, the Company has no dividend distribution policy. From time to time, the Company's Board of Directors studies the distribution of dividends in view of Company's financial results and against Company's financial and other needs, subject to the instructions of the law.

4.2. In 2013, the Company, free of authorization by a court of law, distributed dividends as follows:

Decision Date	Amount Distributed (In USD)	Date Distributed
19/02/2013	2.5 million	12/03/2013
20/05/2013	2.5 million	11/06/2013
30/07/2013	2.5 million	22/08/2013
29/10/2013	3.0 million	07/11/2013

4.3. In 2014, the Company, free of authorization by a court of law, distributed dividends as follows:

Decision Date	Amount Distributed (In USD)	Date Distributed
18/02/2014	3.0 million	18/03/2014
07/05/2014	3.5 million	28/05/2014
28/07/2014	3.5 million	20/08/2014
04/11/2014	3.5 million	25/11/2014

4.4. As of the date of the report, the balance of profits eligible for distribution (undesignated retained earnings less treasury shares), as defined under the Companies Law, amounts to $186,202 thousands.

4.5. For details of the limitations imposed by the deeds of trust for Company debentures (Series A, B and E) on Company's power to distribute dividends, see note 11 to the Fiancial Statements in Part C of This periodic Report.

Part B - Other Information

5. **Financial Information Regarding the Corporate Segments of Operation**

For financial information regarding the various corporate segments of operation, see explanations in section 2.3.2 of the Board of Directors' Report in Chapter B and note 5 to the Financial Statements in Chapter C of the Periodic Report.

6. **General Environment and Impact of External Factors on the Company**

6.1. Description of Market Risks the Group is Exposed to

Group operations are exposed to several market risks, including the financial state of the target markets where the Company operates, fluctuations in the prices of cotton and fluctuations in the exchange rates in these markets as compared with the operating currency, i.e. the USD.

For details of the Group's policy with regard to management of market risks as above, see section 4.3 of the Board of Directors' Report in Part B of the Periodic Report.

Company operations are exposed to macroeconomic, industry related and also specific risk factors as related to the nature of its operations. For full detail on these risk factors to which the Group is exposed, see section 39 hereunder.

Part C - Description of the Corporate Business by Segment

Following are detailed descriptions of the individual Company segments of operations:

Delta USA and Global Upper Market Operating Segments

7. **General Operating Segment Information: Delta US and Global Upper Market**

The description which follows covers similar business characteristics of segments as distinguished from the other Company segments of operation (hereinafter in sections 7 through 16: "the segments"). Specific concerns as apply to the individual segments are explicitly noted.

7.1. Segment Structure and Changes Thereto

7.1.1. Delta USA Segment

Delta USA engages in the development, design and marketing of women's, men's and children's undergarments, socks and activewear products to large retail chains in the USA. Sales are intended for Private Labels as well as brand names under franchise agreements entered (see section 13.3 hereunder) and under Company owned brands such as Karen Neuburger and Little Miss Matched.

Company operations in this segment are run in the USA and accomplished through subsidiary Delta USA and also through Delta Textile London which runs a sales office in the UK.

7.1.2. Global Upper Market Segment

This operating segment managed in Karmiel and engages in the development, design, manufacture and marketing of men's and women's undergarments and also women's socks and seamless wear products, half of which are manufactured by Company plants and the other half by subcontractors, all for retail chains and leading European and US labels and also for franchised labels (see section 13.3 hereunder).

The majority sales of this segment are made to Private Labels in the Upper Market.

Segment's Marketing and Distribution are accomplished by the Company, whereas manufacturing is accomplished by the Company in own Israeli plants and also through subsidiaries operating in Egypt, Bulgaria, Thailand and Jordan, joint projects in China and Turkey, and subcontractors in the Middle East and in the Far East.

7.2. Segments Scope of Operations and Profitability changes.

Changes in global trade laws have increased the competition facing the segments and compelled the Company to restructure the Group. The restructuring measures taken by the Group and all related expenses have impacted the Company's revenues and profitability as described under the Board of Directors' Report in Chapter B of the Periodic Report.

7.3. Developments in Segment Markets or Changes to their Customer Characteristics

Target markets of the Company's products in these segments are the US and Europe. Changes in the economic conditions in these markets in recent years as have reflected in financial crisis and concerns of continued recession, reduced consumption and constant pressure to reduce prices, may all impact consumer consumption habits and volumes. In addition, the garment industry is subject to changing consumer fashion preferences and trends which, by their very nature, change more frequently than ever before and require an increased number of product collections.

7.4. Critical Segment Success Factors and Changes Thereto

In Company's estimation, segments success relies on a number of key factors, the most prominent of which are as follows:

7.4.1. Innovation – investment of resources in design and development departments with a constant focus on local and global developments in the undergarments category and in customer tastes, and on development and design of fashion collections.

7.4.2. Customer relations – securing of long term relations with customers.

7.4.3. Fabric development – the Company operates a special fabric development center in Karmiel, which special fabrics provide an added value to the product development core.

7.4.4. Adaptation of the products to changing fashions and to the needs of the relevant consumers, with an eye to securing continual innovation.

7.4.5. Provision of a marketing and distribution system which allows penetration and stronghold in new markets.

7.4.6. The use of a broad variety of suppliers who provide high quality raw materials and finished products.

7.4.7. Provision of a sturdy, reliable and flexible autonomous and subcontracted manufacturing infrastructure, which will also secure a competitive edge.

7.4.8. Securing of product manufacturing quality and quality control in compliance with specification, Company and customer requirements.

7.4.9. Leveraging of the Company's size as reflected both in the volumes of customer purchase orders and in the number of items ordered from each model manufactured, to help reduce manufacturing costs.

7.4.10. Provision of cost effective operating system and supply chain to fully support sale demands and meet supply schedules which have shortened in recent years.

7.4.11. Entering of franchise agreements.

In Company's estimation, these success factors have been further reinforced in light of the changes to its business environment as reflected in increased competition, eroded sale prices and shorter supply times.

7.5. <u>Main Segment Entry/Exit Barriers and Changes Thereto</u>

In Company's estimation, the main entry barriers facing the segments are as follows:

7.5.1. Acquaintance with and understanding of fashion market requirements and end consumer tastes.

7.5.2. Stable, long term relations with the larger customers (retail fashion chains and fashion label companies).

7.5.3. Innovation in the development and design of fashion products.

7.5.4. Big customers normally require a commitment on the part of the manufacturer to submit to a compliance process evaluating plant's capability of meeting their needs. Also, during the contract period, these customers often run periodic inspections of the production system. Failure to meet customer's quality requirements and standards may lead to termination of the contract.

7.5.5. Provision of efficient operating system, supply chain and distribution setup which secure full support of sale needs and supply schedules which have shortened in recent years

In Company's estimation, these operating segments are subject to no significant exit barriers.

7.6. Alternatives to the Segment Products and Changes Thereto

Company's products compete with numerous alternatives as offered both by wholesalers and by manufacturers marketing products of comparable quality. To reinforce and preserve the edge of own products over the competition, the Company relies on differentiation and prominence of innovation, fashion orientation and quality, on the development of special fabrics and on increasing the market share of the labeled operation.

8. Segment Customers: Delta USA and Global Upper Market

8.1. A material customer of the Group, whose purchases constitute over 10% of the Company's total consolidated sales, is the US retail chain of Wal-Mart representing the Group's largest customer for the Delta USA segment. The Company has had a business relationship with Wal-Mart for over 40 years.

The Company provides Wal-Mart with a broad variety of products for the various departments of its chain of stores, including products sold under the chain's house labels and products sold under franchise agreements.

In 2014, sales to Wal-Mart amounted to a total of $175.4 million (approximately 17% of all consolidated sales) as compared with $114.7 million in 2013 (approximately 12% of all consolidated sales) and $107.8 million in 2012 (approximately 13% of all consolidated sales).

The increase in sales in 2014 as compared with 2013 derived mostly from increased sale of activewear products under the brand Avia (see section 2.3.2 in Part B of This Periodic Report).

The increase in sales in 2013 as compared with 2012 derived mostly from increased sale of ladies undergarments.

8.2. Other important Group customers in the Delta US segment include Marmaxx, Target, Kohl's, Lane Braynt, Ross Stores, Kmart-Sears, Macy's, J.C. Penney, Marks & Spencer and Primark.

8.3. Important customers in the Global Upper Market segment include Victoria's Secret, Calvin Klein, Hugo Boss, Tommy Hilfiger, LuLulemon, Maidenform, Nike, Hema, Under Armour, Spanx, Odlo and Triumph.

8.4. For a breakdown of sales by geographical attribution, see note 5c to the Company's Financial Statements for December 31, 2014, in Chapter C of This Periodic Report, and also section 2.3.1 of the Board of Directors' Report in Part B of This Report.

8.5. <u>Major Group Customer Contract Characteristics</u>

The Group maintains long term relationships with its customers, normally regulated under general blanket agreements and customer purchase orders with the Group. The blanket agreements also provide general directives as apply to customer relations with the Group and which include manufacturer's commitment to meet compliance requirements covering plant's response to customer needs, as well as periodic inspection and other requirements.

Product quantities and dates of supply to the customers are established under the purchase orders, and vary from one order to another.

Company's contracting with its customers is normally based on preparation of a product collection for a specific season.

8.6. Dependence on a Single Customer

The Company believes that any reduction in the volume of purchases by Wal-Mart may have a materially adverse impact on its financial results.

9. **Segment Marketing and Distribution: Delta USA and Global Upper Market**

The Company adapts its marketing and sales strategy to its customers based on their respective geographic locations and the market segments they address. Thus, for instance, one marketing and sales team is responsible for customers in the European and US upper market segments while another is responsible for customers in the US mass market segment. The Company has its sales offices set according to the locations of its target markets in Europe, North America and Israel, which establish their own marketing strategies in coordination with Company's headquarters. The Company's sales offices are operated by professional staffs maintaining continual contact with their customers and providing a direct and immediate response to their demands. The Company also employs sales agents as the need arises.

In the US, the Company distributes its products through own distribution centers as well as by direct supply from the various manufacturing facilities against purchase orders. To its European customers, the Company mostly distributes its products directly from its factories. The Company insists on securing sufficient stock levels at its distribution centers so as to meet customer demands.

The Company is entirely non dependent on own marketing channels.

10. **Segment Orders Backlog: Delta USA and Global Upper Market**

The Company makes its sales by either one of two methods – against Ad Hoc (specific) orders – mostly in the Global Upper Market segment, and by Replenishment – mostly in the Delta US segment.

In replenishment sales, the Company holds a stock for its customers at its distribution centers for a period of 8 to 12 weeks, and the customer normally Calls Off the goods and issues purchase orders nearing the call-off date. The Company recognizes the income on the date of shipment to the customer.

Because of the structure of the industry and the contracting method which relies on both Ad Hoc and Replenishment orders, Company's order backlog covers a relatively short period of time. The Company therefore believes that the order backlog does not provide full indication of the actual volume of orders.

The following is a breakdown of the Company's order backlog in its various operating segments for the next quarter years when recognition of the income is expected (in millions of US dollars):

10.1. Order Backlog in the Delta USA Segment

	Accumulated Orders as of February 11, 2015	Accumulated Orders as of December 31, 2014
First quarter year	29.1	37.3
Second quarter year	20.2	12.4
Third quarter year	6.0	0.8
Fourth quarter year	0.3	-
Total	55.6	50.5

10.2. Order Backlog in the Global Upper Market Segment

	Accumulated Orders as of February 11, 2015	Accumulated Orders as of December 31, 2014
First quarter year	31.5	57.7
Second quarter year	39.4	17.7
Third quarter year	4.1	1.2
Fourth quarter year	0.2	-
Total	75.2	76.6

11. Segment Competition: Delta USA and Global Upper Market

11.1. Overview

Company lines of operation are considered competitive. In 2010, a trend emerged of increasing manufacturing costs and gradually increased consumer prices, which trend also continued over the past two years along with a somewhat reduced level of competition as reflected in a reduced number of Company competitors. Competition in the undergarments segment revolves around three major parameters: product price, product quality, and level of customer service. The Company believes that it has several advantages over its competitors, for reasons which include the following:

11.1.1. Innovative and high quality product lines – the Company manufactures a broad variety of fashionable, high quality product lines, and packs its products attractively. The Company invests significant sums of money in innovative design and in the development of fabrics and products. For further detail, see section 31 hereunder.

11.1.2. Long term relations with retailers and leading label marketers – the Company has cultivated long term relationships with its customers. Although Company's agreements with its customers are largely short termed and unbound by minimum sale obligations, the Company maintains business relations with most of its major customers over periods longer than ten years. Company's design, development and expert technology teams work jointly with the customers so as to provide a comprehensive service package which includes, among other things, the design, development, manufacture and marketing of new product lines.

11.1.3. Unique status of free trade zones – Company operations in Israel, Jordan and Egypt allow it to enjoy beneficial trade agreements.

11.2. <u>Segment Competitive Conditions</u>

In recent years, retail chains have been trying to circumvent private label undergarment design and development companies and contract directly with manufacturing plants so as to reduce the product costs. For detail, see section 39.3.3 hereunder.

11.3. Major Competitors by Segment

Operations in the US and in Europe are faced with dozens of competitors, mostly private US and Far Eastern companies.

11.3.1. Delta USA Segment

To the best of Company's knowledge and estimates, the size of the market addressed by this segment – both in terms of customers and in terms of product categories (undergarments and activewear), is estimated at some $15 billion per year. In Management's estimation, Company's share in this segment ranges between 2% and 3%.

Company's most prominent competitors in this segment include Ariella Intimates, Saramax Apparel Group Inc., Komar Company, Vanity Fair, Jockey, Fruit of the Loom, MAS Holdings, Brandix Lanka Limited, Richard Leeds and Gelmart.

11.3.2. Global Upper Market Segment

To the best of Company's knowledge and estimates, the size of the market where it operates – both in terms of customers and in terms of product categories, ranges between $5 and $6 billion per year. In Management's estimation, Company's share in this segment ranges between 3% and 5% in the various categories and with customers of the segment.

Company's most prominent competitors in this segment include MAS Holdings, Clover, Regina, Brandix Lanka Limited, Renfro Corporation, Fillnet, Gildan Active Wear Inc., Tefron, Okamoto and Interloop.

11.4. Facing up to the Competition

The Company invests extensive resources in the design and development of its products so as to secure innovation and fashionability for own customers, with the understanding that it is this innovation which differentiates it from its many competitors. For further detail, see also section 31 herein.

Also, to stand out and secure a competitive edge, the Company invests heavily in increasing the labeled segment of its operations through the purchase of new franchise agreements, and it also seeks to increase its activewear and brassiere operations vis-à-vis existing customers. The Company also invests in the construction of new plants and joint ventures with an end to strengthen own relationships with its customers and improve own service level.

12. **Segment Manufacturing Capacity: Delta USA and Global Upper Market**

12.1. Following are details of the volume of sales generated by Company subcontractors in 2014:

In the Delta US segment, some 98% of the sales were of products purchased from subcontractors.

In the Global Upper Market segment, some 49% of the Company’s sales were of products purchased from subcontractors.

When manufacturing needs increase, the process of contracting with and qualification of existing and additional subcontractors requires preparations, including attainment of end customer's approval of the new factory and assurance of new factory’s compliance with quality standards as specified by the Company to cover product quality, timetables and working conditions. In Company's estimation, these preparations do not require such an extended length of time which would limit any potential growth of own manufacturing capacity.

12.2. The Company owns manufacturing plants in Egypt, Israel, Thailand, Jordan and Bulgaria, which mostly serve the Global Upper Market segment. In 2014, the Company made investments in a number of joint ventures in Turkey and in China. In Company's estimation, own power to increase the manufacturing capacity of these plants is subject to no limitations.

13. **Segment Intangible Assets: Delta USA and Global Upper Market**

The balance of intangible assets attributed to the various segments on December 31, 2014, mostly comprise $51.3 million in goodwill, $8.9 million in customer relations, and $19.3 million in label usage right agreements.

13.1. Goodwill

Company's intangible assets in its various segments of operation include goodwill as has been established by the Company over the years and as was mostly due to the purchase of three American companies in the period between 2000 and 2004.

The remainder goodwill is not amortized. The company reviews the goodwill value on a yearly basis based on estimation.

The Company did not amortize the balance of goodwill in 2014, 2013 or 2012 in view of the findings of its annual reviews, see note 9b to the Financial Statements in Part C of This Report.

13.2. Customer Relations

Company's customer relations in its various segments of operation have been established over the years since the 2004 acquisition of Burlen which forms a part of Delta US segment and the 2009 acquisition of the Gibor operation included under the Global Upper Market segment.

The balance of customer relations amounted to approximately $8.9 million as of December 31, 2014, and is amortized over a period of 20 years. The original cost amounted to approximately $16.9 million.

In Company's estimation, the balances of goodwill and customer relations have no business impact on any of its segments.

13.3. Agreements to Attain Label Usage Rights

From time to time, the Company enters into agreements to be granted rights to use such international labels as Avia, Columbia, Lacoste, Marc O'Polo, Converse, Wilson, Tommy Hilfiger, Maidenform and Kenneth Cole in the Delta USA segment.

License agreements are normally made out for periods of 3 to 4 years, and they include payment of royalties to the franchise owner at a rate between 5% and 12% of the revenues. Normally, they also include a minimum royalties payment condition set based on the minimum sales level in the agreement period.

These agreements regulate the obligations of the Company as the recipient of the franchise to manufacture labeled products (hereinafter in this section "**the products**"), including in the matter of label usage, product design and development, and forwarding of annual sale plans to the licenser.

The agreements normally include a Company obligation to provide the licenser a prototype and manufacturing molds of the products prior to their manufacture, and also an obligation to secure the quality, reputation and image of the licenser's products at all times. The licenser has the right to audit and supervise the product manufacturing plants.

In 2014, 2013 and 2012, segment royalty expenses amounted to $12.4 million, $10.1 million and $9.4 million, respectively.

None of the licenses granted to the Company have any material impact on its operations.

In Company's estimation, label usage rights constitute one of the segment factors of success, and they have a role in Company's strategy of growth in the labeled segment of operation as shown in section 36.4 hereunder.

14. **Segment Raw Materials and Suppliers: Delta USA and Global Upper Market**

14.1. Segment Major Raw Materials

As shown, most manufacturing operations are accomplished by the Upper Market segment, with any raw and auxiliary materials as required for in-house manufacturing by the Company purchased from subcontractors and suppliers.

The raw materials used by the Group for in-house manufacture of the various garment products are mostly cotton threads, cotton mixes, synthetic threads (such as cotton-Spandex, cotton-Lycra, cotton-Viscose, nylon and polyester threads) and other such materials as elastic bands, lace and other textile ingredients, which are sold for widely ranged prices. The Group purchases the raw materials from a number of international and local suppliers, and has never encountered any difficulties in securing raw materials which meet own manufacturing requirements.

Changing supply and demand conditions and other market factors over which the Company has no control subject the price of raw materials to fluctuations. The Company keeps track of price fluctuations as above and tries to adapt its thread and finished product inventory levels to the sales projections.

With the exception of cotton threads, the Company only purchases the raw materials it requires for the manufacture of its products against purchase orders it receives from its customers. It does not normally hold a stock of raw materials for periods longer than eight weeks. In purchasing basic cotton threads, the Company normally contracts, from time to time and when market conditions are in its favor, with a number of cotton thread suppliers for periods between three and six months.

14.2. Supplier Contracts

The Company employs dozens of suppliers, mostly under regular accounts, and, in some instances, under letters of credit. Normally, and as is a standard practice of the industry, the Company does not enter into agreements with these suppliers. Some of the suppliers employed by the Company are subject to approval by customers, and others are dictated by them.

14.3. Supplier Dependence and Supplier Dependent Products

The Company has no material dependence on the various suppliers of raw materials or finished products since numerous suppliers and factories are available. However, where a supplier requires replacement, the process of locating a suitable supplier who meets Company and end customer standards may take several months to complete.

14.4. In-House Manufacturing

The Company provides its customers with a broad array of high quality products meeting their specific requirements, at competitive prices. The Company manufactures some of the products in-house and purchases others from subcontractors. Following are the stages of the manufacturing process:

14.4.1. Purchase of Raw Materials

The Group purchases the raw materials it employs in the manufacture of its own products mostly from international supplies, and has never encountered any difficulties in attainment of raw materials which meet own manufacturing requirements.

14.4.2. Knitting

The Company knits most of the fabrics in-house and purchases from suppliers other fabrics as it requires in manufacture of its products.

14.4.3. Sock Knitting

The Company operates sock knitting machines in its Israeli and Bulgarian plants and also relies on joint ventures in China and Turkey as well as on purchases from subcontractors.

14.4.4. Coloring and Finishing

The Company colors most of the products it manufactures using Egyptian subcontractors. In Q4 of 2014, it started operations in an

Egyptian dyeing plant which its purchased was completed during Q1 of 2015.

14.4.5. Cutting

The Company operates computerized cutting equipment in its Egyptian and Thai plants.

14.4.6. Sewing

On completion of the cutting stage, products are sewed at Company plants in Egypt, Jordan and Thailand, and, occasionally, also by subcontractors.

14.4.7. Quality Assurance

The Company greatly emphasizes the quality of the garment items it manufactures, and, to this end, it employs QA teams to inspect the products throughout the process. Company's QA procedures meet the stringent standards demanded by its customers.

14.4.8. Manufacture of Seamless Garment Items

The Company applies a special manufacturing technology through the use of "Santoni" knitting machines in the manufacture of seamless undergarments, shapewear and activewear products.

14.4.9. Outsourcing

The Company engages subcontractors for the manufacture of some of its products. The company employs subcontractors in China, Turkey, Pakistan and Bulgaria for the manufacture of socks, and in Egypt, Jordan and some Far Eastern countries (mostly China and Bangladesh) – for the manufacture of undergarments and seamless wear for its other segments of operation. The Company is not dependent on any of these subcontractors.

15. Segment Working Capital: Delta USA and Global Upper Market

15.1. Delta USA Segment

Following are details of the average inventory used by the segment and of inventory days for the years of 2014 and 2013:

	Year 2014	Year 2013
Average inventory (in millions of dollars)	82.7	60.5
Inventory days (average)	89	72

The increase in the average inventory balance in 2014 as compared with 2013 derived from the expanded volume of operations.

15.2. Global Upper Market Segment

Following are details of the average inventory used by the segment and of inventory days for the years of 2014 and 2013:

	Year 2014	Year 2013
Average inventory (in millions of dollars)	25.0	30.2
Inventory days (average)	43	49

The reduced average inventory balance in 2014 as compared with 2013 derived from the reduced volume of operations

For further details on the working capital, see section 33 hereunder.

16. Restrictions and Regulations Governing Corporate Operations: Delta USA and Global Upper Market

16.1. Local Laws in Countries of Operation

The Company is subject to relevant laws as are in effect in the countries where it operates, including as generally apply to imports, customs, consumer protection, product marking (as applicable), licensing, and labor in the countries where it employs own personnel.

16.2. Free Trade Agreements

The Company currently enjoys free trade agreements between Israel and the US, Canada and the EU. The trade agreements allow the Company to sell the products it manufactures in Israel to these countries (under contractual terms and conditions as may apply) free of customs and import quotas. The US has expanded the benefits covered under the US-Israel free trade agreement to also include goods processed in the Company's Jordanian facilities, thus also relieving these products of customs and quotas.

Under the free trade agreement between the US and Jordan, Company products as manufactured in Jordan are, regardless of any Israeli inputs as may or may not be included, free of customs and quotas in the US.

Moreover, the US-Israel free trade agreement was also so expanded as to relieve of US customs and quotas any products which are manufactured in the Company's Egyptian plants and which include a certain rate of Israeli input.

Pursuant to the free trade agreement between the EU and Egypt, Company products as manufactured in Egypt are free of taxes and quotas for EU member states.

Segment sales as included under the free trade agreements above constituted approximately 12% of all of their total sales in 2014. The balance of sales constituting approximately 88% of the total sales of these segments in 2014 and not included above is subject to customs and quotas.

16.3. Specific Laws/ Business Licenses/ Export Licenses as Apply to Company Operations

The Company holds licenses as required and complies with any specific laws as apply in the countries where it operates.

Delta Israel and Schiesser Operating Segments

17. **General Segment Information: Delta Israel and Schiesser**

The description which follows covers similar business characteristics of segments as distinguished from the other Company segments of operation (hereinafter in sections 17 through 26 "the segments"). Specific concerns as apply to the individual segments are explicitly noted and differentiated.

17.1. Segment Structure and Changes Thereto

In the undergarment and children's wear categories, Group operations in Israel and in Germany are faced with numerous competitors, mostly importers who own retail fashion chains. The garments industry – specifically the undergarments category, has, in recent years, still been operating under intense competition. In recent years, finished product prices have increased with the cost of labor and other inputs in the Far East.

17.1.1. Delta Israel

In this segment, the Company runs retail operations to market a variety of undergarment products, leisurewear and socks in Israel through the Delta Stores chain, some of which it owns and some operated by franchise holders, and also wholesale operations to sell these products to retail chains and private stores as well as on the internet.

Most of the products marketed are purchased from Far Eastern suppliers. The Company markets several labels in Israel, some owned and some franchised. In Company's estimation, the labeled products it markets under the Delta Israel segment provide it an edge in the Israeli market.

Over the course of 2014, the Company expanded its chain of stores with 9 new ones (vs. 5 stores which closed down), pursuant to the expansion in 2013 with 14 new stores (vs. 6 stores which closed down). Thus, as on the date of the report, 150 stores are operational.

In October 2013, the Company entered an agreement with public traded company Argaman Industries Ltd. ("**Argaman**") and with Lodzia Rotex

Chain Stores Ltd. ("**Lodzia**"), a private company formerly held by Argaman, under which the Company purchased Argaman rights in the labels Fix, Veto, Men Fix, Fixon-Men and Fixon-U as well as the full issued and paid off share capital of Lodzia. The purchase transaction was concluded in January 2014, at the cash price of $2.1 million (NIS 7.5 million).

As on the transaction completion date, 7 Lodzia stores (held by the Company pursuant to the transaction) went into operation – 5 by own operation and 2 under a franchise agreement.

17.1.2. Schiesser

In this segment, the Group markets branded women's, men's and children's undergarments and also swimwear and specialized sports undergarment products. Operations in this segment include collection design and planning, purchasing, fabric manufacture and finishing, garment manufacture, and distribution.

In this segment, the Group sells a large proportion of its products specifically under the core label of the segment – Schiesser, mostly in Germany, in other German speaking countries such as Switzerland and Austria, and in the Benelux countries (Belgium, Holland and Luxemburg). Segment operations also include the manufacture of a retro line of undergarments ("Schiesser Revival") and the positioning of a young label ("Uncover") in the undergarments category. The company also manufactures and markets its undergarment products under the "Seidensticker" label, under a franchise agreement.

In the Schiesser segment, the Group supplies its products to some 5,000 wholesale customers in Germany and in other European countries, including specialized undergarment and fashion retailers, chain store operators and department store operators through its wholesale channel.
The Group employs its retail channel to sell its products in Germany and in other European countries through 19 own retail stores and 66 factory

outlet stores (as of December 31, 2014), and also on the internet through own online store.

The Group sells the Schiesser undergarment products in the mid- to high-end market segments, with an emphasis on a high level of comfort, durability and quality side by side with innovative fashion.

Some 50% of the undergarment collections are manufactured in two Group owned manufacturing plants in the Czech Republic and in Slovakia; In addition, the Company runs, under the Schiesser segment, a buying office in Hong-Kong.

17.2. Segment Scope of Operations and Profitability Changes

17.2.1. Delta Israel

In recent years, Company’s volume of operations in this segment have increased partly thanks to the expansion of the chain – including the deployment of the children's wear stores-within-stores (Delta Kids), and also thanks to the growth in the Israeli economy. Segment's increased volume of operations also reflected in expansion of the product lines sold.

17.2.2. Schiesser

Most of the Schiesser sales are made to wholesale customers, focusing on Germany and its European neighbors. Since the fashion market in Germany and in other European countries has, in recent years, been subject to increasing competition and fewer sale points, Schiesser has developed a growth strategy whereby it expanded the chain of stores it owned. This included the launch of 5 new factory outlet stores and 2 retail stores in 2014 as 3 stores closed down. In the course of 2013, it opened 11 factory outlet stores and 5 retail stores.

The target market for Company products in the Schiesser segment is Western Europe, mostly Germany. The continued financial crisis in these markets and the concerns of continued recession, reduced consumption and constant pressure to reduce prices, may all impact consumer consumption habits and volumes.

17.3. Critical Success Factors in the Segment and Changes Thereto

In Company's estimation, segments success relies on a number of key factors, as detailed below:

17.3.1. Marketing and labeling of Company brands through continual investment in advertising, and their reinforcement as required to differentiate the labels and emphasize their advantages, innovation and fashionability, as well as through the Company's customers club and website.

17.3.2. Investment of resources in design and development departments with a continual focus on local and global developments in the undergarments category and in customer tastes, and on development and design of fashion collections with an emphasis on continual innovation.

17.3.3. Entering of label usage right agreements.

17.3.4. Nationwide deployment and location of stores.

17.3.5. Provision a steadfast, reliable, flexible and cost competitive overseas subcontractors infrastructure.

17.3.6. Implementation of an effective product QC system.

17.3.7. Implementation of efficient operating system, supply chain and distribution system providing full support of sale needs and supply schedules which have shortened in recent years.

17.4. Main Segment Entry / Exit Barriers and Changes Thereto

In Company's estimation, the main entry barriers facing the segments are as follows:

17.4.1. Construction and long term preservation of labels with significant awareness in the fashion market through considerable financial investments in marketing and advertising.

17.4.2. Capital investments in the establishment of a retail chain and in store maintenance.

17.4.3. The need to maintain a critical mass of sales which will allow for a competitive operational costs structure.

17.4.4. Long term relationships with major wholesale customers.

In Company's estimation, the segments are subject to no exit barriers of significance.

17.5. Alternatives for the Segment Products and Changes Thereto

In these segments, Company products compete with numerous alternatives as offered by local manufacturers or by importers at numerous sale points. The Company reinforces and preserves the edge of own products over the competition by providing differentiation, prominent fashion orientation, quality and added value through the insistence on leading design, development, competitive pricing, variety and media advertising.

18. **Segment Customers: Delta Israel and Schiesser**

18.1. Delta Israel

Company customers in this segment are classified as either retail or wholesale Israeli operations. Company’s retail customers are the consumers shopping at the Company’s retail chain.

The Delta Israel segment targets its sales to the low- and medium-end markets.

Company’s wholesale customers in Israel include department stores, supermarkets and fashion chains. Total sales of this segment in Israel for 2014 and 2013 amounted to approximately $127 million and $111 million, respectively, of which some 26% in 2014 (approximately $33 million) were made through department stores, supermarkets and private stores, and some 74% (approximately $94 million) were made through the Company’s own retail chain. In 2013, 26% of all segment sales were made through department stores and supermarkets whereas 74% of the sales were made through

Company's own retail chain. As of the date of this Report, the Company runs 150 stores, of which 125 it owns and 25 it operates through franchise holders. Company's retail operations in this segment are of no material bearing within the context of Group operations.

In Company's estimation, it is not dependent on any of its customers in this segment.

18.2. Schiesser

Company customers in this segment include both wholesale and retail operations, using own retail stores in Western Europe. This segment targets its sales to the mid- and high-end markets. Segment sales in 2014 amounted to €152.2 million or $201.7 million, as compared with €145.8 million or $194.0 million in 2013. In 2014, 68% of all sales (approximately €103.9 million) were made through the wholesale channel by department stores, supermarkets and direct mail, and 32% of the sales (approximately €48.3 million) by own retail stores. German sales constitute the largest market of all sales by Schiesser, representing approximately 78% of the sales total in 2014 as compared with 77% of sales total in 2013. The remaining sales were made in other Western European countries, mostly Switzerland, Belgium and Holland. Company's retail operations in this segment are of no material bearing within the context of Group operations.

19. Segment Marketing and Distribution: Delta Israel and Schiesser

The Company markets the products of these segments through the following two marketing channels: wholesale marketing, and marketing through the retail chain.

19.1. Wholesale Marketing

19.1.1. Delta Israel

Company products are sold through a variety of marketing channels, including HaMashbir Latzarchan, H&O, New-Pharm, Bril Fashion, food store chains (Shufersal, Co-Op, Hatzi Hinam), and hundreds of private stores throughout the country.

For marketing purposes, the Company operates an array of sales agents, account managers, sales stewards and shelving personnel, and employs the consignment method for some of its customers. Alongside with marketing of own labels, the Company also manages all manufacturing and marketing efforts for private labels such as Life for Super-Pharm and Cherokee for Shufersal.

The company enters into general blanket agreements with the retail chains, where quantities and/or supply schedules are set under the respective purchase orders and may vary from one order to another.

19.1.2. Schiesser

Wholesale is Schiesser's largest selling channel. Approximately 68% of the sales in 2014 and in 2013 were made through the wholesale channel. Wholesale customers are mostly specialized fashion stores, department stores and direct mail operations offering the Schiesser products in own businesses and among own varieties.

In Germany, Schiesser handles own distribution through the wholesale channel. Overseas sales are mostly accomplished by Schiesser's seven distribution companies and through external, commercial agents.

In support of wholesale potential control, Schiesser runs stores-within-stores for major customers.

19.2. Retail Marketing

19.2.1. Delta Israel

Retail marketing for this segment is accomplished through the labeled retail chain which currently, as of the date of This Periodic Report, comprises 150 stores. The labeled stores are located within shopping malls, at town centers and in Power Center establishments throughout the country.

For details of sales in identical stores, see section 2.3.3 in the Board of Directors' Report, Part B of This Periodic Report.

19.2.2. Schiesser

The retail chain channel includes the direct sales of Schiesser products to end consumers through company's own retail stores, factory outlets and B2C online store.

In late 2014, Schiesser was operating 17 retail stores in Germany, located in accessible spots at town centers, within shopping malls or on traditional German sites, each occupying a selling space of some 120 square meters.

As reported, Schiesser was operating 66 factory outlets as of December 31 2014, of which 50 in Germany and 16 in other Western European countries. The factory outlets are located on frequently visited sites such as business parks or trade centers. Factory outlets normally offer selling spaces as large as 350 square meters or so, which serve to sell a large proportion of the comprehensive collection of the Schiesser Group as well as inventory surplus items.

It is in Schiesser's intention to increase the number of its stores in the next few years by launching additional selling spaces which it will operate.

In addition to stationary retail sales, Schiesser has made the end consumer one of its targets, to be addressed through the Group's online store which currently markets a large proportion of the products variety in Germany and in Austria.

For details of sales in identical stores, see section 2.3.3 in the Board of Directors' Report, Part B of This Periodic Report.

19.3. Distribution

19.3.1. Delta Israel

Over the course of 2012, the segment completed construction of the new logistics center in Caesarea where its inventory was subsequently moved.

Company products are stored in the logistics center, from which they are distributed to stores and to wholesale customers alike, with the orders collected by the sales agents in private stores and supermarkets and by a computerized system in the labeled store and department store chains. The Caesarea logistics center employs some 120 persons, of whom 25 in average are employed through assigning companies.

19.3.2. Schiesser

The Schiesser distribution center is located in the town of Radolfzell, Germany, housing most of the segment's finished product. The logistics center employs some 120 persons.

20. Segment Orders Backlog: Delta Israel and Schiesser

20.1. Delta Israel

The Company holds no significant backlog of wholesale customer orders in this segment, and its sales are mostly made through own chain stores.

20.2. Schiesser

Segment sales through the wholesale channel are made by either one of two methods – against Ad Hoc orders, mostly for fashion products, and by Replenishment, mostly for basic (core) products. This is why the segment's order backlog covers but a small proportion of the actual operation and is not fully indicative of the actual volume of orders.

The following is a breakdown of the Schiesser order backlog, mostly orders of fashion products to wholesale customers, for the next quarter years when recognition of the income is expected (in millions of dollars):

	Accumulated Orders as of February 11, 2015	Accumulated Orders as of December 31, 2014
First quarter year	9.0	28.3
Second quarter year	10.0	4.1
Third quarter year	9.3	0.2
Fourth quarter year	6.2	-
Total	34.5	32.6

21. Segment Competition: Delta Israel and Schiesser

21.1. Delta Israel

The undergarments category is subject to intense competition among the various labeled chains and private retailers. In Company's estimation, nationwide chains such as Jack Cuba, Aphrodita, Intima and Castro have strengthened in recent years at the expense of private stores, as has the penetration of such international chains as Aerie (American Eagle), H&M and Etam. Other competitors of the Company in the undergarment category in the regulated market are Triumph, Go Under, HaMashbir Latzarchan, H&O and Srigamish.

The children's wear category is also characterized by intense competition and multiple competitors such as Fox Kids, Golf, GAP, H&M, Shilav, Zara, Carter's, Castro and others. In addition, hundreds of private stores in Israel sell undergarments and socks.

To the best of Company’s knowledge and own estimates, the market it addresses in Israel ranges between $900 million to $1 billion yearly. In Company’s estimation, its share in the market ranges between 10% and 20% in the undergarments and children's wear categories.

Competition requires the Company to offer competitive prices and invest heavily in marketing, advertising and special sales.

21.2. Schiesser

Schiesser mostly operates in the undergarments market where it competes against various industry players. Its major competitors in the various men's, women's and children's label categories are Hugo Boss, Mey, Triumph, Calida, Sanetta, Hunkemöller, Esprit, H&M and private department store and purchasing group labels. Most competitors operate both in the wholesale market and in the retail market.

To the best of Company’s knowledge and based on market surveys in Germany, the labeled market it addresses in the men's, children's and women's categories (except for brassieres) ranges around $1 billion yearly. In Company’s estimation, its share in the market ranges in these categories between 8% and 25%.

To compete, the Company is expanding its own retail chain as reported under section 17.2.7 above.

22. Segment Manufacturing Capacity: Delta Israel and Schiesser

22.1. Delta Israel

Most of the segment's products are purchased through buyers operations from Far Eastern suppliers. In Company's estimation, its manufacturing capacity in this segment is subject to no limitations.

22.2. Schiesser

Approximately 60% of the segment's products are manufactured in the plants it owns in the Czech Republic and in Slovakia. The other 40% are purchased from various Asian sources.

In Company's estimation, own manufacturing capacity in these factories is subject to no limitations.

23. **<u>Segment Intangible Assets: Delta Israel and Schiesser</u>**

23.1. Delta Israel

The Company owns the "Delta", "Yodfat", "Machtonim" and other labels which are listed in the Israeli trademarks registry and which are attributed no cost in Company's books.

In addition, the Company was licensed with usage rights for such labels as NICI, Disney, Keds, Nike, Wilson and others, which it uses in the undergarments, socks and children's wear categories.

Franchise agreements are normally made out for periods of 1 to 2 years, and they include payment of royalties to the franchise owner at a rate between 4% and 12% of the sales. Since the agreement period is relatively short, the balance of the amortized cost of licensing agreements as above is not of material bearing.

In Company's estimation, labels and franchise agreements are highly important to the segment and they constitute both a significant success factor and an entry barrier to be faced by the segment. Also in Company's estimation, labels and franchise agreements provide it a relative edge in support of its differentiation.

None of the licenses granted to the Company have any material impact on its operations.

23.2. Schiesser

Schiesser holds intellectual property rights to the "Schiesser", "Schiesser Revival" and "Uncover" labels as well as to the Pleas label in the Czech market; however it has no rights to the Schiesser label in China, Hong-Kong, Taiwan or Macau since these rights were sold to a local company marketing in these regions.

The balance of the Schiesser label in the Company's books as of December 31, 2014 amounts to $23.5 million.

Label's life span is unspecified and subject to annual review for impairment, (see note 2f in Part C of This Periodic Report). The Schiesser label is of material importance to the segment and it constitutes both a major success factor and an entry barrier. Also, in Company's estimation, the label generates and preserves Company's business distinction.

In addition, the Group is licensed for the "Seidensticker" label as well as for motifs in such Schiesser children's label programs as "Lilifee", "Capt’n Sharky", "Rebella" and "Nici".

Schiesser's franchise agreements are made out for short periods of time, and they include no minimum liability for payment of royalties.

23.3. In 2014, 2013 and 2012, royalty expenses for Delta Israel and Schiesser amounted to $2.4 million, $2.5 million and $1.8 million, respectively. The increase in the royalty expenses in 2013 as compared with 2012 derived from consolidation of the Schiesser operation for a full year. In 2012, the Schiesser operation was only consolidated over the second half year.

24. **Segment Raw Materials and Suppliers: Delta Israel and Schiesser**

Approximately 50% of the Schiesser sales are based on in-house manufacture. Raw and auxiliary materials as employed in the manufacturing process are purchased from subcontractors and suppliers (similarly to the report under section 14.1 above).

25. **Segment Working Capital: Delta Israel and Schiesser**

25.1. Delta Israel

Following are details of the average inventory used by segment and of inventory days for the years of 2014 and 2013 in the operational currency of the division:

	Year 2014	Year 2013
Average inventory (in millions of NIS)	111.8	97.2
Inventory days (average)	206	179

The increase in the average inventory of 2014 as compared with 2013 was due to the expansion of segment's retail chain and volume of operations, to the acquisition of the FIX Operation, to the expansion of its product collection and to the increase in inventory days in 2014 as compared with 2013 following a planned increase to the inventory level of basic products

For further details on the working capital, see section 33 hereunder.

25.2. Schiesser

Following are details of the average inventory used by segment and of inventory days for the years of 2014 and 2013, in the operational currency of the division:

	Year 2014	Year 2013
Average inventory (in millions of Euro)	40.1	39.6
Inventory days* (average)	201	193

* Including in the Czech and Slovakian manufacturing plants.

For further details on the working capital, see section 33 hereunder.

26. **Restrictions and Regulations Governing Corporate Operations: Delta Israel and Schiesser**

26.1. Delta Israel

Company operations in Israel are governed by general legislation as applies to imports; customs, consumer protection (including the Consumer Protection Regulations (Transaction Cancellation) of 2010), product marking, labor and licensing laws (insomuch as these apply to the operation of the Company stores); package handling regulations and regulations as apply to equal rights for the handicapped (service accessibility adaptations), all for which the Company is setting up to assimilate regulatory instructions under the applicability provisions set therein.

Furthermore, all of the Company's products are subject to legal restrictions regarding marking of prices, composition and laundry instructions under the Consumer Goods and Services Regulation of 1957 and resulting ordinances, and also under the Consumer Protection Law of 1981 and resulting ordinances.

he Company complies with all legal requirements as above and holds adequate licenses to the extent required.

26.2. Schiesser

26.2.1. Since a large proportion of its business operations are run in Germany, Schiesser is mostly affected by the German legal and tax environment, including with regard to corporate affairs, trade restraints, product liability, product marking, prohibition of unjust business transactions, trademarks and consumer protection. The Schiesser organizational and business pursuits are also governed by the EU laws.

26.2.2. Since Schiesser purchases approximately half of its products from non-European countries, its operations are affected materially by the foreign trade and customs regulations. All import and export within the European economy are basically exempt of tax. Schiesser is also governed by any anti-dumping measures which the EU may impose under own laws.

26.2.3. The laws governing the product include criminal regulations which, inter alia, forbid the use of specific chemical, e.g. in painting of textiles.

The Company complies with all legal requirements as above and holds adequate licenses as required.

Part D – Additional Information at the Corporate Level

The following is additional information at the corporate level, related to all of the Company's segments of operation:

27. **General Segment Information**

27.1. Technological Changes of Potentially Material Cross Company Impact

The Company keeps regular track of technological developments as relevant to its segments of operation and applies these technologies, to the extent possible, to its production processes. Technological developments pertaining to the threads from which the fabric is woven affect operations indirectly since they allow the manufacture of innovative finished products such as those which allow more comfortable movement, high levels of ventilation and other such benefits. Such technological developments in the field of threads allow for manufacture of advanced textile products, secure them a distinct competitive edge and help reduce customers' pressure to lower the prices.

27.2. Changes to the Array of Suppliers and Raw Materials

No material changes have occurred in recent years to the array of suppliers from which the Company purchases the raw materials it uses in the manufacture of its products, and, in any event, it can purchase these raw materials and manufacture all of its products with numerous other suppliers or subcontractors in the Far East at no significant increase to the manufacturing costs.

The Company is constantly searching for new suppliers, evaluating current suppliers and running workmanship inspections.

28. **Company Products**

28.1. Ladies Intimate Apparel

The Company manufactures basic and designer intimate apparel for ladies, including underpants, brassieres, sleepwear and seamless wear items such as shapewear and activewear.

28.2. Men's Undergarments

The Company manufactures basic and designer undergarments for men.

28.3. Socks

The Company manufactures a variety of socks for men, women and children in formal, sports and casual styles, some of which feature prints of familiar cartoon characters or other images as the Company is licensed to use.

28.4. Children's Wear

The Company manufactures a variety of sports and casual children's wear products, some of which feature prints of familiar cartoon characters or other images as the Company is licensed to use.

29. **Seasonality**

The Company's revenues are characterized by fluctuations due, inter alia, to seasonal purchasing by the consumers. The Company's revenues in the second half year generally exceed its revenues in the first half year thanks to increased consumer purchases in the "back to school" and holidays periods.

29.1. Following are the Group sales by quarter year in the past three years, in thousands of dollars:

	Q1	Q2	Q3	Q4	Total
2014 sales - USD	238,074	249,152	267,237	277,398	1,031,861
2014 sales - %	23.1%	24.1%	25.9%	26.9%	100%
2013 sales - USD	227,255	234,368	257,199	255,897	974,719
2013 sales - %	23.3%	24.0%	26.4%	26.3%	100%
2012 sales - USD	168,067	169,149	*233,996	*246,570	817,782
2012 sales - %	20.5%	20.7%	*28.6%	*30.2%	100%

* Including the Schiesser data first consolidated in the second half of 2012.

29.2. Following is the distribution of Group sales, pro-forma, by quarter year in 2012, including the Schiesser data over the full year (in thousands of dollars):

	Q1	Q2	Q3	Q4	Total
2012 sales - USD	214,703	199,649	233,996	246,570	894,918
2012 sales - %	24.0%	22.3%	26.1%	27.6%	100%

30. **Fixed Assets, Real Estate and Facilities**

30.1. Real Estate and Facilities

The Company owns manufacturing facilities in Israel, Jordan, Egypt, Bulgaria, Thailand, the Czech Republic and Slovakia.

As of the date of This Periodic Report, the Company owns several real estate properties in Israel and also rents additional properties in Israel serving for warehouses, offices and shops. The rental agreements for the properties, including extension option periods, are due to terminate over the period between 2015 and 2033. The Company believes that it will be able to renew these rental agreements under terms not inferior to those in effect today.

The Company rents offices in London for a period due to expire in 2017.

The Company rents manufacturing and storage facilities in Egypt for a period due to expire in 2020.

Company’s joint venture in Jordan is located in Irbid and includes a number of rented sewing facilities and warehouses.

The Company rents warehouses and offices in the USA, in Europe and in China, whose rental periods are due to expire in the course of 2015 through 2033. The Company believes that it will be capable of renewing these rental agreements under terms not inferior to those in effect today.

The information above as related to Company’s estimates regarding the extension of its rental agreements is forward-looking information as defined under the Securities Law. No certainty may be attached to this estimate since, inter alia, it is based on data as available at the date of This Periodic Report and dependent on factors uncontrollable by the Company, such as market conditions, agreements with landlords, and others.

The Company owns additional facilities in Bulgaria, the USA, Thailand, the Czech Republic, Slovakia and Germany. Company Management believes that these facilities are in good operational condition, properly maintained, and sized appropriately to its current volume of operations. The Company also believes that its operations and facilities meet current government safety, health and environmental standards. As a rule, the Company has complied with these rules with no material impact on own expenses, profitability or competitiveness.

The Company owns a logistics center in Hungary, which has been evacuated and is held for sale, however which, because of its low selling probability, was included under fixed assets rather than under current assets held for sale.

30.2. <u>Agreement to Sell Real Estate in Nahariya</u>

For details of the sale of real estate in Nahariya, see note 8b to the Financial Statements in Part C of This Periodic Report.

30.3. Real Estate Assets Held for Sale

As of the date of This Report, Company's real estate assets held for sale include two assets in Israel, whose historical cost amounts to approximately $1.0 million.

30.4. Company's Material Real Estate Assets Owned or Rented as of the Date of This Report

Country	City	Area in Square Meters	Major Usage	Rented/ Owned	Amortized Cost in Financial Statements as of December 31 2014 in Millions of USD	Annual Rental Fees in Millions of USD
Israel		Building 14,014; Land ~24,000	Fabric development and coloring, knitting, and warehouses	Owned	4.0	
	Karmiel	Approximately 7,500	Warehouses and offices	Rented	-	0.3
		Buildings ~ 2,500; Land ~4,700	Held for sale, one rented to 3rd party	Leased from the state	1.0	
	Caesarea	9,440	Logistic center	Rented	3.0	0.8
		4,750	Offices	Rented	2.1	****
	Rosh Ha'ayin	Approximately 1,450	Offices	Rented	*	0.2
	Chain of 132 stores **	Approximately 20,000	Delta shops – national retail chain	Rented	5.5	8.3
	Tel Aviv	Approximately 1,000	Offices	Rented	-	0.2
UK	London	1,400	Offices	Rented - partly leased to a 3rd party	-	0.3
Jordan	Irbid	5,330	Sewing workshops and warehouses, some rented to a 3rd party	Some rented and some owned	0.3	*
Egypt	Cairo	35,300	Knitting plant, cutting plant, sewing workshops, warehouses and offices	Rented	3.7	0.4
USA	New Jersey	2,000	Offices	Rented	1.2	0.4
	New York ***	7,700	Offices	Rented	2.1	2.9
	Williamsport, Pennsylvania	22,480	Warehouse, logistic center and offices	Owned	1.4	
	Tifton, Georgia	46,000	Warehouse, logistic center and offices	Owned	3.3	

Country	City	Area in Square Meters	Major Usage	Rented/ Owned	Amortized Cost in Financial Statements as of December 31 2014 in Millions of USD	Annual Rental Fees in Millions of USD
	Chain of 7 stores Little Miss Matched	820	Retail chain	Rented	*	1.0
China	Guangzhou & Shanghai	Approximately 1,870	Offices	Rented	-	0.1
Hungary	Tizalok	Approximately 12,000	Logistic center not in use and intended for sale	Owned	1.9	
Bulgaria	Rousse	8,640	Socks manufacturing plant	Owned and rented	1.8	0.1
Thailand	Ayutaya	1,700	Cutting and sewing plant	Owned	0.8	
Czech Republic	Havirska	148,000	Knitting, cutting and sewing plant, warehouses and offices	Owned	9.1	
Slovakia	Stitnicka	28,700	Sewing workshop	Owned	2.0	
Germany	Radolfzell	61,675	Warehouse, logistic center and offices	Owned and rented	0.9	1.5
		4,540	Real estate for investment	Owned	4.1	-
	Chain of 82 self managed stores	33,340	Retail chain	Rented	4.6	8.5
Western Europe	Belgium/ Holland/ Switzerland/ Italy/ Denmark	7,679	Stores and offices	Rented and owned	0.7	2.1

* Under $100,000.

** Excluding stores operated by franchise holders, which the Company does not rent.

*** Including new offices to be occupied starting early 2015.

**** Rental fees to be paid starting 2015.

30.5. Equipment

The Company operates equipment and machines in its various plant, and, in own estimation, none are subject to any limitations as may affect their production volumes.

31. **Research and Development**

The Company engages a number of creative design teams covering fashion, textile and graphic, knitting, cutting and finishing technologies, and also the very products. These teams keep abreast with global market trends and relevant technological innovations.

Company's development and design teams mostly operate out of Israel, Germany and the USA.

Development and design are accomplished by the Systematic Innovation Process (SIP) method, structured for innovative thinking as required to secure such groundbreaking products for the Company customers which would distinguish and preserve Company's added value and competitive edge.

The process includes joint effort by all disciplines – design, marketing, development and technology, from the search stage through research, development and design to presentation to the end customer and lesson learning.

In addition, the Company embarks on cross organizational projects which rely on the same method, with an emphasis on creative thinking to penetrate markets in the Company's product categories.

All efforts by the development and design teams are integrated in and run concurrently with those of the Company's sale and marketing systems.

In addition, the Company operates a special fabric development center in Karmiel as an added value to the product development core, a socks development center focusing on performance sports socks, a seamless products development center specializing in men's and ladies shapewear and activewear, and a strategic socks development center jointly with Nike, located on customer's site in the USA.

Another strategic development center is currently in construction jointly with Nike, which specializes in seamless knits for the activewear items category.

In 2014 and 2013, development and design costs amounted to approximately $36 million and $35 million, respectively.

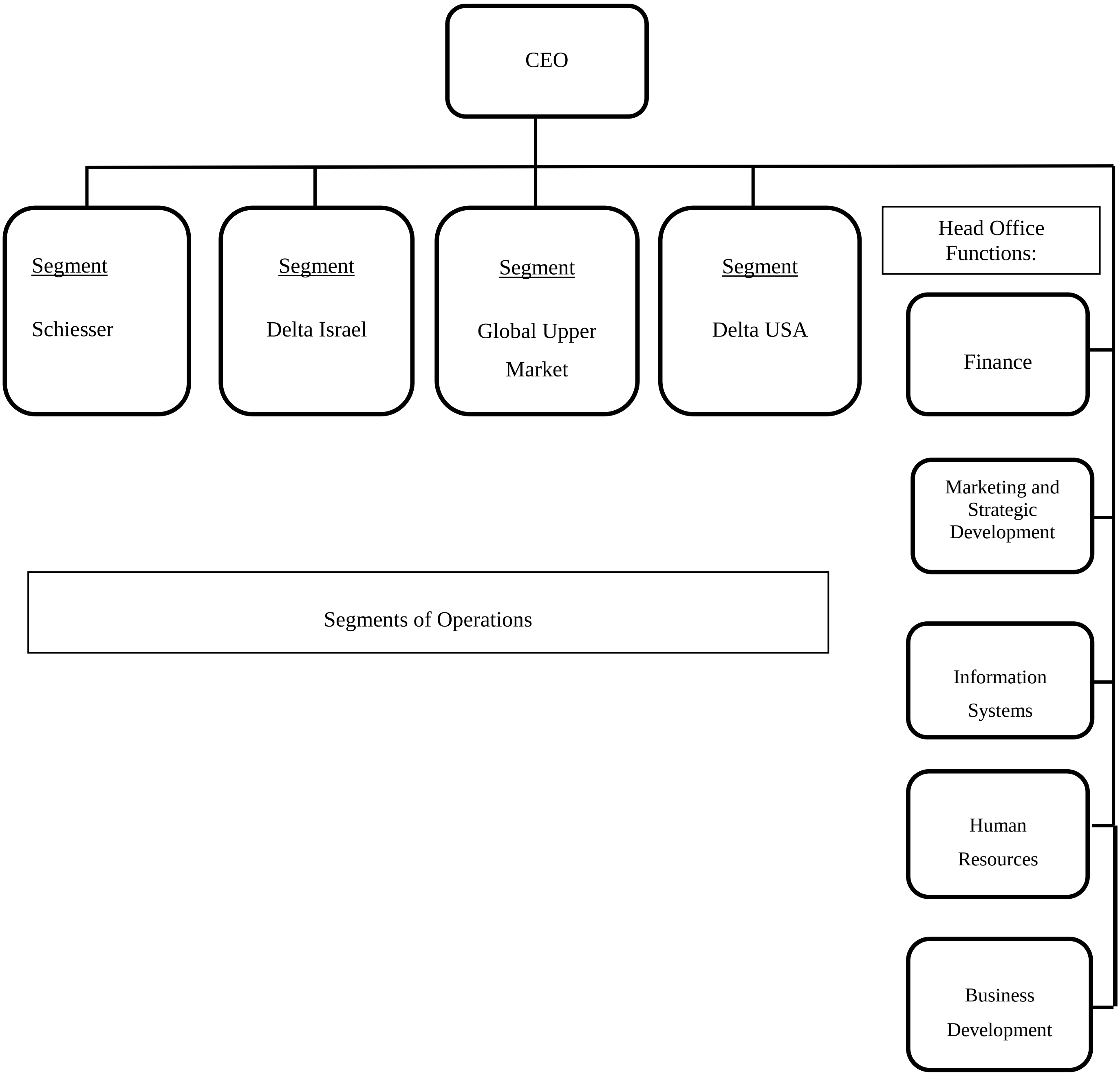
In 2015, development and design costs are expected to amount to a level of approximately $37 million, consisting some 3.5% of the total sales[1].

[1] This information represents but an estimate and is forward-looking; it may not be realized or it may be realized to a different extent as compared with Company's assessments and forecasts for reason uncontrollable by the Company alone and since it is based on data as available on the date of the report and includes Company assessments as of the date of the report.

32. **Human Capital**

32.1. Organizational Structure

Following is a description of Group Management's organizational structure and segments of operation:



32.2. Workforce

As of December 31 2014, the Group employs approximately 8,500 employees.

32.3. Employee Breakdown by Country and by Segment

	As of December 31 2014	As of December 31 2013
Egypt (Upper Market)	2,320	2,600
Israel (Upper Market, Delta Israel and head office)	1,620	1,450
Far East – mostly Thailand (Upper Market)	915	990
Bulgaria (Upper Market)	595	610
Czech Republic (Schiesser)	735	750
Germany (Schiesser)	820	650
USA	580	575
Jordan (Upper Market)	430	445
Slovakia (Schiesser)	275	300
Others (mostly Schiesser)	210	160
Total Employees	8,500	8,530

32.4. Of all employees as of December 31 of 2014, 5,050 or so are engaged in manufacturing and 3,450 or so in development, logistics, marketing, sale and administration.

32.5. Workforce Material Changes

As of December 31 of 2014, the Company's workforce remained unchanged as compared with December 31 of 2013. In Egypt, it decreased as a result of the reduced plant volume of operation. In Israel and in Germany, it increased as a result of increased volumes of operation and the retail chains in the Schiesser and Delta Israel segments.

32.6. Compensation Plans (Options and Restricted Share Units) for Company Employees

For detail on the compensation plan for Company employees, see note 13b to the Financial Statements in Chapter C of This Periodic Report.

32.7. Human Capital Development Plans

The Company invests in development of its human capital by way of training and education designed for technical and administrative development of manager skills. The Company also holds various cross organizational seminars on such various topics as "thinking outside the box" and personal growth, to encourage initiative and growth within the respective disciplines and duties of the individual employees.

32.8. Benefits and the Nature of Employment Agreements

As of December 31, 2014, the Company employs some 8,500 employees, of whom 1,620 in Israel. Most are employed under general collective employment agreements as apply to the textile and garment industry and under general expansion orders as also apply.

The German Schiesser employees are employed under a collective agreement as the Company had signed with the Trade Sector Committee. Employees of the Schiesser subsidiaries in the Czech Republic and in Slovakia are also employed under similar agreements.

The Company complies with the instructions of these agreements.

193 employees in Israel, including senior executives and management personnel, are employed under personal contracts.

Company's personal contracts with its Israeli employees regulate, inter alia, the following matters: monthly salaries, social benefits such as annual vacation pay, advance notices, and provisions to pension funds, executive insurance funds and education funds. Each party may terminate the contract by a prior, written notice of one to 2.5 days per month of employment and of approximately one month after the first year of employment and subsequently.

32.9. Contracting of Senior Executives and Top Management (except for internal auditor)

32.9.1. Contracting of Senior Executives (except for internal auditor)

Employment agreements with senior executives cover, among other things, details of the senior executives' social benefits such as annual vacation pay, convalescence pay, sick days, provisions to executive insurance, education fund and other benefits to which senior executives are entitled. In addition to salaries, senior executives are generally entitled to annual bonuses at the rate of up to 50% of their annual pay, subject to attainment of goals and by a formula as set under the employment agreement, except where higher rates are set and authorized by the Company. Also, to the extent that actual results exceed the goals, the executives are entitled to additional benefits as will be set by the Company from time to time. The Company makes available for use by the senior executives company cars and mobile phones, and bears all related costs. Senior Company executives undertake to keep in strict confidence all issues pertaining to the Company’s business, and to make no use of the confidential information both during and following the period of their employment with the Company. Normally, the Company may terminate a senior executive’s employment by providing a 90 days written notice, to be extended by an additional 30 days for each year of employment past the third year of employment with the Company and up to six years, to a maximum ceiling of 180 days, except in predefined exceptional cases. In most cases, senior executives may terminate their employment with the Company by providing a 90 days written notice.

For further detail on the terms of office and employment of some Company executives and stakeholders, see Additional Information Regarding the Corporation in Chapter D of This Periodic Report.

32.9.2. Group Executive Remuneration Plan – Payment for Performance

Starting 2006, the Company has been implementing a compensation plan for some 370 Group executives, which comprises three compensation elements: (a) compensation against personal goals achieved; (b) compensation against goals achieved, as had been derived from the budget of the respective division (sales and profitability); (c) compensation against goals achieved, as had been derived from the Company's consolidated budget.

The composition of the compensation varies by the rank of the executive, and may change from one year to the next. Also, the goals are changed from one year to the next, at the beginning of every year, subject to disposition by the Company Management.

Starting 2013, 25% of the annual compensation for some of Company's executives are set for a long term evaluation and subject to attainment of performance goals in 2015.

The rate of compensation under the plan generally ranges between 20% and 50% of the executive's annual salary, except where a higher rate was set and authorized by Company organs.

32.9.3. Executives Compensation Policy

On September 1, 2013, the General Assembly of Shareholders approved the Company executives and directors compensation policy, and on December 15, 2014, it approved an amended version of this policy. For further detail, see Company's immediate report of November 10, 2014 and General Assembly disposition report of December 15, 2014 (Ref. 2014-01-192105 and 2014-01-192105) as included herein by reference.

32.9.4. Severance Pay Liability

Group liabilities for terminating own employees in Israel are mostly covered by provisions to executive insurance plans, comprehensive pension funds and Company/ other provident funds.

In other countries where the Company runs operations of significant volumes, which mostly include Thailand, Bulgaria and Egypt, the employees have no pension rights or other rights granting them severance or other pay in the event of resignation.

The rights of Schiesser and subsidiary employees are covered by routine provisions.

33. **Working Capital**

Following are details of working capital composition for December 31 of 2014 and of 2013, consolidated, in millions of dollars:

	2014	2013
Current assets *	310.4	293.5
Current Liabilities **	143.2	132.1
Current asset surplus over current liabilities	167.2	161.4
Percent from sales	16.2%	16.6%

* Including trade receivable balances, other receivables (excluding receivable for the sale of real estate in Nahariya) income tax receivable and inventory.

** Including trade payables, other payables and income tax due.

33.1. Raw Material Inventory Holding Policy

The main raw materials used by the Company are cotton threads, mixed cotton and synthetic threads, as well as other textile ingredients. Most raw materials are purchased by the Company against production orders from customers, therefore the Company does not generally hold raw material inventories for extended periods of time.

33.2. Finished Products Inventory Holding Policy

Company sales are mostly conducted in two manners – either against specific production orders or against replenishment orders, for detail, see section 10 above.

The Company strongly emphasizes adequate inventory levels so as to secure supply to customer demands.

34. **Financing**

34.1. Average Interest Rate For Bank Credit

For details of the interest rate for bank credit, see note 19c to the Financial Statements.

34.2. Financial Covenants

For details of financial covenants as related to agreements with banks, see note 19c to the Financial Statements in Part C of This Periodic Report.

For details of financial covenants as included under trust deeds for (A, B and E series) debentures, see note 11a(3) to the Financial Statements in Part C of this Periodic Report.

34.3. Corporation’s Credit Facilities and Terms, and Unused Credit Facilities as of the Date of the Report

For details of Group's credit facilities, see note 19c to the Financial Statements in Part C of This Periodic Report.

34.4. Corporation’s Credit Rating

For details of Company's debenture credit rating, see Special Disclosure for Debenture Holders under section 11 of the Board of Directors Report in Part B of this Periodic Report

34.5. Corporation’s Estimated Need for Financing Fund Raising

The Company finances own operations by a cash flow as available from current operations, from bank credit facilities and from the proceeds from the issue of debentures. From time to time, based on market conditions and own changing needs, the Company considers the option to diversify its various sources of finance.

34.6. Bank Liabilities

34.6.1. From time to time, the Company incurs bank liabilities as mostly derive from the need to finance working capital and investments in fixed assets. These liabilities are guaranteed by liens on assets of the Company and of some of its subsidiaries.

Company's credit facilities permit short term loans, receipt of documentary credit and extending of guarantees. Company's short term loans reach their redemption date within a period of up to one year. The redemption period of some of the loans has been made shorter so as to maintain flexibility of financial management.

As of the date of the report, these credit facilities are hardly used.

34.6.2. In Israel, the Company has been granted credit facilities by a number of banks, renewable for periods of up to one year. The banks have current liens on Company's assets, including its stock capital and goodwill. Interest for the credit facilities is set from time to time by negotiations between the Company and each of the banks separately. The banks have entered into a pari passu agreement among themselves regarding the manner by which these collaterals would be realized.

34.7. Liabilities to Debentures Holders

For details of liabilities to debenture holders and swap transactions to exchange cash flows as related to debentures, see note 11 to the Financial Statements in Part C of This Periodic Report.

35. **Taxes**

For details of tax laws as apply to the Company, see note 14 to the Financial Statements in Part C of This Periodic Report.

36. **Goals and Business Strategy**

This section, covering Company goals, strategy and expectations with regard to continued growth and expansion in the coming year, represents forward-looking information. Forward-looking information is defined as uncertain information regarding the future, based on information as available to the Company on the periodic report date and including Company estimates or intents as of the date of the periodic report considering past experience, various estimates with regard to the state of the economies where the Company operates, and dependent on a large number of external factors uncontrollable by the Company. The actual results may therefore be materially different from the results estimated or implied from this information, e.g. in the event of new or additional deterioration in the state of the economies where the Company and to the extent that relevant risk factors are realized.

36.1. Overview

Attainment of business operation growth is the Company's main strategic goal, to be attained by expanded business operations with current and new customers, offering then a broad range of products and new categories.

To attain these goals, the Company invests in innovation, research and development, streamlining of production processes and the chain of supply, and branding. The Company also considers strategic acquisitions to supplement its product lines and customer relations.

36.2. Strategic Acquisitions

To secure growth, the Company considers strategic acquisitions to supplement its product lines and customer relations, and to allow its penetration on new markets and customer operations.

In considering these acquisitions, the Company focuses on increasing the volume of its labeled operations.

Because of its size, the Company has marked the North American market as a strategic target which may contribute significantly to own growth and profitability. Thanks to a series of acquisitions made by the Group in North America, its presence in this market has increased significantly thus that the volume of sales to North America increased dramatically from a total of approximately $47 million in 1998, which represented some 16% of all Company sales in that year, to approximately $570 million in 2014, representing some 55% of all Company sales.

The Company has also marked the European market as one with a major expansion potential, and followed with the acquisition of the Schiesser operation which mostly sells to Germany and other Western Europe countries.

36.3. <u>Customers</u>

One of the Company's major assets is its customers. The Company emphasizes the level of service and innovation provided to customers and acts on several levels to develop its business vis-à-vis the customers as described below:

36.3.1. <u>Increasing of the Volume of Sales to Existing Customers</u>

The Company is interested in increasing the volume of sales of existing and newly introduced products to existing Company customers. The Company believes that the broad selection of products it offers, with an emphasis on customer service and reliability, provides it a competitive edge since retailers generally prefer to contract with a small number of suppliers. The Company intends to continue this trend by reinforcing and expanding its relations with own customers.

36.3.2. <u>Preservation of Relations with Company Customers</u>

Company's presence in the US and in Europe allows its design teams to advise Company Management on marketing and sales in the European and US markets. Although large proportions of the Company's products are sold under its customers' private labels, Company's development and design experts cooperate closely with Company's customers in the design and development of the products. The development and design teams set up presentations for customers, which also include analysis of successes and failures in previous seasons, and, jointly with the customers, they develop the basic concept, the product and the package – all in response to customer needs. The Company believes that the comprehensive package of services it offers its customers is a significant factor in the steadfastness of its relations with them.

36.3.3. Development of Relations with New Customers

In seeking sales under customers' private labels, the Company develops relations with new customers who demand high quality products, who are capable of making large scale orders, who demonstrate a significant growth potential and who demand a high service level as offered by the Company.

36.3.4. Innovation and Investment in Research and Development

The Company invests extensive resources in the development and design of its products so as to secure groundbreaking products for its customers, facilitate entry in new categories and preserve own competitive edge.

36.3.5. Streamlining of Production Processes and the Chain of Supply

The Company is constantly seeking to streamline its production processes by continuing to transfer high manpower manufacturing processes to countries offering a cheap workforce, by further automating its manufacturing processes and by introducing new technologies.

The Company invests in the development of its chain of supply in recognizing its importance in guaranteeing high standard service for its customers.

36.4. Branding

The importance of branding is increasingly growing and playing a major role in the end customer's (consumer's) decision to buy or not to buy a product.

Every brand represents a message generating an emotional connection to the product on the part of the consumer. Having operated as a manufacturer for private labels, the Company now inverts in the development of own labeled operations both by making acquisitions as above and by strengthening the labels it owns.

The Company also enters in franchise agreements to market men’s and women’s undergarments, socks and activewear products under leading brand names (see section 1.2 above).

It is therefore in Company's intention to continue acquiring marketing licenses for additional brand names and thereby strengthen its standing vis-à-vis the end customer (the consumer).

36.5. Strengthening and Expansion of Labeled Retail Operations

The Company seeks to reinforce its labeled retail operations, whether by expanding existing operations by Delta Israel and by Schiesser or by making new strategic acquisitions in strengthening own competitive position.

37. Projected Developments in the Forthcoming Year

Provided hereunder is forward-looking information, which is uncertain information regarding the future, based on information as available to the Company on the periodic report date and including Company estimates or intents as of the date of the periodic report considering past experience and various estimates with regard to developments as expected in the economies where the Company operates and in own customer operations. Hence, there is no certainty that the projections presented herein will indeed prove correct, and the actual results may be materially different from the results estimated or implied from this information, e.g. in the event of changed market conditions, inability to reach agreement with customers or suppliers, non-realization of Company's financial assessments, or realization of relevant risk factors, and more.

37.1. Company's Forecasts and Estimates for Its Operations in 2015

Following is the Company's forecast for the year of 2015, excluding the effect of non-recurring items, based on current market conditions and on exchange rates of USD 1.14 per 1 Euro and NIS 3.90 per 1 USD.

In Company's estimation, changes to the exchange rates as expected in 2015, compared with the average exchange rates in 2014, would affect the operating profit and the EBITDA by approximately $8 million, the net income by approximately $5.8 million and the diluted earnings per-share by approximately $0.22.

The Company estimates that its total sales in 2015 will range between $1,065 million and $1,085 million, representing a growth rate in the range between 3% and 5% as compared with $1,031.9 million in 2014 and a growth rate in the range between 7% and 9% in original currency.

The Company estimates that its total operating profit in 2015 will range between $75 million and $79 million, representing a growth rate in the range between 1% and 6% as compared with $74.4 million in 2014. Excluding the exchange rate effect as described above, represents a growth of 12% to 17% in original currency.

The Company estimates that its EBITDA in 2015 will range between $94 and $99 million, representing a growth rate in the range between 1% and 6% as compared with $93 million in 2014. Excluding the exchange rate effect as described above, represents a growth of 10% to 15% in original currency

The Company estimates that its total net profit in 2015 will range between $48.5 million and $51.5 million, representing a growth rate in the range between 0% and 6% as compared with $48.4 million in 2014. Excluding the exchange rate effect as described above, represents a growth of 12% to 18% in original currency

The Company estimates that its diluted earnings per-share in 2015 will range between $1.88 and $2.00, representing a growth rate in the range between 1% and 8% as compared with $1.86 per share in 2014. Excluding the exchange rate effect as described above, represents a growth of 13% to 19% in original currency.

37.2. Projected Material Acquisitions of Fixed Assets and Company's Subsequent Manufacturing Capacity

From time to time, the Company invests in acquisitions of fixed asset items such as knitting, coloring, sewing and other machines as requested and required by the various production sites. The Company also makes occasional investments in the expansion of own retail chains in Israel and in Germany.

In 2015, the Company will invest in the construction of a new knitting and sewing plant in Vietnam at a rate of approximately $12 million. It will also invest approximately $12 million in relocation of its US and Israeli offices.

37.3. Projected Material Changes to the Organizational Structure and Workforce

The Group does not forecast any material changes to its organizational structure or workforce, except as included under the restructuring plans (see section 2.3.1 of the Board of Directors Report in Part B of This Periodic Report).

38. Financial Information by Geographical Segments

The Company does not operate by geographical segments.

For further detail on sales and balances of assets, see note 5c to the Financial Statements.

39. Discussion of Risk Factors

Described hereunder is the potential impact of various risk factors as relevant to Company operations, based on Company Management estimates. It shall be noted that these estimates with regard to the extent of impact by any risk factor rely on the assumption that the risk factor will indeed be realized, implying no assessment or measure of the probability of actual realization.

39.1. Macro-Economic Risk Factors

39.1.1. Increased Costs of Finished Product Purchases from Far Eastern Manufacturers

The Company purchases and manufactures a significant proportion of the products it sells from subcontractors or from own plants in Far Eastern countries. Increased costs of finished products and in-house manufacture, as may result from increased raw material prices, wages and other inputs, e.g. following strengthening of local currency against the US dollar, may erode the Company’s gross profit.

39.1.2. Exchange Rate Volatility

Since the Company operates in a variety of countries, it is exposed to risks deriving from changes in exchange rates of the various currencies. Fluctuations in the exchange rates of various currencies may have an impact on the Company's operating results, mainly in light of the fact that the Company sales are made around the world in a variety of currencies.

To limit Company's exposure to fluctuations in exchange rates between the various currencies, the Company considers, from time to time, taking action to protect its currency exposure so that purchases and other costs will be denominated in the sale currency, including by acquiring future contracts to convert foreign currencies to the USD at a pre-fixed price, and also by an effort to change the sale currency to the USD.

Such hedging transactions will, however, not protect the Company if the depreciation of these currencies vs. the dollar continues after the future contract periods expire. For further detail, see section 4.3 of the Board of Directors Report in Part B of This Periodic Report.

39.1.3. Free Trade Agreements

The Company currently enjoys free trade agreements between Israel and the US, Canada, the EU and the European Free Trade Association. The trade agreements allow the Company to sell the products it manufactures in Israel to the relevant countries free of customs and import quotas. Changes to global free trade agreements may lead to changes in customs and quotas procedures in the countries considered Company's major target and manufacturing markets.

Loss of the free trade advantages will lose the Company an important competitive edge and may erode its profitability.

39.1.4. Target Market Economies

The economic situation in the target markets and the concerns of continued recession in these markets may impact consumer habits and volumes of consumption in the various Company segments, and possibly reduce Company sales.

39.1.5. Defense and Political Situation

The political, economic and defense situation of the State of Israel and that in the countries where the Company operates directly effects the Company whose Management, offices and some manufacturing facilities are located in Israel. Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have been engaged in a number of armed conflicts, the most recent one of which was a war in its southern region in July and August of 2014. In spite of efforts to advance peacemaking processes between the State of Israel, its neighboring Arab states and the Palestinian people, the possibility of renewed and/or escalated hostilities against Israel still exists. These hostilities may set Israel's international trading back and have a material impact on Company operations. In addition, Israel practices an annual and/or ad-hoc reserve duty which applies to Israeli citizens and permanent residents. The Company cannot predict the full impact of this reserve duty on own workforce in the event that some of its line workers and executives are called up.

Since some of the Company operations are pursued in Jordan and Egypt, the defense situation between Israel and the Arab states in general and between Israel and Jordan and Egypt in particular may impact Company's operations and manufacturing capacity in these countries. Also, in January of 2011, protests broke out in Egypt in demand of a change to their regime, which compelled the Company to shut down its plant for a number of days and only reopen it on February 6 2011. In the past two years, the political situation in Egypt has stabilized and no similar events have occurred to interrupt routine plant operations.

Since the Egypt operations are responsible for the supply of some 4% of all Company sales in 2014, any aggravation of the political, economic or social instability in that country may impact Company operations. Also, since the change in the Egyptian regime, there has been uncertainty with regard to the policy of the new regime and to the attitude Egypt may take toward Israel in general and toward Israeli-identified companies in particular.

In 2014, the products sewn in Jordan amounted to approximately 2% of the Company sales. These products are mostly manufactured in Israel, with only the sewing and finishing process accomplished in Jordan.

In May of 2010, heavy diplomatic tension evolved between Israel and Turkey, and their relations deteriorated. Out of Company's sales in 2014, approximately 3% were of goods manufactured in Turkey through a joint venture to which the Company is a party and also through subcontractors. Should the relations between Israel and Turkey deteriorate further to the point of secession, Company operations may be adversely affected.

39.2. Industry Risk Factors

39.2.1. Competition

The Company might be unable to compete with various manufacturers who operate under more advantageous economic, geographic and other conditions. The Company competes directly with a number of garment manufacturers who enjoy reduced manufacturing costs thanks to economy of scale, cheaper workforce, geographic proximity to consumers and suppliers, and also access to greater financial and marketing resources. Increasing competition may lead to pressure to reduce prices or to loss of market shares, and thereby adversely impact the Company's revenues and profitability. There is no certainty that the Company will successfully handle the competition against existing or new competitors.

39.2.2. Seasonality

As a result of seasonal fluctuations, the quarterly results of Company operations may not reflect its future performance. In light of seasonal consumer purchases, Company revenues suffered fluctuations in its annual and quarterly operating results in certain years, thus that its revenues in the last two quarters in some years exceeded those in the first two quarter years thanks to holiday and back-to-school purchases. In light of such inconsistency, the quarterly results of Company operations may not reflect its future performance. This inconsistency may make it harder for investors to properly estimate Company's future performance.

39.2.3. Changing Fashion Preferences

The garment industry is subject to changing consumer fashion preferences. The Company’s sale rates may drop if the Company or its customers misevaluate the current fashion. Company’s success relies partly on its ability to design and manufacture products to own customers liking and which would outlive changing fashion trends. The Company may fail in its attempt to predict fashion trends. Should the Company or its customers misread the fashion trends, product orders by Company customers may be reduced, which may have an adverse impact on the Company.

39.2.4. Changes to Raw Material Costs and Shipping Prices

The Company has no control over changes to the prices of the raw materials it uses or to the shipping prices. Increased raw material or shipping costs may reduce Company’s profitability. Most of the raw materials used by the Company in the manufacture of its products are cotton threads, Lycra, nylon threads and rubber. To a large extent, Company’s financial results depend on the cost and availability of raw materials. Raw material prices, as well as shipping prices, are unstable in light of varying supply and demand conditions and other market factors over which the Company has no control. The Company might not be able to pass on such cost increases to its customers, which situation may have an adverse impact on the Company and on its financial situation.

39.2.5. Regulatory Developments

Since the Company operates in the international market, it is exposed to changes in foreign laws, export restrictions, protective tariffs, trade blocks, changes in tax laws, difficulties in hiring appropriate personnel and in management of international operations, social, political and economic changes, and also other risks as inherent to international business operations, any of which may have a significant impact on Company’s financial results. Any of these factors may have an adverse impact on Company’s ability to provide or to receive goods under competitive conditions and under reasonable timetables, and may also adversely affect its operating results.

39.3. Company-Specific Risk Factors

39.3.1. Dependence on Large Customers

A large proportion of the Company revenues derive from sales to large customers. A reduced volume of orders from such customers may have a materially adverse impact on the Company revenues. Company’s agreements with its customers, including the customers referenced herein, are short term agreements which do not include minimum purchase obligations. Company customers may, in future, decide not to purchase Company products by the same volumes or under the same terms as they used to. Any decrease in purchases by these customers or by any other material customer may have an adverse impact on Company's financial results.

39.3.2. Completion of Subsidiary Integration Processes

In recent years, the Group has purchased a number of companies with which integration has not yet completed and requires administrative resources. In July of 2012, the Company purchased the Schiesser operation and it may not complete the integration process successfully, however it still pursues it with an end to merge and integrate the facilities, information systems and personnel of the purchased companies within its own. To this end, the Company allocates a considerable proportion of top management time off their daily duties, thereby imposing a heavy workload on the Management team. Completion of the integration processes may be adversely affected by poor economic conditions, by failure to integrate financial and operating systems, by counter response by competitors or customers, or by any regulatory developments as may occur. Failure on the part of the Company to successfully complete integration may impact it adversely.

39.3.3. Direct Engagement by Retailers with Far Eastern Manufacturers

In recent years, a number of large retailers have been trying to circumvent companies designing and developing undergarments, and contract directly with manufacturing plants for direct supply of products. The Company believes that this trend will also affect basic products intended for the mass market where the design and innovation element is less significant. Should this trend increase further, Company sales may be adversely impacted.

39.3.4. Reduction in the Market Share of Company Customers

Company sales may be adversely impacted by any failure on the part of its customers to compete successfully in the competitive markets where they operate. Should the sales rate of a key customer drop for some reason, whether or not in connection with the Company or its product, Company's rate of sales to that customer may also drop.

39.4. Following are Company's estimates of the extent of own impact by the risk factors detailed above:

	Extent of Impact by Risk Factor		
	Major Impact	**Medium Impact**	**Minor Impact**
Macro Risks			
Increased sale cost of finished products purchased from Far Eastern manufacturers	X		
Exchange rate fluctuations		X	
Free trade agreements		X	
Economic situation in target markets	X		
Defense and political Situation	X		
Industry Risks			
Competition	X		
Seasonality			X
Changing fashion preferences			X
Changes to raw material costs and shipping prices	X		
Regulatory developments			X
Company-specific risks			
Dependence on large customers	X		
Completion of integration with subsidiaries			X
Direct contracting by retailers with Far Eastern manufacturers	X		
Reduction in the market share of Company customers		X	

Delta Galil Industries Ltd.

Part B

Report of the Board of Directors on the State of Corporation's Affairs

December 31, 2014

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

We hereby present to you the report of the Board of Directors of Delta Galil Industries Ltd. (hereinafter "the Company" or "Delta") as related to the consolidated report of the Company and its subsidiaries in Israel and overseas (hereinafter "the Group") for the year ending December 31, 2014 as required under the Securities Regulations (Periodic and Immediate Reports) of 1970.

1. Summary Description of the Corporation and its Business Environment

1.1. Overview

As reported under Corporate Business Description in Part A of This Periodic Report, the Company engages in the design, development, manufacture, marketing and sale of undergarments, socks, children's wear, leisure wear and activewear products both through retail channels (Delta stores in Israel and Schiesser in Germany) and through wholesale channels (e.g. sales to leading retail chains and sales under licensed or owned labels).

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

1.2.1. Distribution of Dividend

For details on dividend distributions completed in 2014, see section 4 under Corporate Business Description in Part A of This Periodic Report.

Declaration of Dividend Distributed Subsequent to the Balance Sheet Date

On February 25 of 2015, the Company's Board of Directors decided to distribute dividends at 13.9 cents per share, amounting to approximately $3.5 million, to be distributed on March 24 of 2015, according to the dollar’s representative rate of exchange as will be published on the day preceding the date of payment. The determining and "X" date for this distribution shall be March 9, 2015. For further detail, see the immediate report covering the dividends distribution as published concurrently with This Report.

1.2.2. Executive Position Changes

In the course of 2014, Delta USA President, VP HR and VP Business Development were appointed. Also, Delta USA VP Global Trade and Marketing and also Assistant VP, VP Operations and Burlen Manager terminated office.

Board of Directors' Discussion of the State of Corporate Affairs

2. Analysis of Financial Position

2.1. Balance Sheet

Presented below are changes as were mode to the Balance Sheet items, in millions of US dollars:

Reported Item	December 31, 2014	December 31, 2013	Discussion of Major Changes
Cash and cash equivalents	167.0	97.3	The increase in cash balance was mostly due to the proceeds from debenture issues and to a positive cash flow generated in 2014.
Current assets	491.2	396.3	The increase in current assets was mostly due to the increased in cash and equivalents item as above, and also to the increase in the inventory as resulted from the expansion of operations, and in the receivables item as explained hereunder.
Non-current assets	242.1	254.8	The decrease in the balance of non-current assets was due to the long term receivables which were reduced as a result of inclusion of the proceeds from the sale of real estate in Nahariya at a rate of $12.1 million under the other receivables item, since it was paid in January of 2015.
Total balance sheet	733.3	651.1	The increase in total balance sheet as of December 31 of 2014 as compared with December of 2013 was mostly due to the increased current assets as above.
Current liabilities	169.4	176.6	The decrease in the balance of current liabilities was due to the decrease in short term bank loans, partly offset by the increase to the payables and trade payables balance.
Non-current liabilities	231.3	152.6	The increase in the balance of non-current liabilities was mostly due to debenture issues in the course of the year as reported under note 11 to the Financial Statements.
Capital	332.6	321.9	The increase in the balance of capital as of December 31 of 2014 was mostly due to the total profit generated in 2014 and to the proceeds from the exercise of employee options less dividends as were distributed to shareholders.

2.2. Operating Results

Presented below are changes as were mode to the Balance Sheet items, in million US dollars:

In Thousands of Dollars, Except for Earnings per Share Data	Year		Q4	Q3	Q2	Q1	Q4
	2014	**2013**	**2014**	**2014**	**2014**	**2014**	**2013**
	Audited				**Unaudited**		
Sales	**1,031,861**	974,719	**277,398**	267,237	249,152	238,074	255,897
Cost of sales	**713,798**	680,426	**192,178**	184,587	171,398	165,635	173,730
Gross profit	**318,063**	294,293	**85,220**	82,650	77,754	72,439	82,167
Percent of sales	***30.8%***	*30.2%*	***30.7%***	*30.9%*	*31.2%*	*30.4%*	*32.1%*
Selling and marketing expenses	**211,507**	190,593	**54,735**	53,252	53,570	49,950	52,053
Percent of sales	***20.5%***	*19.6%*	***19.7%***	*19.9%*	*21.5%*	*21.0%*	*20.3%*
General and administrative expenses	**34,698**	36,250	**8,297**	8,587	9,029	8,786	8,459
Percent of sales	***3.4%***	*3.7%*	***3.0%***	*3.2%*	*3.6%*	*3.7%*	*3.3%*
Other income (expenses), net	**2,674**	472	**(29)**	1,084	484	1,135	(565)
Share in loss (profit) of associated companies accounted for using the equity method	**178**		**(146)**	223	101		
Operating profit excluding non-recurring items	**74,354**	67,922	**22,305**	21,672	15,538	14,838	21,090
Percent of sales	***7.2%***	*7.0%*	***8.0%***	*8.1%*	*6.2%*	*6.2%*	*8.2%*
Expenses incurred from the consideration of acquisition of companies	**1,082**	-	**1,082**	-	-	-	-
Restructuring expenses, net	**182**	1,529	**-**	182			-
Operating profit	**73,090**	66,393	**21,223**	21,490	15,538	14,838	21,090
Finance expenses, net	**15,806**	10,981	**5,054**	4,664	3,041	3,047	3,463
Income before taxes on income	**57,284**	55,412	**16,169**	16,826	12,497	11,791	17,627
Taxes on income	**9,853**	12,732	**1,639**	3,028	2,725	2,461	3,110
Net income for the period	**47,431**	42,680	**14,530**	13,798	9,772	9,330	14,517
Net income before the inclusion of non-recurring items, net of tax for the period, see item 2.2.4	**48,389**	44,254	**15,325**	13,961	9,772	9,330	14,517
Attribution of net income for the period:							
To Company shareholders	**46,760**	42,560	**14,500**	13,768	9,742	8,749	14,487
To non-controlling interests	**671**	120	**30**	30	30	581	30
	47,431	42,680	**14,530**	13,798	9,772	9,330	14,517
Net diluted earnings per share attributable to Company shareholders	**1.82**	1.69	**0.56**	0.54	0.38	0.34	0.57
Net diluted earnings per share before the inclusion of non-recurring items net of tax, attributable to Company shareholders	**1.86**	1.75	**0.60**	0.55	0.38	0.34	0.57

2.2.1. Listed below are major data in millions of dollars:

	Q4		Year	
	2014	**2013**	**2014**	**2013**
Sales	**277.4**	255.9	**1,031.9**	974.7
Operating profit before non-recurring items	**22.3**	21.1	**74.4**	67.9
Operating profit	**21.2**	21.1	**73.1**	66.4
EBITDA	**28.0**	26.9	**93.0**	86.2
Net income before non-recurring items net of tax, attributed to Company shareholders	**15.3**	14.5	**47.7**	44.1
Net income attributed to Company shareholders	**14.5**	14.5	**46.8**	42.6
Operating Cash flow	**34.9**	22.1	**53.3**	46.2

The EBITDA in Q4 of 2014 increased by 4% and amounted to $28.0 million as compared with $26.9 million in Q4 of 2013.

In 2014, the EBITDA increased by 8% and amounted to $93.0 million as compared with $86.2 million in 2013.

The increase in EBITDA in reported periods as compared with same reporting periods of last year derived from increase in sales and improved operating profit in the various operating segments as reported under section 2.3.3 hereunder.

Calculation of EBITDA(1):

	Q4		Year	
	2014	**2013**	**2014**	**2013**
Net income for the period as reported	**14.5**	14.5	**47.4**	42.7
Taxes on Income	**1.6**	3.1	**9.9**	12.7
Financing expenses, net	**5.1**	3.5	**15.8**	11.0
Non-recurring items:				
Expenses due to consideration of acquisition of companies	**1.1**	-	**1.1**	-
Restructuring expenses		-	**0.2**	1.5
Depreciation and amortization	**5.7**	5.8	**18.6**	18.3
EBITDA	**28.0**	26.9	**93.0**	86.2

(1) EBITDA is a benchmark other than as provided under GAAP, employed by the Company in measurement of own results from continued operations, and, to the best of Company's knowledge, this is a benchmark commonly used by other companies engaging in its line of operations.
EBITDA is calculated as follows: net earnings plus taxes on income, net financing expenses, depreciation and amortization, and with non-recurring items neutralized.

2.2.2. Presented below is the adjustment between the net earnings reported for the period and the net earnings before non-recurring items net of tax, in thousands of dollars:

	Q4		Year	
	2014	2013	2014	2013
Net income for the period as reported	**14,530**	14,517	**47,431**	42,680
Plus:				
Expenses due to consideration of acquisition of companies	**1,082**	-	**1,082**	-
Restructuring expenses, see section 2.3.1 hereunder	**-**	-	**182**	1,529
Plus/ (less):				
Expenses (income) as related to tax on non-recurring items	**(287)**	-	**(306)**	45
Net income for the period excluding non-recurring items, net of tax	**15,325**	14,517	**48,389**	44,254

2.3. Analysis of Operating Results (as presented in Table under 2. 2 above)

2.3.1. Overview

Group **sales** in Q4 of 2014 amounted to $277.4 million as compared with $255.9 million in Q4 of 2013, representing an increase of approximately 8%.

In Q4 of 2014, Group sales in original currency increased by 12% as compared with Q4 of 2013.

Sales in 2014 increased by 6% and amounted to $1,031.9 million as compared with the $974.7 million in 2013.

Presented below is Company's sales distribution by geographical areas, in million US dollars:

	Q4						Yearly					
	% change in original currency	% change	2014	% of Total	2013	% of Total	% change in original currency	% change	2014	% of Total	2013	% of Total
North America	*15*	*15*	**154.2**	*56*	134.1	*52*	*5*	*5*	**570.3**	*55*	542.6	*56*
Germany	*9*	*2*	**45.2**	*16*	44.4	*17*	*4*	*4*	**163.4**	*16*	157.9	*16*
Europe (except Germany)	*1*	*(4)*	**37.0**	*13*	38.3	*15*	*4*	*4*	**163.1**	*16*	156.4	*16*
Israel	*11*	*4*	**38.8**	*14*	37.3	*15*	*13*	*14*	**127.1**	*12*	111.3	*11*
Others			**2.2**	*1*	1.8	*1*			**8.0**	*1*	6.5	*1*
Total	*12%*	*8%*	**277.4**	*100%*	255.9	*100%*	*6%*	*6%*	**1,031.9**	*100%*	974.7	*100%*

North America

North American sales increased by 15% in Q4 of this year and amounted to $154.2 million as compared with $134.1 million in Q4 of last year.

In 2014, North American sales increased by 5% and amounted to $570.3 million as compared with $542.6 million in 2013.

The increase in North American sales in the reported periods as compared with corresponding reporting periods of last year derived from increased sales in the Delta USA segment as reported under Section 2.3.3 hereunder.

Germany

In Q4 of this year, German sales increased by 2% and amounted to $45.2 million as compared with $44.4 million in Q4 of last year.

Some 50% of the sales in Germany are made in Euro.

In original currency, sales increased by 9% as compared with the same period last year.

In 2014, sales in Germany increased by 4% and amounted to $163.4 million as compared with $157.9 million in 2013.

The increase in sales in the reported period of this year as compared with the reported periods of last year derived mostly from the increased sales in the Schiesser segment of operation, mostly due to the expansion of the retail chain as reported under section 2.3.3 hereunder.

Europe (except Germany)

European sales (except in Germany) decreased in Q4 of this year by 4% and amounted to $37.0 million as compared with $38.3 million in Q4 of last year.

Most of the sales in Europe (except in Germany) are made in Euro, with the remainder made in US dollars.

In original currency, sales increased by 1% as compared with the same period last year.

In 2014, sales in Europe (except in Germany) increased by 4% and amounted to $163.1 million as compared with $156.4 million in 2013.

The increase in sales in Europe (except in Germany) in 2014 as compared with 2013 derived from the increased sales in the Global Upper Market segment and in the Schiesser sales (outside of Germany) as reported under section 2.3.3 hereunder.

Israel

In Q4 of this year, US dollar sales in Israel increased by 4% and amounted to $38.8 million as compared with $37.3 million in Q4 of last year. Israeli sales are made in NIS. In NIS, Israeli sales in Q4 of 2014 increased by 11% and amounted to NIS 146.5 million as compared with NIS 132.5 million in Q4 of 2013.

In 2014, Israeli sales increased by 14% and amounted to $127.1 million as compared with $111.3 million in 2013. In NIS, Israeli sales in 2014 increased by 13% and amounted to NIS 454.9 million as compared with NIS 401.9 million in 2013.

The sales increase in the reported periods of 2014 as compared with the comparable periods of last year derived mostly from expansion of the retail chain and also from the increased sales in same stores as reported under section 2.3.3 hereunder.

The **gross profit** in Q4 of 2014 amounted to $85.2 million, representing 30.7% of sales, as compared with $82.2 million in Q4 of 2013, which represented 32.1% of sales.

The increase in the gross profit in Q4 of 2014 as compared with Q4 of 2013 resulted mostly from an increase in sales. The decrease in the gross profit margin in Q4 of 2014 as compared with Q4 of 2013 resulted from an increase in the relative share of Delta USA sales, characterized by a lower gross profit margin, in the total of all sales.

The gross profit in 2014 amounted to $318.1 million, representing 30.8% of all sales, as compared with $294.3 million, or 30.2% of all sales in 2013.

The increase in the gross profit and gross margin in 2014 as compared with 2013 resulted mostly from increased sales and also from an increase in the relative share of Delta Israel sales, characterized by a higher gross profit margin, in the total of all sales.

In Q4 of 2014**, selling and marketing expenses** increased by 5% and amounted to $54.7 million as compared with $52.1 million in Q4 of 2013.

In 2014, selling and marketing expenses increased by 11%, and amounted to $211.5 million as compared with $190.6 million in 2013.

The following table summarizes the distribution of selling and marketing expenses between the Delta Israel and Schiesser segments as compared with the other Group segments, in millions of dollars:

	Q4 2014	Q4 2013	Year 2014	Year 2013
Delta Israel	**14.0**	**13.3**	**54.4**	**48.1**
Percent of Delta Israel sales	***36.0%***	***35.8%***	***42.8%***	***43.2%***
Schiesser	**20.5**	**19.7**	**79.1**	**69.2**
Percent of Schiesser sales	***38.4%***	***35.7%***	***39.2%***	***35.7%***
Other Segments	**20.2**	**19.1**	**78.1**	**73.3**
Percent of other segments sales	***10.8%***	***11.5%***	***10.9%***	***10.9%***
Total selling and marketing expenses	**54.7**	**52.1**	**211.5**	**190.6**
Percent selling and marketing expenses of all sales	***19.7%***	***20.3%***	***20.5%***	***19.6%***

The increase in selling and marketing expenses recorded for the Delta Israel and Schiesser segments in Q4 of 2014 and throughout 2014, as compared with corresponding periods last year, is due to the expansion of retail chain both in Israel and in Germany. For further detail, see section 2.3.2 hereunder.

In Q4 of 2014**, general and administrative expenses** decreased by some 2% and amounted to $8.3 million as compared with $8.5 million in Q4 of 2013.

In 2014, general and administrative expenses decreased by some 4% and amounted to $34.7 million as compared with $36.3 million in 2013.

The decrease in general and administrative expenses in the reported periods of 2014, as compared with those of 2013, derived mostly from a decrease in the expenses related to doubtful and bad debts, which resulted from the collection of old debts.

In Q4 of 2014, **other expenses** amounted to $29,000 as compared with $0.6 million in Q4 of 2013, which included loss from revaluation of currency transactions.

In 2014, other income, net, amounted to $2.7 million and included mostly currency transaction gains at the rate of $1.5 million and also a capital gain of $1.0 million from the sale of a building in Jordan. In 2013, other income, net, amounted to $0.5 million and included mostly the capital gain from the Karmiel real estate transaction in the amount of $1.1 million, offset partly by loss from revaluation of currency transaction, compared with the amount of $0.6 million in income from revaluation of currency transactions.

In Q4 of 2014, **operating income excluding non-recurring items** amounted to $22.3 million as compared with $21.1 million in Q4 of 2013, representing an increase of 6%.

In 2014, **operating profit, excluding non-recurring items** amounted to $74.4 million as compared with $67.9 million in 2013, representing an increase of 9%.

The increase in the operating profit before non-recurring items in the reported periods as compared with the corresponding reporting periods of last year was due to the increase in the gross profit, offset partly by the increase in sale and marketing expenses, and also to the increase in other income in 2014 (or decrease in other expenses net in Q4 of 2014).

Non-recurring items in 2014 and 2013:

Non-recurring items in 2014 included expenses as were related to the consideration of acquisition of companies, which amounted to $1.1 million, and also restructuring expenses, net, in the amount of $0.2 million.

a) **Companies acquisition consideration expenses amounting to $1.1 million:**

In its results in Q4 and in 2014, the Company included expenses for the consideration of acquisition of companies which amounted to $1.1 million, which expenses are included in the Financial Statements under General and Administrative Expenses.

These expenses mostly relate to the evaluation of transaction which was not realized, with the remainder relating to an Egyptian dyehouse acquisition completed following the balance sheet date.

b) **Restructuring expenses, net, included restructuring expenses amounting to $0.9 million less restructuring gain at the rate of $0.7 million as follows:**

Restructuring expenses amounting to $0.9 million:

As a part of the Company's risks management policy and pursuant to its strategy of maintaining operational flexibility, the Company decided in Q3 of 2014 to take streamlining measures which included relocation of some development and manufacturing functions as were operating on Company sites in London and in Israel to the Far East, aiming, inter alia, to reduce manufacturing and development complexity while improving customers service.

These streamlining measures include reduced production volumes and overheads, and are expected to complete in the course of Q3 of 2015.

Restructuring expenses arising from these measures include some $0.9 million in employee severance costs.

Restructuring gain at the rate of $0.7 million:

In Q3 of 2013, the Company decided to implement a restructuring plan which also included downsizing of the Egyptian plant operation. The plan was completed in the course of Q3 of 2014, with actual restructuring expenses lower by $0.7 million as compared with the estimate included in the Financial Statements of 2013.

This decrease in restructuring expenses was included as income in 2014.

Non-recurring items in 2013 included restructuring expenses, net, in the amount of $1.5 million as follows:

a) **Restructuring expenses amounting to $3.5 million**:

As a part of the Company's risks management policy and pursuant to its strategy of maintaining operational flexibility and improving its customers service, the Company decided in Q3 of 2013 to take streamlining measures which included relocation of its manufacturing operations to Far Eastern sites and downsizing of its Egyptian plant operation, aiming, inter alia, to reduce the production complexity in the plant and improve customer service. These measures were taken in coordination with Company's customers.

The streamlining measures included downsizing of production sites (consolidation 6 production sites into 4 sites) and overheads, and they were completed in the course of 2014.

Restructuring expenses arising from these measures amounted to $3.5 million and included some $1.1 million in cash for employee severance costs and some $2.4 million arising from impairment of fixed assets.

b) **Restructuring gain at the rate of $2.0 million**:

In Q3 of 2012, the Company decided to implement a restructuring plan which also included the consolidation of the socks manufacturing plant and the seamless products manufacturing plant in Karmiel into one building, and also to take some other streamlining measures. The plan was completed in the course of 2013, with actual restructuring expenses lower by $1.5 million as compared with the estimate included in the Financial Statements of 2012. These decreases in the restructuring expenses, was included as income in 2013.

Also, over Q3 of 2013, the Company recorded an income of $0.5 million deriving from cancellation of restructuring expenses as had been previously recorded for a rental onerous contract as was associated with the sublease of the property.

In Q4 and in 2014, the **operating profit** amounted to $21.2 million and $73.1 million, respectively, as compared with $21.1 million and $66.4 million in Q4 of 2013 and in 2013, representing an increase of 1% and 10%, respectively, which mostly resulted from the increased gross income and other income, net, in 2014 (or decreased other income, net, in Q4 of 2014), offset partly by the increased selling and marketing expenses.

In Q4 of 2014, **finance expenses** increased by 46% and amounted to $5.1 million as compared with $3.5 million in Q4 of 2013. In 2014, financing expenses increased by 44% and amounted to $15.8 million as compared with $11.0 million in 2013.

The table below presents the composition of finance expenses, in millions of dollars:

	Q4 2014	Q4 2013	Year 2014	Year 2013
Interest expenses, net, and commissions	**2.5**	**3.5**	**11.3**	**10.5**
Expenses (income) for exchange rate differences	**1.6**	**(0.4)**	**2.6**	**(0.9)**
Assets and liabilities capitalization component	**1.0**	**0.4**	**1.9**	**1.4**
Total finance expenses	**5.1**	**3.5**	**15.8**	**11.0**

The increase in finance expenses in the reported periods resulted from an increase in expenses related to exchange rate differences, which, in Q4 and in 2014, amounted to $1.6 million and $2.6 million, respectively, as compared with income from exchange rate differences at the rate of $0.4 million and $0.9 million in Q4 of 2013 and in 2013, respectively.

The increase in expenses related to exchange rate differenced in Q4 of 2014 as compared with Q4 of 2013 mostly resulted from the devaluation of the Euro and NIS rate of exchange vs. the USD.

In Q4 of 2014, **tax expenses** amounted to $1.6 million as compared with the $3.1 million in Q4 of 2013.

In 2014, tax expenses amounted to $9.9 million as compared with $12.7 million in 2013.

The decrease in the effective tax rate in the reported periods of 2014 as compared with 2013 resulted from to the increased deferred taxes recorded for carry forward loss.

In Q4 of 2014, **the profit attributed to Company shareholders** remained unchanged as compared with Q4 of 2013 and amounted to $14.5 million**.**

The increase in the profit attributed to Company shareholders before non-recurring items in Q4 of 2014 as compared with Q4 of 2013 resulted from the increased operating profit and the reduced tax expenses which, as reported above, were offset partly by the increased financing expenses**.**

In 2014, the profit attributed to Company shareholders before non-recurring items amounted to $47.7 million as compared with $44.1 million in 2013**,** representing an increase of 8%**.**

The profit attributed to Company shareholders in 2014 amounted to $46.8 million as compared with $42.6 million in 2013, representing an increase of approximately 10%.

The increase in the profit attributed to Company shareholders in 2014 resulted from the increased operating profit and decreased tax expenses offset partly by the increased finance expenses.

2.3.2. The following is a summary of the Company's consolidated business results, by the four accounting segments in its Financial Statements, for 2014 and 2013 and for Q4 thereof, in thousands of dollars:

	Q4 Ended December 31 (Audited)				
	Sales			Operating Profit (Loss) before Non-recurring Items	
	2014	2013	% Change	2014	2013
Delta USA [1]	**123,023**	103,395	19%	**7,254**	4,629
Global Upper Market	**64,686**	62,496	4%	**4,230**	5,516
Schiesser	**53,550**	55,221	(3%)	**5,687**	5,540
Delta Israel	**38,804**	37,252	4%	**5,299**	5,951
Write-off of inter-segment sales	**(2,665)**	(2,467)			
Other adjustments[2]				**(165)**	(546)
Total sales and operating profit before non-recurring items	**277,398**	255,897	8%	**22,305**	21,090
Expenses for the consideration of acquisition of companies				**1,082**	-
Total operating profit in the consolidated statements				**21,223**	21,090

(1) The operating profit recorded for Delta USA in Q4 of 2013 included expenses due to write down of leasehold improvements and the effect of an onerous contract amounting to $2.1 million, due to the consolidation of its offices into one site. With these expenses neutralized, the operating profit in Q4 of 2013 amounted to $6.7 million. See also section 2.3.3 hereunder.

(2) Other operating profit adjustments include mostly expenses unattributed to specific segments.

	Year ended December 31, (Audited)						
	Sales			Operating Profit before Non-recurring Items		Restructuring Expenses (Gain), Net	
	2014	2013	% Change	2014	2013	2014	2013
Delta USA[1]	**448,957**	402,583	12%	**26,946**	23,984	**400**	
Global Upper Market[2]	**267,418**	274,576	(3%)	**20,592**	24,704	**(218)**	1,529
Schiesser	**201,675**	193,974	4%	**18,428**	14,659		
Delta Israel	**126,983**	111,218	14%	**8,422**	8,446		
Write-off of inter-segment sales	**(13,172)**	(7,632)					
Other adjustments[3]				**(34)**	(3,871)		
Total sales and operating profit before non-recurring items	**1,031,861**	974,719	6%	**74,354**	67,922	**182**	1,529
Expenses for the consideration of acquisition of companies				**1,082**	-		
Restructuring expenses, net				**182**	1,529		
Total Operating profit in the consolidated statements				**73,090**	66,393		

(1) The operating profit recorded for Delta USA in 2013 included expenses due to write down of leasehold improvements and the effect of an onerous contract amounting to $2.1 million, pursuant to the consolidation of its offices into one site. With these expenses neutralized, the operating profit amounted in 2013 to some $26.0 million. See also section 2.3.3 hereunder.

(2) The operating profit recorded for the Global Upper Market segment in 2013 included capital gain from the sale of a real estate property in Karmiel, amounting to $1.1 million. With the capital gain neutralized, segment's operating profit amounted to $23.6 million.

(3) In 2014, other operating profit adjustments include capital gain from the sale of a building in Jordan which amounted to $1.0 million, less expenses unattributed to operating segments. In 2013, this item mostly included expenses unattributed to segments.

2.3.3. Analysis of Business Results by Operating Segment, excluding the Effect of Non-recurring Items

Delta USA Segment

Sales in Q4 of 2014, increased by 19% and amounted to $123.0 million as compared with $103.4 million in Q4 of 2013.

Sales in 2014 increased by 12% and amounted to $449.0 million, as compared with $402.6 million in 2013.

The increase in sales in the reported periods as compared with the corresponding periods derived mostly from the launch of the Avia label in the activewear products sold by Wal-Mart and also from growth in sales to other customers.

The operating profit in Q4 of 2014 amounted to $7.3 million as compared with $4.6 million in Q4 of 2013.

The operating profit in Q4 of 2013 included expenses due to write down of leasehold improvements and effect of an onerous contract, amounting to $2.1 million, pursuant to the consolidation of the segment offices in New York into one site. With these expenses neutralized, the operating profit in Q4 of 2013 amounted $6.7 million. In Q4 of 2014, the operating profit increased by 9% as compared with that of Q4 of 2013, where expenses were neutralized as above.

The operating profit in 2014 amounted to $26.9 million as compared with $24.0 million or $26.1 million with office relocation expenses neutralized as above, in 2013.

The improvement in the operating profit in the reported periods of 2014 as compared with the corresponding reported periods of 2013 derived mostly from increased sales and was generated despite the high non-recurring logistical costs resulting from the launch of the Avia label starting June of 2014, which was completed within a shorter time than that typical of a launches. In the currently reported periods, the operating profit was also affected by higher debits related to headquarter expenses as compared with the corresponding reported periods of 2013.

Global Upper Market Segment

Sales in Q4 of 2014 amounted to $64.7 million as compared with $62.5 million in Q4 of 2013, representing a 4% increase.

Sales in 2014 amounted to $267.4 million as compared with $274.6 million in 2013, representing a 3% decrease.

The decrease in segment sales in 2014 as compared with 2013 resulted mostly from decreased sales to a specific US customer pursuant to acquisition of that customer's business operation by a Delta competitor who had decided to manufacture in-house a large proportion of the products purchased.

The operating profit in Q4 of 2014 amounted to $4.2 million as compared with the $5.5 million in Q4 of 2013, representing a 23% decrease.

Segment's operating profit in 2013 included capital gain from the Karmiel real estate sale, amounting to $1.1 million.

In 2014, the operating profit amounted to $20.6 million as compared with the $24.7 million, or $23.6 million with the capital gain from the real estate sale neutralized as above, in 2013.

The decrease in the operating profit in 2014 as compared with 2013 resulted from reduced sales and lower plants profitability as was due to the reduced yields. This year, the operating profit was also affected by higher debits related to headquarter office expenses as compared with 2013.

For further detail on restructuring expenses attributed to the segment, see section 2.3.1 above.

Schiesser Segment

Schiesser sales in Q4 of 2014 amounted to $53.6 million as compared with $55.2 million in Q4 of 2013, representing a 3% decrease.

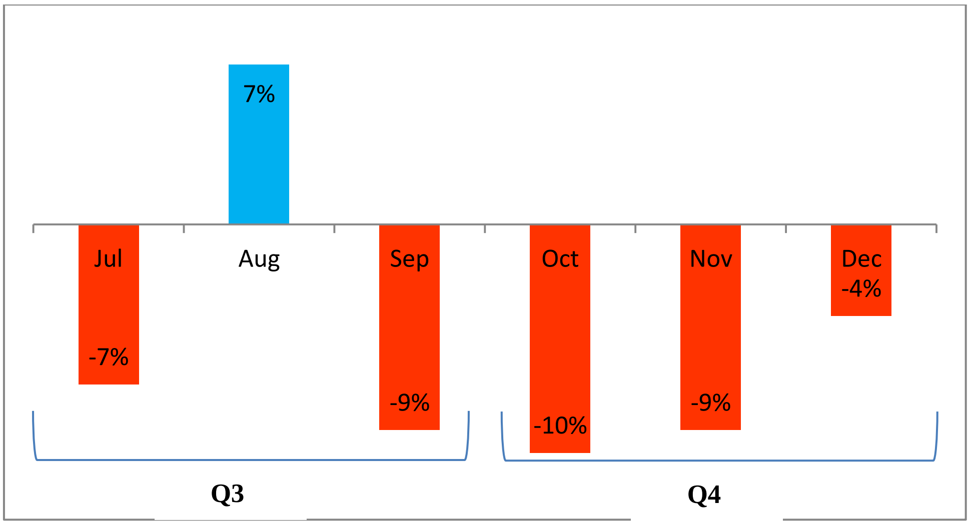
Euro Schiesser sales in Q4 of 2014 increased by 5% and amounted to €43.3 million as compared with €41.1 million in Q4 of 2013.

Schiesser sales in 2014 amounted to $201.7 million as compared with $194.0 million in 2013, representing a 4% increase.

Euro Schiesser sales in 2014 increased by 4% and amounted to €152.2 million as compared with €145.8 million in 2013.

The increase in segment sales in the reported periods of 2014 as compared with those of 2013 resulted mostly from the expansion of the retail chain comprising 85 stores as of the end of the current quarter year as compared with 76 stores at the end of 2013.

The data presented in the diagram which follows represent the trend of garment product sales in the German market, by month, in the second half year of 2014 as compared with the corresponding period of 2013.



* Based on TextilWirtschaft – Weekly news, Business & fashion magazine data.

Based on 500 to 1,000 participants – mostly retail chains, these data show the enervation characterizing sales in Q4 this year as a trend which started in Q3. Despite this enervation, Schiesser's Euro sales increased as compared with the corresponding quarter year of 2013, as reported above. In the German market, the enervation in Q4 of 2014 adversely affected Schiesser replenishment sales, thereby slowing segment's rate of growth over this quarter year.

The operating profit in Q4 of 2014 amounted to $5.7 million as compared with the $5.5 million in Q4 of 2013, representing a 3% increase.

The improvement in operating profit in Q4 of 2014 as compared with Q4 of 2013 derived mostly from increased sales.

In 2014, the operating profit amounted to $18.4 million as compared with $14.7 million in 2013, reflecting the growth in sales and the improved plants profitability.

Presented below are sales data in segment's same stores for the reported periods:

	Increase rate of Same Store Sales	Year Ended on December 31 In Thousands of Euro 2014	Year Ended on December 31 In Thousands of Euro 2013	Increase rate of Same Store Sales[3]	Year Ended on December 31 In Thousands of Euro 2013	Year Ended on December 31 In Thousands of Euro 2012
Sales[1]	0.5%	39,279	39,079	2.7%	32,023	31,184
No. of stores[2]		63			46	

(1) Revenue data used for calculation include all means of payment received by the cash registers in the stores, less VAT and less all the discounts and campaigns recorded in the cash registers.

(2) The stores used in calculation of the revenues are such which had been operating continuously and regularly in the calculated years and which have shown no change to their respective areas of occupation or nature of operation.

(3) The Schiesser sales were consolidated in Delta reports starting the second half year of 2012. Same stores sales data as above are based on unaudited Schiesser reports.

Delta Israel Segment

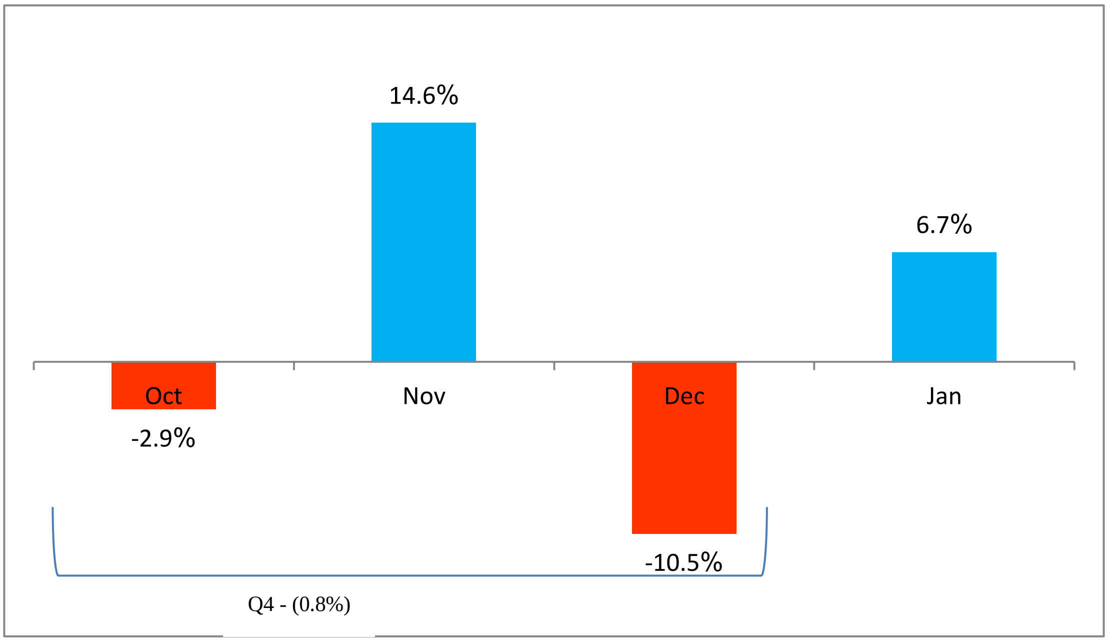
Sales in Q4 of 2014 amounted to $38.8 million as compared with $37.3 million in Q4 of 2013, representing a 4% increase.

NIS sales in Q4 of 2014 increased by 11% and amounted to NIS 146.4 million as compared with NIS 132.4 million in Q4 of 2013.

Sales in 2014 amounted to $127.0 million as compared with $111.2 million in 2013, representing a 14% increase.

NIS sales in 2014 amounted to approximately NIS 454.6 million as compared with approximately 401.7 million NIS in 2013, representing a 13% increase.

The data presented in the diagram which follows represent the trend of same store sales in the Israeli market, by month, in Q4 of 2014 and in January of 2015 as compared with the corresponding periods of 2013, based on RIS (Retail Information Systems)* data.



* RIS engages in analysis of the Israeli retail market and specializes in the provision of comparative business data to retail chains and shopping malls.

Based on approximately 1,840 stores, including retail chains operating within shopping malls or major trade centers and also other stores, these data show that sales in the Israeli market over Q4 of 2014 decreased by 0.8% as compared with Q4 of 2013, with a drastic decrease in December due to an untypically warm weather and recovery in January of 2015 due to an untypically cold weather.

This trend affected the Company by way of shifting approximately $2.0 million from the sales in Q4 of 2014 to Q1 of 2015.

The operating profit in Q4 of 2014 amounted to $5.3 million as compared with $5.9 million in Q4 of 2013, representing a decrease of 11%.

The operating profit in 2014 remained unchanged as compared 2013, amounting to $8.4 million.

The decrease in the operating profit in Q4 of 2014 and the eroded rates of operating profit in the reported periods of 2014 as compared with the corresponding periods of 2013 resulted from erosion to the rate of gross profit as was due to sales at end-of-season prices using special campaigns and greater discounts in light of the market enervation. Also, the operating profit in NIS over Q4 of 2014 remained stable similarly to Q4 of 2013, however smaller in USD, owing to a devaluation of some 8% in the NIS/USD rate of exchange as compared with Q4 of 2013.

Presented below are segment's same store sales data for the reported periods:

		Year Ended on December 31			Year Ended on December 31	
		In Thousands of NIS			In Thousands of NIS	
	Increase in Sales rate of Same Store	**2014**	**2013**	**Increase in Sales rate Same Store**	**2013**	
Sales(1)	5.3%	229,413	217,778	6.3%	187,763	176,564
No. of stores(2)		97			91	

(1) Revenue data used for calculation include all means of payment received by the cash registers in the stores, less VAT and less all the discounts and campaigns recorded in the cash registers (including club credit points and shopping voucher discounts).

(2) The stores used in calculation of the revenues are such which had been operating continuously and regularly in the calculated years and which have shown no change to their respective areas of occupation or nature of operation.

2.3.4. Forecast of Company Results for 2015

For details on Company's forecast of its results in 2015, see section 37.1 under Corporate Business Description in Part A of This Periodic Report.

3. Liquidity and Financing Sources

Below is a summary of the cash flow statement, in millions of dollars:

	Q4 Ending		Year Ending	
	December 31		December 31	
	2014	2013	2014	2013
Net cash from current operations	34.9	22.1	53.3	46.2
Net cash from (used in) investment operations	(8.5)	0.7	(32.3)	(10.0)
Net cash from (used in) financing operations	(6.5)	(11.2)	50.6	16.6
Increase in cash and cash equivalents	19.9	11.6	71.6	52.8

The Company finances its operations from its cash flow from current operations, from bank credit facilities and from the issue of debentures.

In Q4 of 2014, the Company derived a positive operating cash flow which amounted to $34.9 million as compared with $22.1 million in Q4 of 2013.

In 2014, the Company derived a positive operating cash flow which amounted to $53.3 million as compared with $46.2 million in 2013.

The increase in operating cash flow in Q4 of 2014 as compared with Q4 of 2013 was due to a decrease of $13.2 million in working capital in the current quarter as compared with a decrease of $2.4 million in working capital in the corresponding quarter last year of 2013.

The increase in 2014 operating cash flow as compared with 2013 was mostly due to the improved profit in the reported year.

The increase in cash flow used for investment operations in the reported periods of 2014 as compared with those of 2013 was due to investments in Chinese, Turkish and Egyptian associated companies at the rate of $6.5 million and to the acquisition of the FIX label for a sum of $2.1 million. The increase in cash flow used for investment operations was also due to cash from the sale of assets at the rate of $9.3 million in 2013.

The increase in cash flow from financing operations in 2014 as compared with 2013 was mostly due to expansion and to (A and B series) debenture issues as reported under note 11 to the Financial Statements.

The following are some financial indicators for Q4 and for the years of 2014, 2013 and 2012:

	2014	2013	2012
Current ratio	**2.90**	2.24	1.79
Quick ratio	**1.83**	1.29	0.97
Days of sales outstanding	**35**	39	40
Days of payable outstanding	**38**	37	37
Inventory days	**85**	87	77
Positive operating cash flow ($ millions) – year	**53.3**	46.2	72.9
Positive operating cash flow ($ millions) – Q4	**34.9**	22.1	32.7
EBITDA ($ millions) – year	**93.0**	86.2	*64.8
EBITDA ($ millions) – Q4	**28.0**	26.9	24.1
Net financial debt ($ millions) ***	**64.5**	63.3	92.2
Net financial debt coverage ratio to adjusted EBITDA	**0.7**	0.7	*1.4
Equity/ balance sheet total	**45.4%**	49.4%	49.7%
Equity ($ millions)	**332.6**	321.9	277.8
Net financial debt to CAP **	**11.4%**	13.0%	21.9%

* Schiesser was consolidated starting the second half year of 2012. Based on a pro-forma, with the Schiesser EBITDA included in the first 6 months of 2012, the pro-forma consolidated EBITDA for 2012 amounts to some $67.3 million.

** CAP as defined in the addendum to the trust deeds of (A and B series) debentures – financial debt, plus total equity in the balance sheet (including minority rights) plus long term deferred taxes.

*** Net financial debt including bank loans, debentures and financing lease, less cash and cash equivalent, limited cash and also the financial derivative value as related to the debentures issued, as follows:

	2014	2013	2012
Debentures, bank debt and financing lease	222.4	176.0	142.2
Less cash and cash equivalent, and restricted cash	(167.3)	(98.8)	(48.3)
Total financial debt before financial derivative	**55.1**	**77.2**	**93.9**
Financial derivative	14.3	(13.9)	(1.7)
Deposit with a banking corporation serving as financial derivative collateral	(4.9)	-	-
Total financial debt, net	**64.5**	**63.3**	**92.2**

4. Exposure to Market Risks and Management of Such Risks

4.1. Company's Market Risks Management Responsibility

Market risks are managed by the Company under a risk management policy as set by its Board of Directors and top management.

Company's CEO Mr. Isaac Dabah is responsible for all Company's market risks management efforts. For details on Mr. Dabah, see report as required by Regulation 26 under Additional Information Regarding the Corporation in Part D of This Periodic Report. Company's CFO Mr. Yossi Hajaj is responsible for market risks management as related to exchange rates and interests. For details on Mr. Hajaj, see report as required by Regulation 26a under Additional Information Regarding the Corporation in Part D of This Periodic Report.

Decisions with regard to management of market risks, exchange rates and interests are made jointly by the Company's CEO and CFO.

4.2. Description of the Market Risks

Group operations are exposed to several market risks, including the financial state of the target markets where the Company operates and exchange rate fluctuations in these markets vs. the operating currency which is the USD.

For details of all of the risks to which the Company is exposed, see section 39 under the Corporate Business Description in Part A of This Periodic Report.

4.3. Company's Market Risks Management Policy

Volatility of Exchange Rates of the Euro vs. the USD

The Company manages market risks as stem from the volatility of the Euro/ USD rate of exchange in reducing the current financial exposure. The Company protects own estimated exposures based on actual orders and on the annual budget or draft budget as approved for a period up to the end of the forthcoming year, however, in any event, for a period not exceeding 18 months from the date of transaction.

In 2015, Company's surplus receipts in Euro is expected to amount to $55 million[1] as compared with $35 million in 2014.

In 2014, to protect own full currency exposure for the year, the Company made hedging transactions to a total of $35 million at an average exchange rate of $1.372 per €1.

The Company included under Other Income (Expenses) Net the results of transactions as above, which amounted to a profit of approximately $0.1 million and $1.5 million in Q4 of 2014 and over 2014, respectively.

To protect from the risk of Euro exchange rate continued weakening vs. the USD, the Company entered a hedging transaction following the balance sheet date and acquired one-year PUT options at an exercise rate of $1.14 per €1, amounting to $20 million, for the price of $580,000. The Company also warranted a one-year CALL option at an exercise rate of $1.25 per €1, amounting to $40 million, for the price of $390,000.

Volatility of Exchange Rates of the CZK vs. the USD

Schiesser purchases some 60% of the products it sells from own subsidiary in the Czech Republic, some of whose expenses are denominated in local currency (CZK). To protect from exposure, Schiesser hedges by way of forward transactions.

Schiesser holds open €/ CZK positions, unrecognized as accounting hedging, for the dates of December 31, 2014, and January 31, 2015, at the rate of €3.6 million and €6.5 million, respectively, and at an average exchange rate of CZK 27.6 per €1.

Volatility of Exchange Rates of the NIS vs. the USD

In light of the expanded operations in Israel, the Company expects a NIS receipts surplus at the rate of $15 million to $20 million in 2015.

4.4. Supervision of Market Risks Management Policy and Method of Implementation

The Company's Board of Directors discusses the various currency exposures as a part of the annual budget approval effort. Company's Board of Directors also reviews the Company's status of exposures at the end of each quarter year, as a part of the quarterly reports approval effort.

---

[1] This information represents but an estimate and is forward-looking; it may not be realized or it may be realized to a different extent as compared with Company's assessments and forecasts for reason uncontrollable by the Company alone and since it is based on data as available on the date of the report and includes Company assessments as of the date of the report.

4.5. Linkage Bases of Financial Items, and Sensitivity Analyses

For details on financial items linkage bases in Company's balance sheet for December 31 of 2014 and 2013, for analyses of sensitivity to the effect of Euro and NIS exchange rates vs. USD and to that of changed interest rates on Company's net income, and for the value of SWAP agreements entered by the Company in protection against such effects, see notes 4 and 11b to the Financial Statements in Part C of This Periodic Report.

Aspects of Corporate Governance

5. Charitable Donations

The Company believes in community involvement within own environment and in the cultivation of high potential populations. For many years, Delta has been accompanying educational and cultural pursuits in Karmiel, and has made contributions to co-existence and community assistance programs. In addition, the Company donates products to welfare organizations and to non-profit organizations, with Company's employees in Israel also engaging in voluntary work with the "Special Olympics" association providing handicapped youth and adults an opportunity to pursue various sports activities.

Starting 2013, the Board of Directors has been reviewing Company's annual donations plans, which occasionally include commitment to donations beyond the current year. Company's donations to education and cultural institutions amounted to approximately $270,000 and $210,000 in 2014 and in 2013, respectively. Subject to compliance by the Company supported organizations with the instructions of the agreements with them, the Company has committed to granting of donations at the rate of approximately $200,000 per year in 2015 and in 2016.

6. Auditing Accountant's Fee

Company auditing accountant is the firm of Kesselman and Kesselman – PWC.

In 2014, auditor fees for audit, tax and other services rendered to the Company and to two of its substantial overseas subsidiaries (Delta USA and Schiesser) amounted to $1,395,000 as compared with $1,075,000 in 2013, as follows:

	2014	2013
	Thousands of USD	
Audit services	894	728
Tax and other services	501	347
Total	1,395	1,075

The volume of auditing work hours was similar in both years (2014 and 2013) and amounted to approximately 9,600 per year.

CPA's scope of audit and fees in 2014 were reviewed by the Company's Audit Committee against details as it had received from the Company's Management with regard to CPA's scope of audit and extent of response to the Company needs. The Audit Committee recommended that the Company's Board of Directors authorize the scope of audit and found the fee reasonable and in fitting with the nature and volume of the Company's operations. These were subsequently authorized by the Company's Board of Directors.

The increase in fees attributed to audit services in 2014 resulted mostly from the higher wage paid to the German Schiesser accountant.

The increase in fees attributed to other services in 2014 resulted mostly from fees as were related to consideration of acquisition of a company.

7. Disclosure with Regard to Company's Internal Auditor

Details of the Internal Auditor:

In January of 2013, Mr. Moshe Cohen of Chaikin Cohen Rubin & Co. was appointed internal auditorץ

To the best of the Company’s knowledge, the internal auditor meets all threshold requirements as set forth in section 3(a) of the Internal Audit Act of 1992, section 146(b) of the Companies Law of 1999 and section 8 of the Internal Audit Act of 1992.

To the best of the Company’s knowledge, based on ascertainment with the internal auditor, the internal auditor does not hold any securities of the Company or of any entity affiliated with the Company.

To the best of the Company’s knowledge, based on ascertainment with the internal auditor, the internal auditor has no material business related or other relationships with the Company or with any affiliate entity thereof.

The internal auditor is not employed by the corporation. The internal auditor provides internal audit services by personal appointment, via an accountants firm which employs a staff with various skills, including internal auditing skills.

Method of appointment:

The appointment of Mr. Moshe Cohen as internal auditor was approved by the Audit Committee and by the Board of Directors in January of 2013, following review of and interviews with potential applicants by the Audit Committee, which was also reported various opinions with regard to the finalist applicants who had passed the preliminary screening phase. The Audit Committee was favorably impressed by Mr. Cohen's qualifications as far as education and extensive experience were concerned, and, on having met with him and receiving a favorable (non-instrumental) opinion from the Company Management, too, Mr. Cohen was found suitable for the office of Company's internal auditor considering the Company's size, volume and complexity of operations, and volume of operations as would be required of the internal auditor.

Internal auditor’s supervisor:

Internal auditor's operations are supervised by the Company’s CEO.

Work plan:

The internal auditor pursues own duties under an annual plan as approved by the Audit Committee.

The annual work plan followed by the internal auditor in 2014 was established, inter alia, based on the following:

- A risk survey as had been conducted by the Company in 2012, with adjustments made as required.
- Proposals by members of the Audit Committee and the Company's Board of Directors, which were based, inter alia, on proposals by the internal auditor and by the Company Management.
- Company's volume of operations, organizational structure and nature of business operations.

The annual work plan contains no restrictions on deviating from any of the provisions therein. The internal auditor may propose to change and/or add issues subject to approval by the Audit Committee.

The 2014 annual work plan included audits of the Company in Israel and of corporations fully owned by the Company overseas.

Scope of Employment:

In 2014, the actual number of hours of internal auditing by the new internal auditor amounted to approximately 1,090 hours, distributed as follows:

	Company Audit	**Subsidiaries Audit**
Operations in Israel	290 hours	-
Operations overseas	-	800 hours

In addition to auditing works accomplished by the internal auditor, the Company engages an internal audit manager pursuing control and auditing regularly on a full time basis. In 2014, the internal audit manager spent approximately 2,000 hours in internal auditing and control, of which approximately 1,200 hours in auditing of local operations and the remaining 800 hours or so in auditing of overseas operations.

Audit proceedings:

By internal auditor's own notification, internal audit is conducted under instruction by the Internal Audit Act of 1992 and under generally accepted standards as published by the Israel Chamber of Internal Auditors.

Based on self assessment by the internal auditor, Company's Board of Directors is satisfied that the internal auditor has complied with all of these standard requirements.

Access to Information:

The internal auditor is granted free access to the Company's documents and information systems, including financial data, all as required for the pursuit of own duties and as provided under section 9 of the Internal Audit Act of 1992.

In his audits of overseas operations, the internal auditor was granted free access to the subsidiary sites. Audits of the Egyptian subsidiary was accomplished by KPMG personnel in the United Arab Emirates so as to secure adequate interpretation of the audited operation's documents which are written in Arabic.

Internal Auditor's Report:

Reports by the internal auditor were submitted in writing to the Chairman and members of the Audit Committee and also to the Company Management.

The Audit Committee held 4 meetings over the course of 2014, 2 of which dealt with internal audit reports on April 2 and July 7. Audit reports as related to these meetings were submitted on January 25 and July 1, respectively.

Board of Directors' assessment of internal auditor's operations:

The Board of Directors believes that the internal auditor's actual volume, nature and continuity of operations in 2014 as detailed above are reasonable in view of the circumstances and meet Company's internal audit goals.

Compensation:

In exchange for his work during the reported period and as agreed with the internal auditor, internal auditor's fee amounted to a total of approximately NIS 230,000 (approximately $64,000).

No securities were granted to the internal auditor as a part of his terms of employment.

The Company's Board of Directors believes that this compensation is reasonable and should not affect the internal auditor's judgment when auditing the Company.

8. **<u>Discussion and Review of the Relation between Stakeholder and Top Executive Compensations Received under Regulation 21 and Their Contributions to the Company</u>**

For the compensations awarded to Company's top executives and stakeholders under Regulation 21, see Additional Information Regarding the Corporation in Part D of This Periodic Report.

At a meeting held on February 25 of 2015, the Board of Directors discussed of the terms of service and employment of each individual Company executive and stakeholder pursuant to Securities Regulation 21 (Periodic and Immediate Reports) of 1970. The Board discussed, among other things, the relation between the sums of compensations awarded to each in 2014 and own contribution to the Company over the course of the reported period and also own performance over the year of 2014. In preparation for the discussion, the Board members were presented beforehand with data as applicable to each executive and stakeholder, and they also considered the compensation policy as related to Company executives.

The Company Management reviewed the performance and contribution of every executive and stakeholder in the reported period to the attainment of Company's business goals, and found that the compensation awarded to each of the executives indeed conformed with the Company's compensation policy.

In addition, the Company's Board of Directors reviewed the service and employment terms of Company CEO Mr. Isaac Dabah and also those of his daughter Ms. Gloria Dabah, as had been approved at the General Assemblies of the Company's stakeholders of December 27, 2012, and December 31, 2013, respectively, and which are not included under the Company's executive compensation policy.

In the matter of both Mr. Isaac Dabah and daughter Ms. Gloria Dabah, the Company's Board of Directors reviewed their respective performance and contribution to the Company as well as various aspects as related to their respective responsibilities at the Company. On review as above, the Company's Board of Directors found that the compensation awarded to each was fair and reasonable, and reflective of own contribution to the Company over the year of 2014.

9. Directors of Accounting and Financial Expertise

The Company's Board of Directors has determined that the minimum appropriate number of Company directors with accounting and financial expertise is two directors, considering Company's size as well as own nature and complexity of operations.

As of the date of this report, Board members (non-employees) found by the Board with accounting and financial expertise are Mr. Yechezkel Dovrat , Mr. Shaul Ben Ze’ev and Dr. Gideon chitayat. For further details, see Report under Regulation 26 under Additional Information Regarding the Corporation in Part D of This Periodic Report.

Directors Noam Lautmann , Isaac Dabah and Itzhak Weinstock may also be considered with accounting and financial expertise.

Disclosure Regarding the Rate of Independent Directors

As of the date of the report, the Company has not adopted in its stature the instruction regarding the rate of independent directors (as defined under the Companies Law of 1999).

10. Disclosure Regarding the Financial Statements Approval Process

The Company’s Board of Directors has decided that the organ in charge of overall supervision of the Company’s financial statements will be the Financial Statement Examination Committee. (hereinafter in this section the Committee).

This committee consists of three directors, as follows:

Yechezkel 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 Chitayiat – director, with expertise in accounting and finance.

Prior to their appointment, the three members of the Committee provided the Company each with a statement as required under section 3 of the Companies Regulations (Instructions and Conditions Pertaining to the Financial Statement Approval Process) of 2010. For further detail on Committee members as above, complete with their qualifications, education, experience and knowledge, see Report under Regulation 26 under Additional Information Regarding the Corporation in Part D of This Periodic Report.

Approval of the Financial Statements for Q4 and for 2014 required two meetings as described below:

(1) Committee meeting to consider in principle and extensively all material reporting issues and to formulate recommendations to the Board of Directors with regard to the Financial Statements.
(2) Board of Director's meeting to consider and approve the Financial Statements.

Prior to the approval of the Company's Financial Statements, drafts of the Financial Statements and associated reports and notes to these Statements were forwarded to members of the Finance Committee 5 days before the meeting.

The Financial Statements Examination Committee meeting is attended by the CEO, CFO, Company Comptroller, internal auditor and also external accountants presenting the financial statements before members of the Committee and responding any questions as may be raised. Also convened to the Committee meeting are the Company attorneys.

The Committee meeting covers review and discussion of the Company's financial statements, major changes as had occurred therein, internal controls as were applied to the financial statement, any assessments and estimates as were made in connection with the financial statements, the completeness and adequacy of disclosure, as well as the accounting policy adopted and the accounting consideration applied in Company's material concerns. Also considered are observations by the Company Management and by the accounting auditor, and the financial statements are reviewed for conformance with events as occurred in the Company and with the standards by which the Company prepares own statements.

On discussion completion, the Chairman of the Financial Statement Examination Committee puts to the vote Committee's recommendation to the Board of Directors to approve the Financial Statements, and inquires whether or not any member still had questions or matters which had been left unresolved.

The Committee formulized recommendations with regard to the approval of Company's Financial Statements for Q4 and for the year of 2014, which were subsequently forwarded for consideration by the Company's Board of Directors 3 business days prior to the Board meeting, which, in Board's opinion, was a reasonable time considering the volume and complexity of the recommendations. On Committee's recommendation to approve the Financial Statements as above, the Financial Statements and related notes were forwarded for consideration by the Board of Directors.

Members of the Committee attending the meeting of February 22, 2015, where the Committee recommended to the Company's Board of Directors to approve the Financial Statements and the Board of Directors Report for December 31 of 2014 were Chairman Mr. Yechezkel Dovrat, Shaul Ben-Ze'ev and Dr. Gideon Chitayat..

The meeting was also attended by Company CEO Mr. Isaac Dabah, CFO Mr. Yossi Hajaj, Company Comptroller and Secretary Mr. Miki Laxer, accountants, the internal auditor and the Company attorney.

The other members on the Board of Directors received the draft financial statements for consideration 8 days before the Board meeting scheduled to approve the Financial Statements, along with the Committee recommendations as above. During the Board meeting, Company's financial results and material Statement concerns were reviewed by the Company CEO and CFO, as well as Committee recommendations. Questions were raised by the various Board members with regard to the data reported under the Financial Statements. The questions were discussed and answered by the Company Management and by the accounting auditor, and the Statements were approved and signed by the authorized signatories.

It shall also be noted that where and to the extent that, in the course of financial statement preparation, the CFO or the Company CEO encounter any question, concern or material/ primary problem which, to be resolved, require preliminary discussion before the financial statements are submitted for approval by the Board of Directors, the CFO or Company CEO would instruct to convene a preliminary Committee meeting to discuss and clarify these matters.

Members of the Company’s Board of Directors attending the Board meeting of February 25, 2015, where the periodic reports of December 31 of 2014 were approved, were Chairman of the Board Mr. Noam Lautman, Mr. Isaac Dabah, Mr. Itzhak Weinstock, Mr. Shaul Ben-Ze’ev (external director), Mr. Yechezkel Dovrat (external director), Dr. Gideon Chitayat, Mr. Israel Baum and Ms. Tzipporah Carmon. The meeting was also attended by CFO Mr. Yossi Hajaj, Company Comptroller and Secretary Mr. Miki Laxer, accountants, the internal auditor and the Company attorneys.

Special Disclosure for Debenture Holders

11. Outstanding Obligatory Notes

The following is a description of outstanding Company debenture series as of the date of This Report:

Series	K	E	A	B
Date of Issue	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 dated 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.	Listed for trade on April 5, 2012, pursuant to a shelf offering report published by the Company on April 4, 2012, pursuant to the Company's shelf prospectus dated November 22 2010, as amended in the prospectus of April 14, 2011, and subsequently in the prospectus of April 2, 2012.	178,543,000 NIS NV debentures listed for trade on August 12, 2013, pursuant to a shelf offering report published by the Company on August 8, 2013, pursuant to the Company's shelf prospectus dated May 27, 2013, as amended in the prospectus of August 5, 2013 ("Shelf Prospectus"). 21,457,000 NIS NV debentures listed for trade on October 27, 2013, under private placement. 161,734,000 NIS NV debentures listed for trade on May 15, 2014, pursuant to a shelf offering report published by the Company on May 13, 2014, pursuant to the Company's shelf prospectus. 38,266,000 NIS NV debentures listed for trade on June 2, 2014,	168,423,000 NIS NV debentures listed for trade on September 22, 2014, pursuant to a shelf offering report published by the Company on September 17, 2014, pursuant to the Company's shelf prospectus. 31,577,000 NIS NV debentures listed for trade on November 20, 2014, under private placement.

Series	K	E	A	B
			pursuant to a shelf offering report published by the Company on June 1, 2014, pursuant to the Company's shelf prospectus.	
Extent of NV debentures at issuance (in NIS)	113,000,000 and 92,632,000	192,909,000 (of the 255,000,000 offered to the public, with the portion unsold constituting approximately 24.35% of the volume offered to the public).	178,543,000 NIS NV (of the 200,000,000 offered to the public, with the portion unsold constituting approximately 10.73% of the volume offered to the public). 21,457,000 NIS NV were offered under private placement in October, 2013. 161,734,000 NIS NV were issued on May 15, 2014, and 38,266,000 NIS NV were issued on June 1, 2014.	168,423,000 NIS NV (of the 200,000,000 offered to the public, with the portion unsold constituting approximately 15.79% of the volume offered to the public). 31,577,000 were offered under private placement in November, 2014.
Extent of NV debentures as of December 31 2014 (in NIS)	82,252,800	168,795,375	400,000,000	200,000,000
Start date of principal repayment	19.7.2012	31.12.2014	31.8.2015	1.10.2024 full, one-tine payment
Number of annual installments of principal repayment	1	1	1	One payment at end of period
Accrued interest as of December 31, 2014	Approximately 2.6 million NIS	-	Approximately 6.8 million NIS	Approximately 0.1 million NIS
Fair value as included in the Financial Statements on December 31, 2014	Approximately 82.3 million NIS	Approximately 167.5 million NIS	Approximately 408.5 million NIS	Approximately 198.4 million NIS

Series	K	E	A	B
Stock exchange value on December 31, 2014	Approximately 89.8 million NIS	Approximately 204.2 million NIS	Approximately 440.3 million NIS	Approximately 201.4 million NIS
Interest Type	Fixed - 7%	Fixed - 7.6%	Fixed - 5.0%	Variable – 2.1% over Telbor
Interest payment dates	Semiannual installments on July 19 and on January 19 of each of the years from 2010 through 2016 (inclusive).	Semiannual installments on June 30 and on December 31 of each of the years from 2012 through 2021 (inclusive), starting on December 31, 2012, and ending on December 31, 2021.	Semiannual installments on February 28 and on August 31 of each of the years from 2014 through 2028.	Semiannual installments on April 1 and on October 1 of each of the years from 2015 through 2024.
Linkage type	Non-linked	Non-linked	Non-linked	Non-linked
Conversion right	Non-convertible	Non-convertible	Non-convertible	Non-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 shall not allow early redemption of debentures due to said de-listing.	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 shall not allow early redemption of debentures due to said de-listing. The Company shall have the right (however not an obligation) to pursue, at own and sole discretion, full or partial early redemption of the debentures (Series E) for a price, using a mechanism, by a schedule and under any other conditions as set under the instructions provided under section 7 in Addendum No. 1 to the (E series) debentures	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 shall perform early redemption of debentures due to said de-listing. The Company shall have the right (however not an obligation) to pursue, at own and sole discretion, full or partial early redemption of the debentures (Series A) for a price, using a mechanism, by a schedule and under any other conditions as set under the instructions provided under section 8.2 in the trust deed and section 7 in Addendum	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 shall perform early redemption of debentures due to said de-listing. The Company shall have the right (however not an obligation) to pursue, at own and sole discretion, full or partial early redemption of the debentures (Series B) for a price, using a mechanism, by a schedule and under any other conditions as set under the instructions provided under section 8.2 in the combined version of the trust deed with

Series	K	E	A	B
		trust deed.	No. 1 to the debentures trust deed.	No. 2 added, providing that the Company will not be entitled to exercise premature redemption of the (Series B) debentures except when one year has elapsed from the date of first-time issue of the (Series B) debentures.
Guarantee to secure payment	Not guaranteed by any liens.	Not guaranteed by any liens.	Not guaranteed by any liens.	Not guaranteed by any liens.
Rating Company	Midroog Ltd.	Midroog Ltd.	Midroog Ltd.	Midroog Ltd.
Rating at the date of issue	A3/ Stable	A3/ Positive	A2/ Stable	A1/ Stable
Rating on December 31, 2014 (see immediate report of September 2, 2014 (Ref. 201 4-01-149355)	A1/ Stable	A1/ Stable	A1/ Stable	A1/ Stable
Other ratings	a) On March 30, 2014: A1/ Stable b) On December 24, 2012: A2/ Stable c) On May 7, 2012: A3/ Positive d) On March 26, 2012: A3/ Positive e) On January 10, 2012: A3/ Stable (removal from the monitoring list) f) On October 23, 2011: A3/ Stable (entry on the monitoring list)	a) On March 30, 2014: A1/ Stable b) On December 24, 2012: A2/ Stable c) On May 7, 2012: A3/ Positive	On March 30, 2014: A1/ Stable	
Trustee details and contact information	Strauss Lazar Trust Company (1992) Ltd., 17 Yitzhak Sadeh	Hermetic Trust (1975) Ltd., 113 Hayarkon St., Tel Aviv	Hermetic Trust (1975) Ltd., 113 Hayarkon St., Tel Aviv	Hermetic Trust (1975) Ltd., 113 Hayarkon St., Tel Aviv

Series	K	E	A	B
	Street, Tel Aviv (Tel. 03-623777; Fax:03-5613824). Contact at the trustee is Mr. Ori Lazar, email: ori@slcpa.co.il	(Tel. 03-5274867; Fax:03-.(5271736Contact at the trustee is Attorney Idan Knobel, email: idan@hermetic.co.il	(Tel. 03-5274867; Fax:03-.(5271736Contact at the trustee is Attorney Idan Knobel, email: idan@hermetic.co.il	(Tel. 03-5274867; Fax:03-.(5271736Contact at the trustee is Attorney Idan Knobel, email: idan@hermetic.co.il
Materiality (over 5% of total Company liabilities)	Yes	Yes	Yes	Yes

As of the date of the report, the Company was in compliance with all terms and conditions and commitments to holders of outstanding debentures, including those pursuant to the trust deed for the said debentures, and there was no cause to demand immediate repayment of the debentures.

The Board of Directors and the Management express their deep appreciation to Delta employees and managers.

Signed 25/2/2015

Noam Lautman	Isaac Dabah
Chairman of the Board of Directors	CEO and Director

Delta Galil Industries Ltd.

2014 Yearly Report

Delta Galil Industries Ltd.

2014 Yearly Report

Table of Contents

Auditors' Report

To the Shareholders of

Delta Galil Industries Ltd.

On the audit of internal control components as applied to the financial statements under Section 9b (c) in the Securities Regulations (Periodic and Immediate Statements) of 1970

We have audited components of internal controls as applied by Delta Galil Industries Ltd. (hereinafter the Company) and its subsidiaries (hereinafter jointly the Company) to the financial reporting as of December 31, 2014. These control components have been established as described in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal controls over their financial reporting, and for evaluating the effectiveness of the internal controls over financial reporting as attached with the periodic report for the date as above. Our responsibility is to express our opinion on the internal controls over the Company's financial reporting, based on our audit.

The components of internal control over financial reporting as we have reviewed were determined under the instructions of Audit Standard 104 by the Institute of Certified Public Accountants in Israel, Auditing of Components of Internal Controls for Financial Reporting (hereinafter Audit Standard 104). These components are: (1) organization-level controls, including controls for the process of preparing and closing financial reporting and general controls of information systems, and also including assessment of the goodwill balance; (2) controls for the inventory purchasing process, including inventory assessment and measurement and also provisions to impairment due to slow and/or dead inventory; (3) controls for the sales process (all of which are jointly referred to as the Audited Control Components).

We have conducted our audit under the instructions of Audit Standard 104 which required us to so design and run the audit as to identify the audited control components and attain a reasonable level of certainty as to whether or not these control components were effectively implemented in all material aspects. Our audit included understanding of the internal controls over financial reporting, identification of the audited control components, assessment of the risk of a material weakness in the audited control components, as well as examination and evaluation of how effectively these control components had been planned and effected, based on the assessed risk. Our audit of the control components also included additional procedures as we thought necessary under the circumstances. Our audit referred solely to the audited control components, as opposed to internal control of all processes material to financial reporting, and therefore our opinion only refers to the audited control components. Furthermore, our audit does not refer to any mutual influences between audited and unaudited control components and hence does not take such potential effects into consideration. We believe that our audit provides a sufficient basis for our opinion in the context described above.

Because of inherent limitations, internal financial reporting controls in general, and, specifically, individual internal control components, may fail to prevent or detect misrepresentations. Likewise, conclusions regarding the future, which are based on any assessment of current effectiveness, are exposed to the risk of these controls losing effect when circumstances change or in the event that policies or procedures are followed to a lesser extent. We believe that the Company has, in all material concerns, applied the audited control components effectively as of December 31, 2014.

We have also audited, under audit standards as acceptable in Israel, Company's Consolidated Financial Statements for December 31 of 2014 and 2013 and for each of the three years in the period which ended on December 31 of 2014, and out report of February 25, 2015, included our unreserved opinion on these Financial Statements based on our audit and on reports as have been provided by other auditors.

Tel-Aviv
February 25, 2015

Kesselman and Kesselman
Certified Public Accountants
Members of PricewaterhouseCoopers
International Limited

Kesselman and Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,
P.O. Box 50005 Tel Aviv 6150001
Tel. +972-3-7954555, Fax. +97233-7954556, www.pwc.com/il

Auditors' Report

To the Shareholders of

Delta Galil Industries Ltd.

We have audited the consolidated Balance Sheets of Delta Galil Industries Ltd. (hereinafter the Company) as of December 31, 2014 and 2013, and the consolidated statements of comprehensive income (loss), changes in equity and cash flow for each of the three years in the period ending December 31 of 2014. The Company's Board of Directors and Management are responsible for these financial statements. Our responsibility is to express our opinion on these Financial Statements on the basis of our audit.

We did not audit the financial statements of consolidated subsidiaries whose assets as included in the consolidation constitute approximately 3% and 4% of the Company's total consolidated assets as of December 31, 2014 and 2013, respectively, and whose revenues as included in the consolidation constitute approximately 0.16%, 0.25% and 1% of the total consolidated revenues for the years ending December 31 of 2014, 2013 and 2012, respectively. The financial statements of these subsidiaries were audited by other independent auditors whose reports we were provided, and our opinion, insofar as it relates to sums included for these subsidiaries, is based on the reports of the other independent auditors.

We conducted our audit under generally accepted Israeli auditing standards, including standards prescribed in the Accountants Regulations (Accountant Methods of Operation) of 1973. These Standards require that we so design and run the audit as to obtain reasonable confidence that the Financial Statements are free of any material misrepresentations. The audit includes sample review of evidence which support the sums and information provided in the Financial Statements. The audit also includes examination of the accounting rules implemented and of any significant estimates made by the Company’s Board of Directors and Management, as well as an evaluation of the propriety of presentation in the Financial Statements in its entirety. We believe that our audit and the reports of the other auditor provide an adequate basis for our opinion.

In our opinion, based on our audit and the reports of other auditors as above, the Consolidated Financial Statements audited adequately reflect, in all material respects, the financial status of the Company and its subsidiaries as of December 31, 2014 and 2013, as well as the results of their operations, equity changes and cash flows for each of the three years in the period ending December 31 of 2014, all as required under the International Financial Reporting Standards (IFRS) and under the Israeli Securities Regulations (Preparation of Yearly Financial Statements) of 2010.

We have also audited, under Audit Standard 104 of the Institute of Certified Public Accountants in Israel, Inspection of Components of Internal Controls for Financial Reporting, components of internal controls over the Company’s financial reporting as of December 31, 2014, and our report of February 25 2015 includes an unreserved opinion on the effective implementation of these components.

Tel-Aviv
February 25 2015

Kesselman and Kesselman
Certified Public Accountants
Members of PricewaterhouseCoopers
International Limited

Kesselman and Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,
P.O. Box 50005 Tel Aviv 6150001
Tel. +972-3-7954555, Fax. +97233-7954556, www.pwc.com/il

Delta Galil Industries Ltd.

Consolidated Balance Sheets

	Note	December 31 2014	December 31 2013
		Thousands of Dollars	
Assets			
Current assets:			
Cash and cash equivalents	2m	**166,958**	97,346
Restricted cash		**369**	1,448
Accounts receivable:	19a		
Trade receivables		**108,559**	112,293
Taxes on income receivable		**6,096**	2,427
Others		**26,202**	9,522
Financial derivative	11b	**329**	2,955
Inventory	19b	**181,687**	169,303
Assets classified as held for sale	8	**1,000**	1,000
Total current assets		**491,200**	396,294
Non-current assets:			
Long term balances	10	**8,013**	15,520
Investment property		**4,132**	4,850
Fixed assets, net of accumulated depreciation	7	**98,861**	95,797
Intangible assets, net of accumulated amortization	9	**118,506**	118,135
Deferred tax assets	14e	**11,348**	9,560
Financial derivative	11b	**1,254**	10,942
Total non-current assets		**242,114**	254,804
Total assets		**733,314**	651,098

______________________________ **) Noam Lautman,**
) Chairman of the Board of Directors

______________________________ **) Isaac Dabah,**
) CEO

______________________________ **) Yossi Hajaj,**
) CFO

Date of approval of Financial Statements by Company Board of Directors: February 25, 2015

The attached notes constitute an integral part of these Financial Statements.

Delta Galil Industries Ltd.

Consolidated Balance Sheets

	Note	December 31 2014	December 31 2013
		Thousands of Dollars	Thousands of Dollars
Liabilities and capital			
Current liabilities:			
Short term bank loans	19c	**931**	26,438
Current maturities of long term loans from banking corporations		**-**	150
Current maturities of debentures	11a	**23,054**	17,847
Financial derivative	11b	**2,235**	-
Accounts payable:			
Trade payables and service providers		**80,648**	71,283
Taxes on income – payable		**4,961**	4,401
Others	19d	**57,548**	56,441
Total current liabilities		**169,377**	176,560
Non-current liabilities:			
Severance pay liabilities, less plan assets	15	**2,339**	2,105
Other non-current liabilities	12	**19,999**	17,196
Debentures	11a	**197,262**	129,717
Provision for deferred taxes	14e	**2,954**	3,630
Financial derivative	11b	**8,784**	-
Total non-current liabilities		**231,338**	152,648
Total liabilities		**400,715**	329,208
Commitments	17		
Capital:	13		
Equity attributable to parent company shareholders:			
Share capital		**23,579**	23,499
Share premium		**128,274**	127,024
Other capital reserves		**(6,598)**	16,212
Unassigned retained earnings		**197,135**	163,990
Treasury shares		**(10,933)**	(10,996)
		331,457	319,729
Non-controlling interests		**1,142**	2,161
Total equity		**332,599**	321,890
Total liabilities and equity		**733,314**	651,098

The attached notes constitute an integral part of these Financial Statements.

Delta Galil Industries Ltd.

Consolidated Statements of Comprehensive Income

	Note	2014	2013	2012
		For the Year Ending December 31		
		Thousands of Dollars (Except for per-share profit data)		
Sales	5c-d	**1,031,861**	974,719	817,782
Cost of sales	19g	**713,798**	680,426	607,746
Gross profit		**318,063**	294,293	210,036
Selling and marketing expenses	19h	**211,507**	190,593	133,714
General and Administrative expenses	19h	**35,780**	36,250	27,851
Other income, net	19j	**2,674**	472	571
Share in of associated companies accounted for using the equity method value method		**178**	-	-
Capital gain from the sale of a real estate in Nahariya	8b(2)	**-**	-	19,910
Income from lucky buy	6b	**-**	-	12,619
Restructuring expenses, net	19e	**182**	1,529	5,424
Impairment of fixed assets	7d	**-**	-	1,309
Operating profit		**73,090**	66,393	74,838
Financing expenses, net	19k	**15,806**	10,981	8,925
Share in profit Share in of associated companies accounted for using the equity method		**-**	-	93
Profit before taxes on income		**57,284**	55,412	66,006
Taxes on income	14	**9,853**	12,732	9,029
Net income for the year		**47,431**	42,680	56,977
Other comprehensive income (loss):				
Items not to be reclassified as profit or loss:				
Reassessment of severance pay liabilities		**(1,054)**	1,259	(731)
The impact of taxes on income (expense)		**223**	(256)	246
		(831)	1,003	(485)
Items as may be reclassified as profit or loss:				
Cash flow hedging		**(2,967)**	2,516	3,064
Differences from the translation of financial statements prepared in foreign currency		**(20,841)**	5,590	6,686
The impact of taxes on income (expense)		**998**	(630)	(381)
		(22,810)	7,476	9,369
Total comprehensive income for the year		**23,790**	51,159	65,861
Attribution of net income for the year:				
To shareholders of the parent company		**46,760**	42,560	56,857
To non-controlling interests		**671**	120	120
Total net income for the year		**47,431**	42,680	56,977
Attribution of total comprehensive income for the year:				
To shareholders of the parent company		**23,119**	51,039	65,741
To non-controlling interests		**671**	120	120
Total comprehensive income for the year		**23,790**	51,159	65,861
		In USD		
Earnings per share attributable to shareholders of the parent company	2w, 16			
Basic		**1.88**	1.74	2.40
Diluted		**1.82**	1.69	2.30

The attached notes constitute an integral part of these Financial Statements.

Delta Galil Industries Ltd.

Statements of Changes in Equity

	Attributable to Parent Company Shareholders										
	Ordinary Share Capital										
	Number of Shares	Sum	Share Premium	Capital Reserve from Translation Differences	Capital Reserves in Respect of Cash Flow Hedging	Components of Reassessment of Severance Pay Liabilities	Unassigned Retained Income	Treasury Shares	Total	Non Control-ling Interests	Total Capital
	Thousands	Thousands of Dollars									
Balance as of January 1, 2012	24,658	23,106	121,216	48	(681)	(1,755)	82,839	(9,700)	215,073	2,171	217,244
Movement in 2012:											
Comprehensive income (loss)	-	-	-	6,686	2,683	(485)	56,857	-	65,741	120	65,861
Proceeds from exercise of options	773	205	3,004	-	-	-	-	-	3,209	-	3,209
Dividend distribution	-	-	-	-	-	-	(7,995)	-	(7,995)	-	(7,995)
Buyback of shares	-	-	-	-	-	-	-	(1,296)	(1,296)	-	(1,296)
Dividends to non-controlling interest holders	-	-	-	-	-	-	-	-		(127)	(127)
Component of benefit for options granted	-	-	-	-	-	-	903	-	903	-	903
Balance as of December 31, 2012:	25,431	23,311	124,220	6,734	2,002	(2,240)	132,604	(10,996)	275,635	2,164	277,799
Movement in 2013:											
Comprehensive income (loss)	-	-	-	5,590	1,886	1,003	42,560	-	51,039	120	51,159
Proceeds from exercise of options (incl. tax there from)	681	188	2,804	-	-	-	-	-	2,992	-	2,992
Dividend distribution	-	-	-	-	-	-	(10,500)	-	(10,500)	-	(10,500)
Dividends to non-controlling interest holders	-	-	-	-	-	-	-	-	-	(123)	(123)
Component of benefit for options granted	-	-	-	-	-	-	563	-	563	-	563
Balance as of December 31, 2013:	26,112	23,499	127,024	12,324	3,888	(1,237)	165,227	(10,996)	319,729	2,161	321,890
Movement in 2014:											
Comprehensive income (loss)	-	-	-	(20,841)	(1,969)	(831)	46,760	-	23,119	671	23,790
Proceeds from exercise of options and restricted share units (incl. tax)	293	80	1,250	-	-	-	-	63	1,393	-	1,393
Dividend distribution	-	-	-	-	-	-	(13,500)	-	(13,500)	-	(13,500)
Dividends to non-controlling interest holders	-	-	-	-	-	-	-	-	-	(1,690)	(1,690)
Component of benefit for options and share units granted	-	-	-	-	-	-	716	-	716	-	716
Balance as of December 31, 2014	26,405	23,579	128,274	(8,517)	1,919	(2,068)	199,203	(10,933)	331,457	1,142	332,599

Delta Galil Industries Ltd.

Consolidated Cash Flow Reports

	For the Year Ending December 31		
	2014	**2013**	**2012**
	Thousands of Dollars		
Cash flow from operating activities:			
Net profit for the year	**47,431**	42,680	56,977
Adjustments required to reflect cash flows deriving from operating activities	**28,352**	28,910	31,807
Interest paid in cash	**(11,693)**	(10,001)	(8,475)
Interest received in cash	**895**	471	604
Taxes on income paid in cash, net	**(11,652)**	(15,820)	(8,009)
Net cash generated from operating activities	**53,333**	46,240	72,904
Cash flow from investment activities:			
Cash from the acquisition of a subsidiary (see note 6)	**-**	-	12,258
Payments to creditors and others under a subsidiary acquisition transaction (see note 6)	**-**	-	(86,052)
Acquisition of fixed assets and intangible assets	**(26,913)**	(20,649)	(21,550)
Release (deposit) of limited cash	**1,037**	1,448	(2,822)
Investments in associated companies	**(6,500)**	-	-
Proceeds from the sale of assets held for sale, net of tax	**-**	6,233	41
Proceeds from the sale of fixed assets	**1,914**	632	765
Proceeds from the sale of a real estate (payment of related taxes)	**(1,989)**	3,161	2,010
Loans paid (granted) to subcontractors	**71**	(826)	(400)
Others	**(3)**	(85)	(87)
Net cash used for investment activities	**(32,383)**	(10,086)	(95,837)
Cash flows from financing activity:			
Dividends paid to non-controlling interest holders in consolidated subsidiary	**(1,690)**	(123)	(127)
Payment of long term suppliers credit as related to acquisition of fixed assets	**(2,459)**	(1,867)	-
Debentures repayment	**(17,699)**	(11,285)	(11,285)
Dividend paid	**(13,500)**	(10,500)	(7,995)
Buyback of shares	**-**	-	(1,296)
Repayment of loans and other long term liabilities	**(696)**	(3,155)	(2,875)
Short term credit from banking corporations, net	**(25,173)**	(14,716)	(29,253)
Issue of debentures	**115,689**	55,704	50,987
Bank deposit used a security with respect of swap transaction	**(4,950)**	-	-
Proceeds from the exercise of employee options	**1,115**	2,542	3,209
Net cash generated from financing activities	**50,637**	16,600	1,365
Net increase (decrease) in cash and cash equivalents	**71,587**	52,754	(21,568)
Exchange rate differences and revaluation (erosion) of cash and cash equivalents, net	**(1,975)**	(883)	1,283
Balance of cash and cash equivalents at the beginning of the year	**97,346**	45,475	65,760
Balance of cash and cash equivalents at the end of the year	**166,958**	97,346	45,475

The attached notes constitute an integral part of these Financial Statements.

Delta Galil Industries Ltd.

Consolidated Cash Flow Reports

	For the Year Ending December 31		
	2014	2013	2012
	Thousands of Dollars		
Adjustments required to reflect cash flows from operating activities:			
Revenues and expenses not involving cash flow:			
Depreciation	**15,851**	15,722	11,709
Amortization	**2,751**	2,528	2,386
Impairment of fixed assets	**-**	-	1,309
Cash erosion (revaluation), net	**652**	1,155	(556)
Interest paid in cash	**11,693**	10,001	8,475
Interest received in cash	**(895)**	(471)	(604)
Income taxes paid in cash, net	**11,652**	15,820	8,009
Deferred taxes on income, net	**(2,124)**	(694)	1,287
Severance pay liability, net	**124**	(159)	395
Restructuring expenses, net	**(77)**	1,328	2,485
Capital gain from sale of fixed assets and assets held for sale, net	**(1,257)**	(1,121)	(137)
Capital gain from sale of a real estate in Nahariya	**-**	-	(19,910)
Benefit component of options and restricted share units granted to employees	**716**	563	903
Changes to the fair value of derivatives	**(705)**	707	77
Share in loss of associated companies accounted for using the equity method	**178**	-	-
Increase in long term employees bonus liabilities	**608**	1,266	-
Increase in other long term liabilities	**1,451**	-	-
Income from lucky buy	**-**	-	(12,619)
Others	**1,552**	(482)	663
	42,170	46,163	3,872
Changes to operating assets and liabilities:			
Decrease (increase) in trade receivables	**(538)**	(2,528)	1,401
Decrease (increase) in other receivables	**(8,002)**	(1,302)	4,037
Increase (decrease) in trade payables and service providers	**11,816**	(729)	9,246
Increase (decrease) in other payables	**4,600**	3,989	(4,051)
Decrease (increase) in inventory	**(21,694)**	(16,683)	17,302
	(13,818)	(17,253)	27,935
	28,352	28,910	31,807

Additional information on investment and financing activities not involving cash flows:

	December 31		
	2014	2013	2012
	Thousands of Dollars		
Trade and other payables for non-cash acquisitions of fixed and other assets	**(3,361)**	(556)	(2,958)
Receivables for non-cash sales of fixed assets	**-**	-	1,350
Liability for minimum royalty payments	**9,604**	12,132	4,534
Receivables for the realization of a fixed asset held for sale	**-**	-	10,959

The attached notes constitute an integral part of these Financial Statements.

Note 1 – Overview:

Delta Galil Industries Ltd. (hereinafter the Company) is an Israeli corporation which, jointly with its subsidiaries (hereinafter the Group) engages primarily in the design, development, manufacture and marketing of undergarments and operates in four business segments – Delta USA, Global Upper Market, Delta Israel, and Schiesser. See note 5 for information on Group's operating segments and major markets.

The stock exchange where the Company's securities are traded is the Israeli Stock Exchange in Tel-Aviv.

The Company's official address is 2 Kaufman Street, Tel Aviv.

Note 2 – Principal Accounting Policies:

a. Basis for Preparation of the Financial Statements

1) The Group's Financial Statements as of December 31, 2014, and December 31, 2013, and for each of the three years in the period ending December 31 of 2014, were prepared under International Financial Reporting Standards (IFRS) and interpretations thereof as published by the International Accounting Standard Board (hereinafter IFRS), and they include additional disclosure as required under the Securities Regulations (Yearly Financial Statements) of 2010.

With regard to the presentation of These Financial Statements, it shall be noted as follows:

1) The principal accounting policies described below were applied consistently for all of years presented.

2) The Consolidated Financial Statements were prepared according to the historical cost convention, subject to the adjustment of derivatives and compensation fund assets, presented at fair value.

3) Financial Statements preparation under the IFRS requires the use of certain critical accounting estimates. It also requires that Group Management exercise own judgment in applying the Group's accounting policies. Note 3 discloses concerns involving a higher degree of judgment or complexity, or where assumptions and estimates have a material impact on the consolidated financial statements. The actual results may be fundamentally different from the estimates and assumptions employed by Group Management.

4) The Group's operational turnover period is 12 months.

5) The Group analyses the expenses recognized in the Statement of Operations by a classification method based on the expense activity characteristic.

Note 2 – Principal Accounting Policies (Continued)**:**

b. Consolidated Financial Statements:

Subsidiaries and Business Combinations

Subsidiaries are entities controlled by the Group. The Group is said to control an entity where it has the power to influence the invested entity, as well as exposure or rights to varying yields from own involvement in entity's operations and also the ability to exercise own power of influence over the invested entity to influence the sum of yields it will receive from that entity. Subsidiaries are fully consolidated starting on the date when the Group assumes control over them. Their consolidation ceases on the date when control is terminated.

The Group applies the acquisition method in its accounting treatment of business combinations. The proceeds transferred for the purchase of a subsidiary (hereinafter the Purchased Company) is calculated as the sum of the fair value qualities of the assets transferred by the Group, the liabilities created for the Group to the previous owners of the purchased company and the capital rights issued by the Group as a part of the business combination agreement. The transferred proceeds include the fair value of any asset or liability as deriving from a conditional yield arrangement. Costs related to the purchase are recognized under gain or loss upon creation.

Identified assets purchased as well as liabilities and pending liabilities assumed by the Group as a part of business combinations (with specific exceptions as detailed in IFRS 3 – Business Combinations (Amended) (hereinafter IFRS 3R)) are first measured at fair value upon purchase.

The surplus of proceeds transferred, the sum of any rights not granting control of the purchased company, and the fair value on the date of purchase of any earlier rights to the capital of the purchased company, above a net sum, as of the purchase date, of identifiable assets purchased and liabilities taken, all measured as above, are recognized as goodwill (see also f. below).

In the event that, on the date of purchase, the net sum of identifiable assets purchased and liabilities taken exceeds the total sum of proceeds transferred, the sum of any rights not granting control of the purchased company, and the fair value on the date of purchase of any earlier rights to the capital of the purchased company as above, the difference shall be recognized directly to gain or loss on the date of purchase and defined gain from a lucky buy.

Transactions, balances and profits not yet realized in transactions between Group members were written off. Unrealized losses were also written off, except where circumstances indicated the impairment of the transferred asset.

The accounting policy applied by the subsidiaries was revised as required to secure consistency with that adopted by the Group.

Note 2 – Principal Accounting Policies (Continued)**:**

Investee Companies

Associated companies are entities where the Company has a materiel influence however no control, which normally reflects in voting rights in a range between 20% and 50%. Investments in associated companies are handled by the equity method.

Under the equity method, first time investment is recognized by cost, and the equity changes thus that the Company recognizes own share in the profit or loss of the associated company or of the joint transaction starting the date of acquisition.

Company's share in associated company profit or loss as incurred following the date of acquisition is charged to profit or loss, and its share in Other Comprehensive Income following the date of acquisition is charged to Other Comprehensive Income against the book value of the investment.

At every reporting date, the Company determines whether or not there is any indication of impairment to the investment in the associated company or joint transaction. In the event of such indication, the Company calculates the sum of impairment as the difference between the recoverable portion of the investment (usage value or fair value less sale costs, whichever is higher) and its book value, and recognizes the sum of impairment under profit or loss closely to the item entitled "Share in profit (loss) by investee companies using the equity method".

Profit or loss from transactions between the Company and the associated companies, as well as joint transactions, are recognized in Company statements only to the extent of external investors share in the associated company. Company's own share in the profit or loss by the associated company as arise from these transactions is written off.

The accounting policy applied by the associated companies and joint transactions was revised as required to secure consistency with that practiced by the Company.

Note 2 – Principal Accounting Policies (Continued)**:**

c. **Conversion of Functional Currency to Presentation Currency and Translation of Balances and Transactions in Foreign Currencies**

1) Functional and Presentation Currency

Items included in the Financial Statements of each Group member are measured using the currency of the primary economic environment where that entity operates (hereinafter Functional Currency). The Consolidated Financial Statements are presented in USD, which is both the Company's functional and its presentation currency.

Following are the changes which occurred during the reported periods in the exchange rate of the US dollar (hereinafter USD) versus NIS and the rate of Euro versus USD:

	Change in USD/NIS Exchange Rate	**Change in Euro/USD Exchange Rate**
	%	%
Year ending December 31, 2014	12.0	(12.0)
Year ending December 31, 2013	(7.0)	4.5

The exchange rate of USD vs. NIS on December 31, 2014 is $1 = 3.889 NIS

The exchange rate of Euro vs. USD on December 31, 2014 is €1 = $1.215

Note 2 – Principal Accounting Policies (Continued)**:**

c. Conversion of Functional Currency to Presentation Currency and Translation of Balances and Transactions in Foreign Currencies (Continued)

2) Transactions and Balances in Foreign Currencies

Transactions in currencies other than the functional currency (hereinafter Foreign Currency) are translated into the functional currency using the exchange rates in effect on the date of transaction. Exchange rate differences resulting from the settlement of such transactions and from the translation monetary assets and liabilities denominated in foreign currencies according to exchange rates at the end of the period are charged to gain or loss, except where charged in a different comprehensive profit framework such as a cash flow hedge.

Profit and loss from exchange rate differences as related to monetary assets or liabilities are presented in the Comprehensive Income Report under Financing Expenses, Net.

3) Translation of Financial Statements of Group Members

The results and financial status of all Group members (the functional currency of none of which is a currency from a hyperinflationary economy) whose functional currency is other than the Company's presentation currency are translated into the presentation currency in the following manner:

a) Financial assets and liabilities in the Balance Sheet are translated according to the closing rate on the Balance Sheet date**.**

b) Revenues and expenses in the individual Statements of Operations are translated according to average exchange rates for the period (except where this average does not reasonably approximates the accumulated effect of the exchange rates on the date of transaction, in which event revenues and expenses are translated according to the exchange rate in effect on the date of transaction).

c) All exchange rate differences created are recognized under Other Comprehensive Income.

Note 2 – Principal Accounting Policies (Continued)**:**

d. Fixed Assets

Fixed assets are presented at cost net of accumulated depreciation, provision to impairment and deduction of referring investment grant sum. Historical cost includes expenses directly attributable to the acquisition of the items. Depreciation of assets, other than non-depreciated owned land, is calculated by the straight line method over the estimated useful life of the fixed asset items in the following manner:

	%
Buildings	2-7 (Mainly 4%)
Machinery and equipment	7-25 (Mainly 7%)
Furnishings, office equipment and vehicles	6-25 (Mainly 7%)

General significant renovation costs are amortized across the asset's remaining useful life span, or until the next general renovation, whichever is earlier.

Improvements to rental properties are amortized by the equal depreciation method over the term of the lease or the expected life span of these improvements, whichever is shorter.

e. Investment Property

Investment property includes an office building owned by Schiesser in Germany which is held for capital value gain by a long term yield from rental fees. This asset is not used by the Group for any production, supply, service provision or administrative purposes or for sale in the course of normal business operations.

Real estate assets held for investment are first measured by fair value as a part of acquisition cost allocations as run by the Company.

Following initial recognition, the Group measures own investment real estate assets at historical cost net of accumulated depreciation.

Note 2 – Principal Accounting Policies (Continued)**:**

f. Intangible Assets

1) Goodwill

Goodwill represents the surplus of proceeds transferred due to the purchase of a subsidiary over the net sum on the date of purchase of identifiable assets purchased and liabilities. Goodwill is included under Intangible Assets. The Group reviews goodwill annually for impairment. Goodwill is presented at cost, less losses accumulated due to impairments, if any. Losses from the impairment of goodwill are not written off by later appreciations.

Goodwill is charged to cash generating units for the purpose of impairment testing. Allocation is accomplished for individual cash generating units or groups of cash generating units expected to benefit financially from the business combination resulting in the goodwill, which is no greater than the operating segment.

See note 9b for impairment of goodwill.

2) Contractual Customer Relations

Customer relationships acquired as a part of a business combination are included at their fair value on the date of purchase and amortized by the straight line method over their useful life span of 20 years.

3) Trademarks

a. Rights to use trademarks are recorded at the discounted sum of the liability for minimum royalty payments, and are amortized over their contract period (normally 3 to 4 years) or their estimated period of use, whichever is shorter; see also note 9c.

b. Some trademarks acquired as a part of a business combination are recognized at their fair value on the date of purchase.

4) Brand Labels

Labels were included at their fair value on the date of purchase. Owned labels are of an indefinite useful life span and are therefore not amortized.

See note 9d for impairment of label value.

5) Computer Software

Computer software licenses are presented based on the costs accumulated in the acquisition and utilization of the software. These costs are amortized over the estimated useful life span of the software (4 years). Costs related to computer software maintenance are recognized as expenses upon creation. Costs directly associated with the development of unique and identified software products under Group control and which would, in high probability, generate financial benefits in excess of their direct, employee related costs, accumulated in the course of software development, and also an appropriate proportion of the relevant indirect expenses, are capitalized into intangible assets.

Note 2 – Principal Accounting Policies (Continued)**:**

g. Impairment of Non Financial Assets

Assets of an indefinite useful life span, such as goodwill and brand labels, are not subjected to amortization and are tested annually for impairment.

Assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their book value may not be recoverable. The loss recognized for impairment equals the sum by which the asset's book value exceeds its recoverable sum. An asset's recoverable sum is its fair value less cost of sales or its value of use, whichever is higher. To assess impairment, assets are classified by the lowest levels provided with separate identifiable cash flows (cash generating units). Non financial assets other than goodwill, which suffer impairment, are reviewed for possible reversal of the impairment recognized for them at each Balance Sheet date.

h. Non Current Assets Held for Sale

Non current assets (or disposal groups) are classified as assets held for sale when the Group is about to recover their book value, mostly through a sale transaction, and the assessment is that the sale transaction is highly probable. These assets are recognized at their book value or their fair value less cost of sales, whichever is lower, however only where the Group expects to recover the book value mostly through a sale transaction rather than through continuous use of the assets.

i. Financial Assets

1) Classification

The Group classifies its financial assets by the following categories: Financial Assets at Fair Value through Profit and Loss, or Loans and Receivables. Classification is determined by the purpose of the purchase. Group Management determines the classification of the financial assets upon initial recognition.

The Company has no financial assets held for maturity or such which are available for sale.

a. Financial Assets Measured at Fair Value Through Profit or Loss:

   Derivative financial instruments are classified as available for sale, except where they are intended for hedging purposes.

b. Loans and Accounts Receivable:

   Loans and receivables are non derivative financial assets with fixed or fixable payments and which are not quoted on an active market. These assets are included under Current Assets except where the time to redemption exceeds one year from the Balance Sheet date, in which event they are classified as non current.

Note 2 – Principal Accounting Policies (Continued)**:**

2) Recognition and Measurement

Standard purchases and sales of financial assets are recorded in the Group's books on the date when the transaction is cleared, which is the date on which the asset is delivered to or by the Group. Financial assets presented at fair value through profit or loss are first recognized at fair value, and the transaction expenses are charged to the Statement of comprehensive income. Financial assets are subtracted when the rights to receive cash flows from the investments expire or are passed on, and the Group has passed on all risks and yields from ownership of these assets. Financial assets at fair value via profit or loss are presented in consecutive periods at fair value. Loans and receivables initially recognized at fair value plus transaction costs are presented at amortized cost by the effective interest method.

See note 4 for the method by which the fair value of the Group's financial instruments is measured.

3) Impairment of Loans and Accounts Receivable

On each Balance Sheet date, the Group assesses whether or not any objective evidence exists to the effect that a financial asset or a group of financial assets has been impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as result of one or more events which had occurred after the initial recognition of the asset (Loss Event) and if the said loss event (or events) have any reliably assessable impact on the future cash flow estimates of the financial asset or group of financial assets.

The group first assesses whether or not objective evidence of impairment exists. Where such evidence is indicated, the sum of the impairment loss recognized in the Financial Statements is measured as the difference between the asset's book value and the present value of its estimated future cash flows (excluding future credit losses which have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate calculated upon initial recognition in the Financial Statements).

Where, in a subsequent period, the amount of the impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognized (such as an improvement to the debtor's credit rating), the reversal of the previously recognized impairment loss shall be recognized under the related item.

See l. below for impairment of trade receivables.

Note 2 – Principal Accounting Policies (Continued)**:**

4) Offsetting of Financial Instruments

Financial instruments and liabilities are offset and the net sums are presented in the Balance Sheet Report where an immediate legal right (unconditional by the occurrence of a future event) legally enforceable under any of the following circumstances permits the offset of the sums recognized: during the normal course of business, in the event of credit failure and in the event of insolvency or bankruptcy by the entity and by all of the counter parties, and also where the intention is to clear the financial assets and liabilities on a net base or to sell the asset and clear the liability concurrently.

j. Derivative Financial Instruments and Hedging Activities

Derivative instruments are initially recognized at their fair value upon engagement in the derivative contract, and are re-measured in consecutive periods at fair value.

The method by which profit or loss deriving from changes in fair value are recognized depends on whether or not the derived instrument is intended as a hedging instrument, and if so, on the nature of the hedged item.

Changes to the fair value of non hedging financial derivatives are charged to profit or loss under Other Income (Expenses) – Net.

The Group designates specific derivative instruments for cash flow hedging as follows:

On hedge creation, the Group documents the link between protective instruments and hedged items, as well as all risk management and strategy goals as related to various hedging agreements. The Group also documents, both on hedge creation and on an ongoing basis, its estimates of the extent to which the derivative instruments used in hedging transactions are effective in securing offsetting changes in cash flows of hedged items.

The fair value of derivative instruments used for hedging purposes is detailed under note 11b. The change is charged to Other Comprehensive Income and presented as a part of the shareholders equity changes report. The full fair value of a hedging derivative is classified as a non current asset or liability where the remaining time to redemption of the hedged item is longer than 12 months from the Balance Sheet date, or as a current asset or liability where the remaining time to hedged item's redemption is under 12 months from the Balance Sheet date.

All profit or loss as related to the non effective portion are recognized immediately in the profit and loss report under Other Income (Expenses) – Net. Capital accumulated sums are reclassified into the profit and loss in the periods when the hedged item affects the profit or loss.

Note 2 – Principal Accounting Policies (Continued)**:**

k. Inventory

The inventory of finished goods purchased by the Company is assessed at cost or realizable value, whichever is lower. The cost is determined based on a moving average.

The cost of finished goods and in-process inventory includes direct manufacturing costs, salary expenses and loaded indirect costs at normal capacity. Inventory values are amortized according to projections of its discontinuation, based on assumptions regarding demand and future market conditions.

The net realization value is the estimated selling price in the normal course of business, less costs of consummation and sales.

l. Account Receivables

Account receivables are initially recognized at fair value less provision to doubtful debt. The provision to doubtful debt is created when objective evidence exists of Group's inability to collect all sums owed it under the original terms of the debit balances. Material customer difficulties, the probability of their going bankrupt or undergoing economic reorganization and insolvency or material delays in payments are all considered indicative of reduced debtor balance value. The book value of the debt is reduced through the provision account, and the sum of the loss is recognized in the Comprehensive Income (Loss) Report under Administrative and General Expenses. Uncollectible customer debts are erased against the provision to doubtful debts.

The Company provides a discount for the debit balance of a material customer and of an additional customer. The discount is provided through US and UK banks, with no recourse. The results of the discount action are charged to Financing Expenses.

m. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and short term bank deposits with original maturities not exceeding three months.

n. Treasury Shares

The purchase cost of Company's own shares (treasury shares) is deducted from the equity attributed to the owners of the parent company until such time when the shares are cancelled and re-issued.

Note 2 – Principal Accounting Policies (Continued)**:**

o. Loans Received and Debentures

Loans received and debentures are initially recognized at fair value, less transaction costs. In subsequent periods, the loans are presented at amortized cost with the difference between the sum of the loan initially recognized and the redemption value recognized in the Comprehensive Income (Loss) Report across the loan or debentures period by the effective interest method.

p. Current and Deferred Taxes

Taxes on income include current and deferred taxes. Taxes on income are charged to profit or loss except for items charged to Other Comprehensive Income (Loss) or directly to equity, respectively, along with the item for which they were created. In these cases, the tax influence is also charged to Other Comprehensive Income (Loss), or directly to Equity.

Current taxes are tax sums expected to be payable for taxable income, calculated according to tax rates and tax statutes legislated or effectively legislated as of the Balance Sheet date in countries where the Company and its subsidiaries operate, including tax payments referring to previous years.

From time to time, Group Management studies tax aspects as applicable to its taxable income under the relevant tax laws, and creates provisions as required.

Deferred taxes are calculated fully by the liability method for all temporary differences between the sums of assets and liabilities as reported in the Consolidated Financial Statements and the sums taken into account for tax purposes, with the exception of temporary differences created upon first-time recognition of goodwill and temporary differences created upon initial recognition of an asset or liability which have no impact on profit or loss on that date – whether that considered for accounting purposes or that reported for tax purposes (except where the temporary difference arises from an initial recognition of a business combination transaction).

Deferred tax assets are recognized for all temporary differences deductable for tax purposes, within the sum of the differentials which may be expected to be used in the future against taxable revenues. Deferred tax assets are reviewed at each reporting date and are amortized if the related tax benefits are not expected to be realized.

Deferred tax balances are calculated by tax rates as are expected to apply upon realization of the deferred tax asset or settlement of the deferred tax liability, all according to tax rates and under tax laws as have been enacted or effectively enacted in the countries where these companies operate, as of the Balance Sheet date.

Calculation of deferred taxes did not take into account taxes which would have been created in the event of realization of investments in subsidiaries or companies handled by the book value method, as it is a Company policy to hold these investments and not realize them.

The Group may be liable for additional tax in the event of inter-company dividend distribution. This added tax has not been accounted for in light of the Company's policy to avoid dividend distributions involving additional tax in the foreseeable future.

Note 2 – Principal Accounting Policies (Continued)**:**

q. Employee Benefits

The Group provides several benefit plans for terminating employees, which include Defined Benefit plans and Defined Deposit plans.

1) Severance Pay/ Pension Liability

Defined Deposit plans are benefit plans for terminating employees whereby member companies of the Group make fixed deposits to a separate and independent entity thus that the Group has no legal or implied obligation to make additional deposits when the fund cannot pay all of the employees all of the benefits owed for work services in the current period and in earlier periods.

Defined Benefit plans are benefit plans for terminating employees other than Defined Deposit plans.

Member companies of the Group provide a number of pension plans financed by payments transferred to insurance companies or to pension funds managed under trust indentures. Subject to their terms and conditions, these pension plans meet the Defined Deposit plan criterion.

Under the labor laws and labor agreements in Israel and according to Company practices, the Company is liable for severance pay on employees dismissal or retirement under specific circumstances. For some employees, Company's severance pay liability is covered under a Defined Benefit plan; for all of the other employees, it is covered under a Defined Deposit plan.

Company's obligation to other employees as covered under Defined Deposit plans is to make fixed deposits to a separate and independent entity thus that the Company has no legal or implied obligations to make additional deposits when the fund cannot pay all of the employees all of the benefits owed for work services in the current period and in earlier periods.

Under Group member obligations to employees covered under Defined Benefit plans, the sums of the benefits received by employees entitled to severance pay on retirement are based on their years of employment with the Group and their last wages.

The total of Company's severance pay liability as presented in the Balance Sheet is the current value of the Defined Benefit liability as of the Balance Sheet date, less the fair value of the plan assets. The Defined Benefit liability is measured on a yearly basis by an actuary, using the projected unit credit method.

The current value of the liability is determined through capitalization of future cash flows expected (with the expected rate of wage increase considered), based on interest rates as apply to government debentures in Israel or corporate debenture, subject to debenture negotiability in the countries where member companies of the Group operate, denominated in the currency in which the benefits will be paid and whose time to redemption is nearing that of the severance pay liability period.

Note 2 – Principal Accounting Policies (Continued)**:**

q. Employee Benefits (Continued)

Under International accounting Standard 19 – Employee Benefits (hereinafter IAS 19), the interest rate used by the Company to capitalize expected future cash flows so as to allow calculation of the actuary liability was based on the interest rates of high rating corporate debentures.

Starting the date of transition to the application of international accounting practices in Israel on January 1 of 2008, a practice has been established in Israel where no deep market is available locally for high rating corporate debentures, hence the rate employed by the Company in capitalizing Defined Benefit plan liabilities in the financial statements prepared up to Q3 of 2014 was based on the market yields of government debentures.

On November 25 of 2014, a staff position was published by the Securities Authority whereby a deep market is run in Israel for high rating, index linked corporate debentures based on the NIS as currency. Hence, under this staff position, when measuring employee related liabilities classified as Defined Benefit plans, the use of government debentures rate of yield should be abandoned in favor of high rate corporate debentures rate of yield. Under the staff position, this transition should be implemented by way of "from this date onward", i.e. change of estimate.

The interest rate employed by the Company in capitalizing the expected future cash flows to allow calculation of Defined Benefit plan liabilities in the financial statements at end of 2014 was consequently established based on the interest rates of high rating NIS corporate debentures. The impact of the change to the liability capitalization rate as above was charged to Comprehensive Income under the item entitled "Remeasurements of severance pay liabilities (net)".

Member companies of the Group charge re-measurements of net liabilities for defined benefits to Other Comprehensive Income in the period when they were created. The need for such re-measurements arises from changes to actuary assumptions, differences between past assumptions and actual results, and differences between plan asset yields and the sums included in the net interest on the net liability (asset) for the defined benefit.

The costs of past services are recognized ongoingly in the Profit/ Loss report.

Severance pay reserves are measured at fair value. These reserves constitute plan assets under the IAS 19 definition and hence were deducted from the balance of severance pay liabilities for the purpose of presentation in the Balance Sheet.

As noted above, member companies of the Group purchase insurance policies and make deposits in pension and compensation funds to cover own Defined Deposit plan liabilities. Upon making the deposits, they are not obligated to make additional payments. The deposits are recognized as employee benefit expenses against employee services for which they are entitled to such deposits. Advance deposits are recognized as an asset to the extent that the Group is entitled to cash refunds or subtraction in future payments.

Note 2 – Principal Accounting Policies (Continued)**:**

q. Employee Benefits (Continued)

2) Vacation and Convalescence Pay

Under the labor laws in Israel and in some of the other countries where the Company operates, every employee is entitled to vacation days and convalescence days, both calculated on a yearly basis. Entitlement is established throughout the employee's period of employment with the Company. The Group recognizes own liability and expense for vacation and convalescence pay based on the benefit accumulated for the individual employee on a non capitalized basis.

3) Executive Compensation

The Company recognizes own liability and expense for executive compensation based on various compensation components which vary with rank and which may be changed from one year to the next by a Company Management decision. The Company recognizes this provision where under a contractual obligation or under an implied obligation created by a past practice.

r. Share Based Payments

The Company's Board of Directors approves plans for the issue of options to Group employees from time to time; see note 13 hereunder. Some of the options granted are occasionally subject to attainment of operational goals. The fair value of the options on the day granted is charged as a salary expense concurrent with an increase in capital, across the period when the employees become entitled to options and when all of the conditions required for the maturation of a share based payment arrangement are met. The sum charged as an expense is adjusted as required to reflect the number of options and/or restricted share units (RSU) expected to vest.

When the options to purchase the shares are exercised, the resulting exercise supplement is charged to stock capital (at their par value) and to stock premium.

s. Provisions

Provisions for restructuring costs are recognized in the Financial Statements where the Group has a legal or implied liability resulting from past events or where the Group is expected to bear the cash flows so as to redeem the liabilities and the sum can be reliably estimated. Provisions for restructuring expenses include employee compensation payments where the Group approves a formal and detailed restructuring plan, and where restructuring has actually begun or announced (see note 19e). The provisions do not include future operational costs.

The provisions are measured by the current value of Management's best estimates regarding the cash flows expected to be required to clear existing commitments as of the Balance Sheet date.

Note 2 – Principal Accounting Policies (Continued):

t. Revenues

Group’s sales reflect revenues from the sale of goods. Group's revenues are measured at fair value of proceeds received or such which the group is entitled to receive in respect of sales over the normal course of Group operations. The revenues are presented net of VAT, returns, credits and discounts and after write off of inter-group revenues.

The Group recognizes revenues from the sale of goods when all the following conditions are met: (a) all significant risks and yields arising from ownership of the goods have been transferred to the buyer; (b) the Group no longer maintains effective control over the goods or continued administrative involvement at a typical ownership level; (c) the sum of revenues is reliably measurable; (d) the financial benefits associated with the transaction are expected to accrue to the Group; and (e) all costs incurred or which will be incurred with regard to the transaction are reliably measurable.

Discounts awarded to customers at the point of sale or as a function of purchase volume, whether pursuant to an agreement with the customer or otherwise, are deducted from revenues in the Financial Statements.

The Company bases its estimates on past experience, taking into account the type of customer, the type of transaction and the specific details of the specific arrangement.

u. Lease Agreements

Lease agreements whereby a significant portion of the risks and yields of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Report on Comprehensive Income (Loss) by the straight line method for the duration of the lease.

Advance payments for land leasing rights for a period of 38 to 40 years for which the Company has paid capitalized lease payments to the Administration are presented under Prepaid Expenses and depreciated over the usage period as above.

The lease agreements grant the Company the right to extend the agreement period by another 49 years.

The Group leases specific fixed asset items. Leases of fixed assets where the Group has been materially transferred all of the ownership risks and rewards are classified as financing leases. Financing leases are recognized as assets and liabilities at the commencement of the lease at the fair value of the leased property or the present value of the minimum lease payments, whichever is lower.

Note 2 – Principal Accounting Policies (Continued)**:**

v. Earnings per Share

The basic earnings per share are normally calculated by the net profit (loss) distributable to ordinary shareholders, divided by the weighted average of the number of ordinary shares in circulation during the period, less treasury shares.

In calculating the diluted earnings per share, the weighted average of the number of shares to be issued is also added to the ordinary share average, assuming that all diluting potential shares will be converted to shares. The potential shares are only taken into account as above if they have a diluting effect (decreasing the profit or increasing the loss per share).

w. Dividend Distribution

Dividend distribution to the Company owners is recognized as a liability in the Group's Balance Sheets in the period when the dividends were released for distribution by the Company's Board of Directors.

Standards, amendments and interpretations to standards yet to enter in effect and which the Group has not chosen for early application:

a) International Financial Reporting Standard 9 – Financial Instruments (hereinafter IFRS 9):

IFRS 9 deals with the classification and measurement of financial assets and liabilities. The full version of IFRS 9 was published on July of 2014. This standard supersedes the current instructions provided under International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" (hereinafter: IAS 39) as apply to financial instruments classification and measurement. IFRS 9 still employs the combined model serving to measure financial assets however in a simplified version based on three major categories: amortized cost, fair value under Other Comprehensive Income, and fair value under Profit or Loss. This classification is based on the business model of the entity as well as on the characteristics of the contractual cash flow of the financial asset. Investments in capital instruments shall be measured at fair value under profit or Loss, however the entity management may, at the date of initial recognition and irrevocably, present the changes to the fair value of a capital instrument under Other Comprehensive Income without requiring reclassification as profit and loss (recycling).

Note 2 – Principal Accounting Policies (Continued)**:**

The standard presents a new model of impairment of financial assets, based on expected credit losses (Expected Credit Loss Model), to substitute the current one provided under IAS 39, which is based on incurred losses (Incurred Loss Model).

The standard offers no change insofar as classification and measurement of financial liabilities are concerned except for recognition under Other Comprehensive Income of any change to liabilities designated for fair value under profit or loss as due to the entity's self credit risk.

IFRS 9 alleviates the requirements to evaluate hedge effectiveness by replacing the conformance requirement with specific, quantitative evaluation guidelines. IFRS 9 requires a financial ratio of hedging instrument to hedged item, and that such "hedging ratio" be identical to that actually employed by the entity management in management of own risks. The standard retains the requirement for documentation throughout the hedging period, however the documents required differ from those required under IAS 39.

The standard will be applied retrospectively to annual periods starting January 1 of 2018. Under IFRS 9 provisions, early application is possible. The Company is reviewing the expected impact of IFRS 9 on own Financial Statements.

b) International Financial Reporting Standard 15 – Revenues from Customer Contracts (hereinafter IFRS 15):

IFRS 15 will, on first time application, supersede revenue recognition instructions as currently provided under the International Accounting standards.

IFRS 15 is based on a core concept whereby revenues from customer contracts should be so recognized as to reflect reassignment of control over goods or services provided to customers under contractual provisions by sums representing the proceeds which, in entity's expectation, it will be entitled to receive for such goods or services.

IFRS 15 establishes one single revenue recognition model whereby the entity will recognize revenues under a core concept as above in five stages as follows:

(1) Identification of customer's contract.

(2) Identification of the contractual obligations.

(3) Establishment of the transaction price.

(4) Attribution of the transaction price to the various contractual obligations.

(5) Recognition of the revenues on completion of each individual obligation.

IFRS 15 covers accounting rules as apply to a broad variety of model implementation concerns such as recognition of revenues from variable proceeds set under the contract, adjustment of the transaction price set under the contract so as to reflect the time value of money, and costs as related to the attainment and pursuit of a contract.

Note 2 – Principal Accounting Policies (Continued)**:**

The standard expands disclosure requirements as apply to revenues, requiring, inter alia, the provision of quantitative and qualitative information on significant Management judgments as were considered in setting of the revenues recognized.

The standard will be applied retrospectively to annual periods starting January 1 of 2017 or subsequently, considering reliefs as provided under the IFRS 15 transition instructions.

Under IFRS 15 provisions, early application is possible. The Company is reviewing the expected impact of IFRS 15 on own Financial Statements.

c) International Financial Reporting Standard 10 – Consolidated Financial Statements (hereinafter IFRS 10) and International Accounting Standard 28 – Investments in Investee and Jointly Owned Companies (hereinafter IAS 28):

The Amendments deal with the sale or donation of assets between an investor and an investee company or a joint transaction, to resolve any inconsistency between IFRS 10 and IAS 28. Under the Amendments, where the assets transferred constitute a "business" as defined under IAS 3 (Business Combinations), the profit or loss will be recognized fully, whereas where the assets transferred do not constitute a business, the investor will recognize the profit or loss only to the extent of external investors share in the investee company or joint transaction.

These Amendments will be applied retrospectively to annual periods starting January 1 of 2016 or subsequently. Under amendment provisions, early application is possible.

d) Amendment to International Accounting Standard 1 – Presentation of Financial Statements (hereinafter Amendment to IAS 1):

The IAS 1 Amendment deals with the materiality and implications of disclosures as provided under financial statements, the presentation of interim summaries, the sequence of notes to financial statements, and disclosures as relate to the accounting policy.

The Amendment will be applied to annual periods starting January 1 of 2016 or subsequently. Under amendment provisions, early application is possible.

Note 3 – Material Accounting Estimates and Judgments:

As a part of the financial reporting process, Company Management is required to make certain assumptions and estimates which may impact the value of its assets, liabilities, revenues, expenses and some of the disclosures provided in the Group's Consolidated Statements. By their nature, these estimates may be subjective and complex, and hence different from the actual results.

The accounting estimates and assumptions employed in the preparation of the Financial Statements are reviewed regularly and are based on past experience and other factors, including future events which are reasonably likely to occur in view of current circumstances.

Below is a description of critical accounting estimates employed in the preparation of the Financial Statements, the formulation of which required the Company to make assumptions with regard to circumstances and events which involve significant uncertainty. In exercising its judgment for the purpose of making accounting estimates, the Company takes into account the relevant facts, past experience, the impact of external factors and assumptions reasonable under the circumstances, as applicable.

a. Critical Accounting Estimates and Assumptions

1) Inventory

The Company makes monthly estimates as required for amortization of slow or dead inventory, based on past experience, remaining inventory balances from previous seasons and sale forecasts.

2) Goodwill

Once a year or on occurrence of events, the Company reviews the need to recognize the impairment of goodwill, based on Management forecasts regarding the discounted amount of the cash flow expected of the cash generating unit to which goodwill refers. See note 9b.

3) Fixed Assets

Depreciation expenses due to fixed assets are calculated by the straight line method based on the estimated time of usage by the Company.

In addition, the Company reviews the need for additional amortization whenever possible impairment is indicated.

4) Brand Labels

The Schiesser label was acquired as a part of the Schiesser transaction in 2012 (see note 6), presented at fair value and calculated as a part of purchase cost allocation as was accomplished by an external value appraiser. See note 9d(2).

The other brand labels also include KN Karen Neuburger, Little Miss Matched and Fix as were purchased in 2011, 2012 and 2014, respectively, and which are presented at historical cost and are not amortized regularly.

At minimum one year intervals and on occurrence of events., the Company reviews the need for provision for impairment. See note 9d(3).

Note 3 – Material Accounting Estimates and Judgments (Continued)

5) Financial Derivatives

The financial derivative serves to hedge cash flows due to debenture payments against exchange rate risks, as shown under note 11b.

6) Taxes on Income and Deferred Taxes

The Group is assessed for tax purposes in a large number of jurisdictions, with the Group Management consequently required to apply considerable judgment in determining the overall provision for taxes on income. The Group lists provisions in its books based on its estimates regarding the possible likelihood of additional tax payments for these transactions.

Where the final tax liability determined by the tax authorities differs from the tax liability accounted for in previous periods, the difference shall be charged to Profit/ Loss in the period when such final assessment was made by the tax authorities.

Also, the Group records deferred tax assets and deferred tax liabilities based on the differences between the book sums of assets and liabilities and their sums as considered for tax purposes. The Group regularly reviews the recoverability of deferred tax assets as included in its accounts, based on historical taxable revenues, projected taxable revenues, the timing of the expected reversal of temporary differences and the implementation of tax planning strategies. If the Company is unable to derive sufficient future taxable revenues, or in the event of a material change to effective tax rates in the period when the temporary differences become taxable or deductible, the Group may be required to reverse some of its deferred tax assets or to increase its deferred tax liabilities, which may increase its effective tax rate and adversely impact its operating results.

Note 4 – Financial Instruments and Financial Risk Management:

a. Financial Risk Factors

Group operations are exposed to a variety of financial risks: market risks (including exchange rate risk, cash flow interest rate risk and price risk), credit risks and liquidity risks. The Group's risk management program focuses on the uncertainty of financial markets and seeks ways to minimize potential adverse effects on Group's financial performance. From time to time, the Group makes use of financial derivatives to hedge specific risk exposures.

The Group manages own financial risks based on a policy as has been approved by its Board of Directors and Top Management and which covers the management of exchange rate risks, credit risks and cash management.

1) Market Risks:

a) Exchange Rate Risks

The Group operates on a global scale and is exposed to exchange rate fluctuations, primarily of the Euro/Dollar and ILS/Dollar rate. Exchange rate risks arise from commercial transactions, assets or liabilities denominated in foreign currency, and net investments in foreign operations.

The Group occasionally invests in foreign currency derivatives – forward contracts, so as to protect itself from the risk of cash flow from surplus of income in Euro being affected by any change to the exchange rates. The Group also invests in foreign currency derivatives (Euro/ Czech Crown), forward contracts or options to protect from the risk of cash flow as deriving from the production costs of the Company's plant in the Czech Republic being affected by any change to the exchange rates. The duration of these contracts is normally shorter than one year. These transactions are primarily designed for protection against changes to the said exchange rates, however, as of the Balance Sheet date, they do not constitute accounting hedges.

See note 11 for hedging transactions for cash flows from the issue of NIS debentures.

Exchange rate risk is indicated where future commercial transactions or assets and liabilities recognized in the Financial Statements are measured and denominated in a currency other than the functional currency of the entity.

As of December 31, 2014, had the Group's functional currency weakened/ strengthened by 5% or by 10% against the NIS with all other variables remaining constant, the comprehensive income for the year would have been lower/ higher by some $202,000 or $404,000, respectively,($52,000 and $104,000 in 2013), mostly as a result of profits/ losses from changes in exchange rates due to the translation of net financial balances as presented in the Company's Balance Sheet and denominated in NIS.

Note 4 – Financial Instruments and Financial Risk Management (Continued)**:**

a. Financial Risk Factors (Continued)

1) Market Risks (Continued):

As of December 31, 2014, had the Group's functional currency weakened/ strengthened by 5% or by 10% against the Euro with all other variables remaining constant, the comprehensive income for the year would have been lower/ higher by some $23,000 or $46,000, respectively,($1,200,000 and $2,400,000 in 2013), mostly as a result of profits/ losses from changes in exchange rates due to the translation of net financial balances as presented in the Company's Balance Sheet and denominated in Euro.

a. Note on linking of financial items:

	As of December 31, 2014				
	In Dollars	**In Euros**	**In NIS**	**In Other Currencies**	**Total**
	Thousands of Dollars				
Assets:					
Current assets:					
Cash and cash equivalents	151,015	11,202	1,652	3,089	166,958
Limited cash	179	71	-	119	369
Trade receivables	68,257	13,756	23,568	2,978	108,559
Other accounts receivable	19,653	354	6,539	2,020	28,566
Financial derivative (*)	329	-	-	-	329
Long term balances	2,323	159	275	-	2,757
Long term financial derivative (*)	1,254	-	-	-	1,254
Total assets	**243,010**	**25,542**	**32,034**	**8,206**	**308,792**
Liabilities:					
Current liabilities:					
Short term loans and current maturities of long term loans from banking corporations	-	-	-	931	931
Current maturities of debentures (*)	23,054	-	-	-	23,054
Financial derivative (*)	2,235	-	-	-	2,235
Trade payables	61,357	7,434	8,512	3,345	80,648
Other accounts payable	25,110	14,911	16,906	5,359	62,286
Debentures (*)	197,262	-	-	-	197,262
Long term financial derivative (*)	8,784	-	-	-	8,784
Other long term loans and liabilities	13,760	3,660	2,579	-	19,999
Total liabilities	**331,562**	**26,005**	**27,997**	**9,635**	**395,199**
Balance sheet total, net	**(88,552)**	**(463)**	**4,037**	**(1,429)**	**(86,407)**

(*) Debentures series issued are denominated in NIS and bear fixed NIS interest. The Company has entered into swap agreements with banks to swap the NIS cash flows for a dollar cash flow, hence this liability is presented as linked to the USD (see notes 11a and 11b).

Note 4 – Financial Instruments and Financial Risk Management (Continued)**:**

b. Analysis of sensitivity to difference in the capitalization rate of off Balance Sheet liabilities, in thousands of dollars:

Sensitivity analysis to the difference in the capitalization rate with respect to rental and franchise agreements denominated in NIS:

	10% Increase[1]	5% Increase[2]	12% Capitalization Rate	5% Decrease[3]	10% Decrease[4]
Change to the fair value before tax	388	196	21,684	(200)	(405)

Sensitivity analysis to the difference in the capitalization rate with respect to rental and franchise agreements denominated in Euro:

	10% Increase[1]	5% Increase[2]	12% Capitalization Rate	5% Decrease[3]	10% Decrease[4]
Change to the fair value before tax	592	300	27,063	(307)	(622)

(1) For a capitalization rate of 13.2%.

(2) For a capitalization rate of 12.6%.

(3) For a capitalization rate of 11.4%.

(4) For a capitalization rate of 10.8%.

Note 4 – Financial Instruments and Financial Risk Management (Continued)**:**

Note on linking of financial items:

	As of December 31, 2013				
	In Dollars	**In Euros**	**In NIS**	**In Other Currencies Others**	**Total**
	Thousands of Dollars				
Assets:					
Current assets:					
Cash and cash equivalents	90,199	4,365	457	2,325	97,346
Limited cash	-	1,316	-	132	1,448
Trade receivables	68,959	14,950	24,184	4,200	112,293
Other accounts receivable	754	126	2,644	3,109	6,633
Financial derivative (*)	2,955	-	-	-	2,955
Long term receivables	13,599	181	384	146	14,310
Long term financial derivative (*)	10,942	-	-	-	10,942
Total assets	**187,408**	**20,938**	**27,669**	**9,912**	**245,927**
Liabilities:					
Current liabilities:					
Short term loans and current maturities of long term loans from banking corporations	13,533	11,891	4	1,160	26,588
Current maturities of debentures (*)	17,847	-	-	-	17,847
Trade payables	49,934	10,337	7,658	3,354	71,283
Other accounts payable	17,322	18,120	18,098	6,915	60,455
Debentures (*)	129,717	-	-	-	129,717
Long term loans and other liabilities	11,413	4,660	869	254	17,196
Total liabilities	**239,766**	**45,008**	**26,629**	**11,683**	**323,086**
Balance sheet total, net	**(52,358)**	**(24,070)**	**1,040**	**(1,771)**	**(77,159)**

(*) Debentures series issued are denominated in NIS and bear fixed NIS interest. The Company has entered into swap agreements with banks to swap the NIS cash flows for a dollar cash flow, hence this liability is presented as linked to the USD (see notes 11a and 11b).

Note 4 – Financial Instruments and Financial Risk Management (Continued)**:**

c) Risk due to change of interest rate:

Interest rate related risks derive from changes to interest rates which may adversely affect the Group's net profit or cash flow. Changes to interest rates result in changes to the Group's interest income/ expenses as related to interest bearing assets and liabilities.

Since the Group has no material assets or liabilities which bear variable interest rates except for K Series debentures (see hereunder), the Group's revenues and operating cash flows are not directly affected by any change to market interest rates.

For the impact of interest rate sensitivity on Series B debentures (the one debenture series issued at a variable interest rate) issued by the Company in the course of 2014, see note 11b.

2) Credit Risks:

Credit risks are managed at the Group level. Credit risks derive primarily from cash and cash equivalents, bank deposits and customer credit exposure. The Company assesses risks as associated with the quality of customer credit by weighting customer's financial status, past record and other factors. Sales to Company customers are normally made under credit terms of up to 90 days; sales to retail customers are made in cash or by credit card through the major credit card companies.

The Group's cash and cash equivalent balance as of December 31, 2014, were mostly deposited in short term deposit accounts, mostly with Mizrahi Tefahot Bank, whose credit rating as published by S&P Maalot is AAA.

The Company estimates that the credit risk related to balances in this bank is low.

In 2014 and as of December 31 of that year, the Company has a single prime customer to whom its rate of sales amounts to approximately 17% of the consolidated sales total (approximately 12% in 2013).

Note 4 – Financial Instruments and Financial Risk Management (Continued)**:**

2) Credit Risks (Continued):

As of December 31, 2014, this customer's debt balance amounts to $10.6 million or some 10% of total customer debts. As of December 31, 2013, this customer's debt balance amounted to $1 million, or 0.9% of the customer debts total in the Company's Balance Sheet as of that date.

The increase in the customer's debt balance as of December 31, 2014, as compared with December 31, 2013, derives from the timing of sales to that customer, thus that a considerable proportion of the sales in December of 2014 were made nearing the end of the month and therefore not yet collected.

The Company rates this debt based on customer's past record and credit rating (AA) as published by S&P. The Company has no guarantees from this customer and it does not anticipate any difficulty in collecting its debt.

The balance presented under the Customers item is composed of a large number of customers which constitute a homogenous group for all intents of credit rating analysis. Provision for doubtful debts is made based on a specific provision for doubtful debts.

For the discount arrangement with a prime customer and with another customer, see note 2l.

The Company insures all credit risks in own operations with some customers under an agreement with an insurance company in Israel and in Germany.

3) Liquidity Risks:

Prudent management of the liquidity risk requires maintenance of sufficient cash and available credit facilities to finance the operations. In light of the dynamic nature of its business activity, the Group maintains financial flexibility by strict maintenance of available credit facilities (see note 19c).

The following table analyzes the Group's financial liabilities by redemption dates based on the remaining time to the contractual repayment date. The sums presented in the table represent a non-capitalized cash flow except for derivatives which are based on fair value.

Note 4 – Financial Instruments and Financial Risk Management (Continued)**:**

3) Liquidity Risks (Continued):

	Under 1 Year	1 to 2 Years	2 to 13 Years	Total
	Thousands of Dollars			
December 31, 2014:				
Debentures plus financial derivative	33,377	31,722	205,391	270,490
Credit and loans from banking corporations	931	-	-	931
Trade and other payables	130,712	-	-	130,712
Other liabilities	11,164	14,536	8,028	33,728
	176,184	46,258	213,419	435,861
December 31, 2013:				
Debentures less financial derivative	25,564	28,455	129,441	183,460
Credit and loans from banking corporations, including expected interest payable	26,588	-	-	26,588
Trade and other payables	120,709	-	-	120,709
Other liabilities	10,119	8,972	11,545	30,636
	182,980	37,427	140,986	361,393

Group Management periodically reviews the ratio of future cash flows as will derive from maturities of its liabilities to future cash flows as will derive from maturities of its financial assets, and changes its liability mix and maturities as required.

In Group Management's opinion, the Group’s liquidity risk is low.

b. Capital Risk Management

The Group’s capital risk management objectives are to safeguard the Group’s ability to continue operating as a going concern in order to provide investment returns to shareholders and benefits to other stakeholders, and to maintain an optimal capital structure so as to reduce the costs of capital.

From time to time, the Company considers the need to raise outside capital as applicable.

For stock repurchase of Company's shares, see note 13(a)(4) hereunder.

Note 4 – Financial Instruments and Financial Risk Management (Continued)**:**

3) Liquidity Risks (Continued):

Leverage:

Presented below is a calculation of the net financial debt to total capital (CAP) ratio as of December 31, 2014 and 2013:

	December 31	
	2014	**2013**
	Thousands of Dollars	
Financial debt, net [(1)]	64,517	63,292
Total capital (CAP) [(2)]	567,397	487,606
Leverage ratio – net financial debt to CAP	11.4%	13.0%

(1) Financial debt, net, includes short and long term credit from banks, debentures, financial derivative and related security deposit, and financing leases, less cash and cash equivalents and less limited cash.

(2) CAP refers to gross financial debt plus financial derivative and less financial derivative related security deposit, capital and deferred tax reserve.

c. Fair Value Assessments

Below is an analysis of the financial instruments measured at fair value, by assessment method, with the various levels defined as follows:

1. Quoted prices (unadjusted) in active markets where identical assets or liabilities are traded (Level 1).
2. Data other than quoted prices as included under Level 1, which may be observed regarding the asset or liability either directly (i.e. as prices) or indirectly (i.e. as price derivatives) (Level 2).
3. Data regarding the asset or liability, other than such which are based on observable market information (unobservable input) (Level 3).

Financial derivatives are included under Level 2 as shown under note 11.

Note 5 – Segment Reports:

a. Operating Segments:

1) Overview:

Group Management has determined the operational segments on the basis of the reports regularly examined by the Company's CEO and Board of Directors, identified jointly as members on the Company's strategic steering committee who are Company's strategic decision makers (CODM).

The following is a brief description of each of the reported segments:

(a) Delta USA, engaging in the design, development and marketing of undergarments, socks and activewear for private labels in the ladies, men and girls category and also under franchised labels and own labels;

(b) Global Upper Market, engaging in the design, development, manufacture and marketing of men's and ladies undergarments, ladies socks and seamless items in the US and European Upper Market;

(c) Delta Israel, engaging in the design, development and marketing of labeled undergarments and children's wear products, mostly under the "Delta" label, to various retail and wholesale operations in Israel, and

(d) Schiesser, engaging in the design, development, manufacture and marketing of labeled undergarments and children's wear products, mostly under the "Schiesser" label, to various retail and wholesale European customers.

2) Information on reportable segment sales, income (losses) and assets:

(a) Measurement of segment sales, income (losses) and assets:

Segment sales, income (losses) and assets are measured under the same accounting principles as those applied in the Consolidated Financial Statements.

Segment income (losses) reflect the profit (loss) from segment operations, and they do not include net financing expenses or taxes on income since these items are not attributed to segments and are not analyzed by the CODM by segment.

Inter-segment sale prices are subject to inter-segment negotiation and also, where practicable, to market prices.

(b) Segment assets mostly include fixed assets, intangible assets, investments in companies handled by the book value method, inventory, trade receivables and other accounts receivable. Assets not attributed to segments mostly include cash and cash equivalents, deferred taxes, financial derivative and assets held for sale. Also, the CODM does not review liabilities as a part of segment data.

Note 5 – Segment Reports (Continued)**:**

b. Operating Segment Data

For the year ending December 31, 2014:	**Delta USA**	**Global Upper Market**	**Delta Israel**	**Schiesser**	**Adjustments**	**Inter-Company Cancellations**	**Total**
			Thousands of Dollars				
Sales to external customers	448,957	254,215	126,983	201,675	31	-	1,031,861
Inter-segment	-	13,203	-	-	492	(13,695)	-
Total sales, net	448,957	267,418	126,983	201,675	523	(13,695)	1,031,861
Segment income (losses)	26,546	20,810	8,422	18,428	(1,050)	(66)	73,090
Financing expenses, net					15,806		15,806
Pre-tax income							57,284
Assets at the end of the year **(*)**	227,777	100,120	73,652	138,925	191,906	(66)	732,314
Assets classified as held for sale	-	-	-	-	1,000		1,000
Depreciation and amortization	2,303	5,195	3,007	6,777	1,320		18,602
Capital gain (loss), net	(12)	320	-	(86)	1,035		1,257
Capital investments in fixed and intangible assets (**)	3,229	6,056	7,762	9,523	3,704		30,274

(*) These data do not include the balance of assets held for sale.

(**) These data do not include minimum sums for franchise agreements to which the Company is a party or acquisition of labels.

Delta Galil Industries Ltd.

Notes to the Financial Statements (Continued)

Note 5 – Segment Reports (Continued)**:**

b. Operating Segment Data (Continued)

	Delta USA	Global Upper Market	Delta Israel	Schiesser	Adjustments	Inter-Company Cancellations	Total
For the year ending December 31, 2013:			**Thousands of Dollars**				
Sales to external customers	402,583	266,904	111,218	193,974	40	-	974,719
Inter-segment	-	7,672	-	-	-	(7,672)	
Total sales, net	402,583	274,576	111,218	193,974	40	(7,672)	974,719
Segment profits (losses)	23,984	23,175	8,446	14,659	(3,871)		66,393
Finance expenses, net					10,981		10,981
Pre-tax income							55,412
Assets at the end of the year **(*)**	200,088	106,403	66,041	141,505	136,061		650,098
Assets classified as held for sale	-	-	-	-	1,000		1,000
Depreciation and amortization	3,439	5,927	2,283	5,657	944		18,250
Capital gain (loss), net	(11)	947	7	178	-	-	1,121
Capital investments in fixed and intangible assets (**)	1,489	6,373	4,901	8,385	57	-	21,205

(*) These data do not include the balance of assets held for sale.
(**) These data do not include minimum sums for franchise agreements to which the Company is a party or acquisition of labels.

Note 5 – Segment Reports (Continued)**:**

b. Operating Segment Data (Continued)

For the year ending December 31, 2012:	**Delta USA**	**Global Upper Market**	**Delta Israel**	**Schiesser**	**Adjustments**	**Inter-Company Cancellations**	**Total**
	Thousands of Dollars						
Sales to external customers	339,847	288,636	89,719	99,352	228	-	817,782
Inter-segment	-	3,856	-	15	5	(3,876)	-
Total sales, net	339,847	292,492	89,719	99,367	233	(3,876)	817,782
Segment profits (losses)	12,004	16,441	5,757	23,690	16,946	-	74,838
Finance expenses, net					8,925		8,925
Equity profits					93		93
Pre-tax income							66,006
Assets at the end of the year **(*)**	176,293	121,843	52,553	144,497	57,569	-	552,755
Assets classified as held for sale	-	-	-	273	6,183	-	6,456
Depreciation and amortization	2,357	7,233	1,645	2,436	424	-	14,095
Capital gain from sale of real estate in Nahariya and other capital gain (loss), net	(51)	-	(4)	98	20,004	-	20,047
Capital investments in fixed and intangible assets (**)	5,742	6,442	7,778	4,326	655	-	24,943

(*) These data do not include minimum sums for franchise agreements to which the Company is a party.
(**) These data do not include minimum sums for franchise agreements to which the Company is a party or acquisition of labels.

Note 5 – Segment Reports (Continued)**:**

c. Additional, Geography Based Information

1) Sales by geographical area (based on customer location):

	For the Year Ending on December 31		
	2014	**2013**	**2012**
	Thousands of Dollars		
North America	570,271	542,608	483,415
Germany	163,372	157,883	85,992
Europe (other than Germany)	163,108	156,437	153,890
Israel	127,140	111,309	90,435
Others	7,970	6,482	4,050
	1,031,861	974,719	817,782

2) Balance of non current assets (*) by geography:

	December 31		
	2014	**2013**	**2012**
	Thousands of Dollars		
United States	97,058	93,073	82,097
Israel	48,786	59,935	54,347
Germany	48,483	50,276	43,337
Czech Republic and Slovakia	13,996	14,903	14,511
Bulgaria and Hungary	9,229	11,044	11,380
Egypt	8,281	8,723	11,635
Far East (mostly Thailand)	3,252	2,491	2,624
Jordan	162	565	714
Others (mostly in Europe)	1,509	3,420	2,968
	230,756	244,430	223,613

(*) With the exception of deferred taxes and surplus severance pay reserve.

d. Sales Information by Product Category

	For the Year Ending on December 31		
	2014	**2013**	**2012**
	Thousands of Dollars		
Ladies undergarments, sleepwear and other	475,189	439,547	396,414
Men's undergarments	241,858	216,799	150,794
Socks	180,638	182,237	165,145
Children's wear	134,176	136,136	105,429
	1,031,861	974,719	817,782

Note 5 – Segment Reports (Continued)**:**

e. Sales to Prime Customer

	For the Year Ending December 31		
	2014	**2013**	**2012**
	Millions of Dollars		
Customer A – covered by the Delta USA segment	175.4	114.7	107.8

Note 6 – Business Combinations:

On May 1 of 2012, the Company entered an agreement with the insolvency administrator of several companies in the German Schiesser group (Schiesser AG) for the purchase of all of the Schiesser AG shares as well as those of other companies under Schiesser control, where labeled Schiesser undergarment operations are run, in return for €68 million ($86.6 million), of which some €10 million ($12.7 million) were invested in capital and some €58 million ($73.9 million) by way of a loan, of which €17 million ($21.7 million) were converted into stock capital immediately following the purchase. The full proceeds were used by the Company to pay creditors. Under the purchase contract, the Company undertook to use these proceeds for payment of debts owed to the Schiesser creditors, hence such payment is presented under Cash Flow from Investing Activities.

The purchase transaction was finalized on July 2 of 2012.

In Q3 of 2012, Schiesser results were first consolidated under the Company's Financial Statements. The purchased operation is presented as a separate reportable segment – see note 5.

The Company contracted an external evaluator for purchase price allocation, under which assets and liabilities were measured and presented by fair value, including the Schiesser brand label which was included under Intangible Assets and which is of an unlimited life span, estimated at €19.4 million and tax deductable over a period of 15 years. Also measured and presented was the profit from the lucky buy which was included under Profit from Operations in the Reported Period. Profit from a lucky buy may be generated where the business combination is a forced sale, such as an acquisition from an insolvency administrator, as was the case reported herein.

In its results for 2012, the Company included expenses as were related to the Schiesser acquisition transaction to a total of $1.2 million, which expenses were included under General and Administrative Expenses.

Note 6 – Business Combinations (Continued)**:**

The sums recognized with respect to identifiable assets purchased and liabilities assumed are as listed below:

	As of July 2 2012 Thousands of Dollars
Inventory	54,731
Trade receivables	7,145
Other receivables	3,964
Fixed assets	26,166
Real estate assets for investment	4,660
Intangible and other assets, net (mostly including the Schiesser label)	25,824
Trade payables	(5,344)
Payables	(19,322)
Deferred taxes and long term liabilities	(1,108)
Profit from lucky buy	(12,619)
	84,097
Financial assets, net	(10,303)
	73,794
Balance of cash incurred by the consolidation following the acquisition of a company	12,258
Payments to creditors and others under the subsidiary acquisition transaction	86,052

Following are data on Group's sales and net profits, under the assumption that the Schiesser acquisition transaction was made as early as January 1 of 2012:

Group sales in 2012 would have amounted to $894.9 million as compared with the reported $817.8 million.

The net profit in 2012 would have amounted to approximately $54.0 million as compared with the reported $57.0 million.

Delta Galil Industries Ltd.

Notes to the Financial Statements (Continued)

Note 7 – Fixed Assets:

a. Composition of the Cost of Fixed Assets and the Resulting Depreciation and Amortization, by Major Groups, and Movement thereof in 2014:

	Cost						
	Balance at the Beginning of the Year	Additions During the Year	Disposals During the Year	Writing Off Assets Fully Depreciated and Not in Use	Capital Reserve from Translation Differences	Various Classifications	Balance at the End of the Year
	Thousands of Dollars						
Land and buildings	37,202	986	(1,996)	(4)	(193)	-	35,995
Machinery and equipment	83,138	3,936	(1,830)	(1,724)	(404)	(396)	82,720
Office furnishings and equipment, vehicles and leasehold improvements	88,096	21,986	(61)	(1,446)	(14,116)	(854)	93,605
	208,436	26,908	(3,887)	(3,174)	(14,713)	(1,250)	212,320

	Accumulated Depreciation and Imperments						
	Balance at the Beginning of the Year	Additions During the Year	Disposals During the Year	Writing Off Assets Fully Depreciated and Not in Use	Capital Reserve from Translation Differences	Various Classifications **	Balance at the End of the Year
	Thousands of Dollars						
Land and buildings	11,493	1,047	(1,639)	(4)	(533)	-	10,364
Machinery and equipment	57,336	4,642	(1,626)	(1,724)	(476)	48	58,200
Office furnishings and equipment, vehicles and leasehold improvements	43,810	10,162	(2)	(1,446)	(7,629)	-	44,895
	112,639	15,851	(3,267)	(3,174)	(8,638)	48	113,459

Note 7 – Fixed Assets (Continued)**:**

Composition of the Cost of Fixed Assets and the Resulting Depreciation and Amortization, by Major Groups, and Movement thereof in 2014 (Continued)

	Depreciated Balance	
	December 31	
	2014	**2013**
	Thousands of Dollars	
Land and buildings	25,631	25,709
Machinery and equipment	24,520	25,802
Office furnishings and equipment, vehicles and leasehold improvements	48,710	44,286
	98,861	95,797

Note 7 – Fixed Assets (Continued)**:**

b. Composition of the Cost of Fixed Assets and the Resulting Depreciation and Amortization, by Major Groups, and Movement thereof in 2013:

	Cost						
	Balance at the Beginning of the Year	**Additions During the Year**	**Disposals During the Year**	**Writing Off Assets Fully Depreciated and Which Are Not in Use**	**Capital Reserve from Translation Differences**	**Various Classifications ****	**Balance at the End of the Year**
	Thousands of Dollars						
Land and buildings	35,277	1,464	(168)	(201)	830	-	37,202
Machinery and equipment	84,046	5,090	(5,886)	(380)	76	192	83,138
Office furnishings and equipment, vehicles and leasehold improvements	77,134	13,508	(178)	(3,066)	698	-	88,096
	196,457	20,062	(6,232)	(3,647)	1,604	192	208,436

	accumulated Depreciation and Imperments						
	Balance at the Beginning of the Year	**Additions During the Year**	**Disposals During the Year***	**Writing Off Assets Fully Depreciated and Which Are Not in Use**	**Capital Reserve from Translation Differences**	**Various Classifications ****	**Balance at the End of the Year**
	Thousands of Dollars						
Land and buildings	10,281	1,097	(12)	(201)	328	-	11,493
Machinery and equipment	56,303	4,622	(3,161)	(380)	(48)	-	57,336
Office furnishings and equipment, vehicles and leasehold improvements	36,854	10,003	(140)	(3,066)	159	-	43,810
	103,438	15,722	(3,313)	(3,647)	439	-	112,639

* Including fixed asset write-off as related to restructuring, in a total of $2,350 thousand.

Note 7 – Fixed Assets (Continued)**:**

Composition of the Cost of Fixed Assets and the Resulting Depreciation and Amortization, by Major Groups, and Movement thereof in 2013 (Continued)

	Depreciated Balance	
	December 31	
	2013	2012
	Thousands of Dollars	
Land and buildings	25,709	24,996
Machinery and equipment	25,802	27,743
Office furnishings and equipment, vehicles and leasehold improvements	44,286	40,280
	95,797	93,019

Note 7 – Fixed Assets:

c. Land and Buildings

The Group owns land and buildings which it uses for its operations and which are located in Israel, the USA, Bulgaria, Egypt, Thailand, Germany, the Czech Republic and Slovakia. See note 8 hereunder for land and buildings classified by the Group as held for sale.

d. Encumbrances on Assets

Company bank liabilities are fully guaranteed by an unlimited floating lien on all of its assets and rights and also on the assets of some of its subsidiaries.

e. Impairment

Over the course of 2012, the Group recorded in its Financial Statements a provision for impairment to the amount of approximately $1.3 million for unused machinery, the recoverable sum of which was established based on fair value net of sale costs, which is higher than the value of such machinery in use.

f. Restructuring Expenses

See note 19e hereunder.

g. See note 19g, h and i for classification of depreciation expenses in the statements of Comprehensive Income.

Note 8 – Assets Classified as Held for Sale:

a. As of December 31, 2014, the Group holds one asset in Israel for sale, which is included in the Financial Statements at net historical cost of approximately $1.0 million.

The asset was classified as held for sale in its as-is status, and the Company is committed and making efforts to locate a buyer.

The Company estimates that this asset's realization value net of realization costs exceeds its cost as reported in the Financial Statements.

b. Sale of Assets Classified as Held for Sale

1) Contracting under a Sale Agreement for a Real Estate Asset:

On April 29 2013, the Company entered an agreement to sell a real estate asset in Karmiel, complete with all constructions thereon. The Company holds a right of lease from the Israel Land Authority in this real estate.

The buyer paid the Company for the asset a sum of approximately $6.6 million (plus VAT).

The capital gain made by the Company pre-tax amounted to some $1.1 million and was included under Other Income, Net, in 2013.

2) Sale of Real Estate Property in Nahariya:

On October 5 2010, the Company signed a sale agreement under which it sold the Nahariya real estate in its possession to a buyers group (4 private companies), occupying an area of some 25.8 hectares before expropriation, known as Block 18206 Lot 18. According to the sale agreement, the buyers would pay the Company $23,972,602 (plus VAT) for the real estate, of which the Company has received approximately $10.2 million, with the balance to be paid in installments by milestones spread out over a period of up to 39 months from the date of the sale agreement; it was agreed that total proceeds in NIS shall be no less than 91 million NIS.

Under the agreement, the Company assigned the rights (and obligations) to the buyers according to a claim it had submitted to the Nahariya Local Council for Planning and Construction as required under Section 197 of the Planning and Construction Law for the real estate.

Under a pre-ruling decision by the Securities Authority as the Company received, the capital gain from the transaction was recognized on meeting the terms of the sale agreement, which include removal of sludge and evacuation of renting tenants from the property.

Note 8 – Assets Classified as Held for Sale (Continued)**:**

On April 24 2012, the Company attained acknowledgment by the Environmental Protection Ministry of its lifting any further requirements to clear the ponds area on the property. In light of this letter of acknowledgment, the Company signed an addendum to its agreement with the buyers, establishing that the acknowledgment as above fulfilled the terms of the agreement with respect to clearing of the sludge. In addition, the Company and the buyers agreed that, starting the date of the addendum, the buyers will be assigned all of the Company's rights and obligations under the two rental agreements in effect, with regard to some of the area of the property; and hence, also, that subjection of the third payment to evacuation of the tenants from the property will be deleted.

In light of the above, the Company recognized the capital gain from the transaction in Q2 of 2012 to a total of $19.9 million before tax.

In January of 2014, the Company signed an addendum to the agreement, whereby it agreed, inter alia, to postpone payment of the remaining installments to various dates, the latest of which being June of 2016. The buyers group undertook to pay the Company interest for the postponement period plus a special added compensation which, should the buyers use the full postponement period established under the addendum, would amount to approximately $1 million. This special compensation would be paid to the Company out of proceeds as the buyers group will receive from realization of the rights in the land, all as stipulated under the addendum.

In January of 2015, the debt balance for the sale of the asset above was collected and ownership of the land was transferred to the buyers. The debt balance was, as shown, included as a part of Other Receivables under Current Assets as of December 31 of 2014.

Delta Galil Industries Ltd.

Notes to the Financial Statements (Continued)

Note 9 – Intangible Assets:

a. Composition of Intangible Assets and the Resulting Amortization Accumulated, by Major Groups:

	Goodwill (b)	Customer Relations *	Trademarks (c) *	Patent	Brand Name (d)	Computer Software **	Total
				Thousands of Dollars			
Balance as of January 1, 2012	51,338	11,372	8,694	-,-	3,469	2,517	77,390
In 2012							
Capital reserve from translation differences	-	1	38	-	1,116	65	1,220
Additions	-	-	12,795	650	2,850	1,461	17,756
Addition for acquisition of subsidiary (see note 6(a))	-	39	442	-	24,414	768	25,663
Amortization	-	(844)	(8,332)	-	-	(1,371)	(10,547)
Balance as of January 1, 2013	51,338	10,568	13,637	650	31,849	3,440	111,482
In 2013							
Capital reserve from translation differences	-	4	24	-	1,153	(53)	1,128
Additions	-	-	12,424	-	-	856	13,280
Addition for acquisition of subsidiary (see note 6(b))							
Amortization	-	(844)	(5,564)	(40)	-	(1,307)	(7,755)
Balance as of December 31, 2013	51,338	9,728	20,521	610	33,002	2,936	118,135
In 2014							
Capital reserve from translation differences		(3)	(67)		(3,154)	(261)	(3,485)
Additions	163		9,675		2,150	1,349	13,337
Classification						680	680
Amortization		(844)	(7,830)	(40)		(1,447)	(10,161)
Balance as of December 31, 2014	51,501	8,881	22,299	570	31,998	3,257	118,506
On December 31, 2014							
Cost	58,893	16,913	68,337	650	31,998	13,238	190,029
Accumulated amortization	(7,392)	(8,032)	(46,038)	(80)	-	(9,981)	(71,523)
Balance as of December 31	51,501	8,881	22,299	570	31,998	3,257	118,506

***** Customer relation and trademark amortizations are reported under Sale and Marketing Expenses.

****** Computer software amortization is reported under Sale Costs, Sale and Marketing Expenses, or General and Administration Expenses, subject to the type of software.

Note 9 – Intangible Assets (Continued)**:**

b. Goodwill

The balance of goodwill remained unchanged in the years of 2013 and 2012 the balance of goodwill remain unchanged and was attributed to the Delta USA segment of operation.

In 2014, a goodwill balance amounting to $0.2 million was added for the acquisition of the Fix operation, which was attributed to the Delta USA segment.

Evaluation of Goodwill Impairment – Delta USA

The Group reviews the need for goodwill depreciation annually.
The reviews of 2014, 2013 and 2012 indicated no need for impairment as above.

In 2013, the Company relied on the estimate made in 2012 since it had met all of the terms stipulated under Section 99 of International Accounting Standard 36 as related to impairment of assets, as follows:

(a) The assets and liabilities composing the unit had not changed significantly since the latest update of the calculated recoverable amount;

(b) The latest update of the calculated recoverable amount exceeded the book value of the unit by a material extent; and also

(c) Based on analysis of events as had occurred and circumstances as had changed since the latest update of the calculated recoverable amount, the probability of the recoverable amount established in the current period being lower than the current book value of the unit is slight.

The recoverable amount of cash generating units is determined based on calculations of value in use. The cash flow forecast is based on the budget for the coming year, as approved by Management, and on other assumptions regarding growth rates of sales and expenses in the following four years. The cash flow beyond the said five years is extrapolated using the expected growth rates indicated below.

In 2014, the Company reviewed the need for goodwill depreciation.

The following main assumptions were used in calculation of the value in use for 2014:

Gross profit rate (1)	20.2%
Nominal growth rate (2)	4.0%
Post-tax capitalization rate (3)	13.0%

The Group relies on these assumptions in its analysis of the value of goodwill of cash generating units in the various segments:

1) Long term representative gross profit, determined based on past experience and Group forecasts of market developments.

2) Weighted average growth rate as employed in estimation of cash flows past the budget period.

3) Post-tax capitalization rate as applied to the cash flow forecast, set according to segment risks.

Note 9 – Intangible Assets (Continued)**:**

c. Trademark Usage Rights

The Company has entered in agreements which grant it the right to market products under brand names owned by other parties, normally for periods of 3 to 4 years. Royalties for these agreements are calculated as a percentage of sales. Royalty rates range between 5% and 12% of sales. Under these agreements, the Company is liable for minimum royalty payments as set forth in these agreements and whose discounted sums are included under this item.

d. Labels

The Group reviews the need to recognize label impairment annually.

1) The balance of labels as of December 31, 2014 includes the Schiesser and Karen Neuburger labels as derived from acquisitions made by the Company in July of 2012 and in June of 2011, see note 6. The balance also includes the Little Miss Matched label in the girls socks category as acquired in December of 2012, as well as the Fix label, the acquisition of which was completed in the course of 2014 for the sum of NIS 7.5 million ($2.1 million) in cash, plus an additional payment of up to NIS 1.0 million (approximately $0.3 million) subject to attainment of the sale goals. As of December 31 of 2014, the Company estimates that these sale goals are not likely to be attained, hence the sum of liability was reduced respectively.

2) Evaluation of Impairment of the Schiesser Label:

   The Company evaluated the Schiesser label for impairment by the "Profit Split method" and based on main assumptions as listed below:

   a. Royalty rate 3.0%, calculated by the weighted average between the mean royalty rate normally set under franchise agreements in the garments industry and that calculated as a part of the representative operating profit.

	Average Rate	**Weighted Value**
Mean royalty rate under franchise agreements in the garments industry	5.5%	25%
Royalty rate as a part of representative operating profit * (average ranging between 25% and 33%)	2.2%	75%

   * Representative operating profit 7.5%.

   b. Post-tax capitalization rate 13.0% (established by segment risks).

   c. Growth rate 0% (applied to the calculation of value based on past record and Company's forecasted market development).

Note 9 – Intangible Assets (Continued)**:**

3) Evaluation of Impairment of the Little Miss Matched, Fix and Karen Neuburger Labels:

The Company evaluated the Little Miss Matched, Fix and Karen Neuburger labels for impairment by the Profit Slit method and based on main assumptions as listed below:

	Little Miss Matched	FIX	Karen Neuburger
a. Royalty rate	4%	5%	4%
b. Growth rate	3%	0%	3%
c. Capitalization rate	17%	17%	17%

Evaluation as above indicated no need for impairment of the labels considered.

Note 10 – Long Term Receivables:

	As of December 31	
	2014	**2013**
	Thousands of Dollars	
Investments in associated companies accounted for using the equity method (1)	6,350	-
Long term receivables for the sale of real estate in Nahariya (see note 8b**)**	312	12,621
Surplus severance pay reserve (see note 15)	11	814
Long term deposits (1)	500	669
Other long term receivables	1,180	1,688
	8,353	15,792
Less current maturity	(340)	(272)
	8,013	15,520

(1) Including investments in associated companies in Turkey, China and Egypt.

(2) Including mostly an-interest bearing deposits for operational leases of buildings (see note 17a).

The fair value of the long term receivables is not materially different from their book value.

Note 11a – Debentures

1. Details of Current Debenture Series

Series	Date of Issue	Nominal Value NIS (Millions)	Nominal Value USD [(2)] (Millions)	Issue Expenses USD (Millions)	Issue Proceeds USD (Millions)	Average Duration [(1)]	Fixed NIS Interest	Fixed USD Interest [(2)]	Principal Payments	Interest Payments	Interest Payable as of December 31 2014 (Thousands of Dollars)	Debenture Market Value [(5)] as of 31.12.2014 (Thousands of Dollars)	Fair Value of Swap Derivative (Thousands of Dollars)
K	20.1.2010	113.0	30.0	0.4	≅ 30.0	1.01	7%	6.08%	5 equal installments 2012 – 2016	Semiannual, in January and July	364	12,685	(425)
K expansion [(3)]	28.12.2010	92.6	25.9	0.4	≅ 27.4	1.01	7%	6.08%	5 equal installments 2012 – 2016	Semiannual, in January and July	298	10,398	(721)
E	8.4.2012	192.9	51.5	0.6	≅ 51.5	3.63	7.6%	6.18%	8 equal installments 2014 – 2021	Semiannual, in July and December	-	52,496	1,583
A [(4)]	13.8.2013	178.5	49.7	0.6	≅ 49.7	5.94	5%	4.075%	14 equal installments 2015 – 2028	Semiannual, in February and August	780	50,533	310
A expansion [(3)]	27.10.2013	21.5	6.0	-	≅ 6.0	5.94	5%	4.41%	14 equal installments 2015 – 2028	Semiannual, in February and August	93	6,073	(324)
A expansion 2 [(3)]	14.5.2014	161.7	47.2	0.4	≅ 50.5	5.94	5%	5.45%	14 equal installments 2015 – 2028	Semiannual, in February and August	708	45,776	[(8)] (7,061)
A expansion 3 [(3)]	1.6.2014	38.3	11.7	-	≅ 11.8	5.94	5%	5.45%	14 equal installments 2015 – 2028	Semiannual, in February and August	167	10,830	[(8)] (1,671)
B [(4)]	18.9.2014	168.4	46.2	0.6	≅ 46.2	8.72	[(6)] -	-	One payment 2024	Semiannual, in April and October	286	43,606	(5,756)
B expansion [(3)]	20.11.2014	31.6	8.2	-	≅ 8.4	8.72	[(7)] -	-	One payment 2024	Semiannual, in April and October	54	8,176	(321)
Total											2,750	240,573	(14,386)

(1) Average gross duration as of yearend in 2014.

(2) The Company has decided to enter in cash swap agreements on the very payment dates of the debenture series above, in hedging of cash flows as related to debenture payments against any exchange rate risks. For the series, such hedging generates fixed cash flows for the Company in dollars. Under these agreements, the Company undertakes to transfer USD payments at a fixed dollar interest rate as indicated above and receive NIS payments from the bank at the nominal interest rate.

For the B series, see notes 6 and 7 hereunder.

(3) The maximum exposure level of the bank as it has established for this transaction amounts to $5 million. The Company will be required to provide collaterals at bank's request should the exposure exceed the sum above.

(4) The maximum exposure level of the bank as it has established for this transaction amounts to $3 million. The Company will be required to provide collaterals at bank's request should the exposure exceed the sum above.

(5) Based on the value on the Tel-Aviv stock exchange as of December 31, 2014.

(6) Variable NIS interest: TELBOR 3 months + 2.10%; variable USD interest: LIBOR 3 months + 2.8715%.

(7) Variable NIS interest: TELBOR 3 months + 2.10%; variable USD interest: LIBOR 3 months + 2.55%.

(8) In the Balance Sheet, the financial derivative is presented less deposit as was made with the bank to serve as security against the financial derivative at the rate of $4.9 million.

Note 11a – Debentures (Continued)**:**

2. The following are details of non-discounted contractual cash flows for the debentures, payable by year:

	December 31 2014	December 31 2013
	Thousands of Dollars	
2014	-	28,519
2015	35,283	31,147
2016	33,676	29,593
2017	21,511	16,172
2018	20,672	15,438
2019	19,834	14,705
2020	19,001	13,974
2021	18,157	13,237
2022	11,118	5,556
2023	10,750	5,350
2024	61,813	5,145
2025	8,816	4,939
2026	8,449	4,733
2027	8,081	4,527
2028	7,714	4,322
	284,875	197,357

3. The following are details of covenants as included in the trust deeds of debenture Series E, A and B, the violation of which would constitute grounds for immediate payment subject to the remedial periods established:

   Series E:

   - Should Company's equity as published in the Financial Statement amount to less than three hundred and fifty (350) million NIS, and providing that equity does not increase beyond the said sum in 30 days.
   - Should Company's leverage ratio of net financial debt to CAP as published in the Financial Statement exceed a rate of 60% for two consecutive quarters following said increase to the financial debt leverage ratio.

   In this context, Equity = balance sheet equity, including non-controlling interests; Net Financial Debt = short term debt and loans plus current long term loan maturities, plus long term loans, plus liabilities for operational leases, less cash and cash equivalent and less short term investments; CAP (capital base) = financial debt, plus total of balance sheet equity (including non-controlling interests) plus long term balance sheet deferred taxes.

Note 11a – Debentures (Continued)**:**

Series A:

- Should Company's equity as published in the Financial Statement amount to less than one hundred and fifty (150) million NIS, and providing that equity does not increase beyond the said sum in 30 days following the publication date of the relevant Financial Statement.
- Should Company's leverage ratio of net financial debt to CAP as published in the Financial Statement exceed a rate of 60%, and providing that the leverage ratio of net financial debt to CAP does not decrease by a rate of 60% up to the publication date of the second consecutive Financial Statement (inclusive) following the publication of the Financial Statement first reporting of this increase to the leverage ratio as above.

  In this context, Equity = balance sheet equity, including non-controlling interests; Net Financial Debt = short term debt from banks (including current maturities), plus long term debt from banks, plus debentures, plus balance sheet liabilities for operational leases and plus balance sheet liabilities for financing leases, less cash and cash equivalent and less short term investments; CAP (capital base) = financial debt, plus total of balance sheet equity (including non-controlling interests) plus long term balance sheet deferred taxes.

Series B:

- Should Company's equity as published in the Financial Statement amount to less than one hundred and fifty (150) million NIS, and providing that equity does not increase beyond the said sum in 30 days following the publication date of the relevant Financial Statement.
- Should Company's leverage ratio of net financial debt to CAP as published in the Financial Statement exceed a rate of 60%, and providing that the leverage ratio of net financial debt to CAP does not decrease by a rate of 60% up to the publication date of the second consecutive Financial Statement (inclusive) following the publication of the Financial Statement first reporting of this increase to the leverage ratio as above.

  In this context, Equity = balance sheet equity, including non-controlling interests; Net Financial Debt = short term debt from banks (including current maturities), plus long term debt from banks, plus debentures, plus balance sheet liabilities for operational leases and plus balance sheet liabilities for financing leases, less cash and cash equivalent and less short term investments; CAP (capital base) = financial debt, plus total of balance sheet equity (including non-controlling interests) plus long term balance sheet deferred taxes.

As of December 31, 2014, the Company had met the covenants above.

Note 11a – Debentures (Continued)**:**

4. The following are restrictions as imposed on dividend distribution as included under the in the trust deeds of debenture Series E, A and B:

Nature of Restriction	Debenture Series E	Debenture Series A	Debenture Series B
Maximum sum distributed	50% of the total income in the relevant quarter year (or as has accumulated over multiple quarter years) however not exceeding 50% of the income in any event	50% of the total income distributable, calculating only surpluses as have accumulated starting June 30 of 2013	50% of the total income distributable, calculating only surpluses as will accumulate beyond an income of one hundred (100) million USD
Impact on equity	No dividend shall be distributed following which Company's equity would drop below four hundred and fifty (450) million NIS	No dividend shall be distributed following which Company's equity would drop below one hundred and seventy five (175) million USD	No dividend shall be distributed following which Company's equity would drop below two hundred (200) million USD
Impact in net financial debt ratio to EBITDA		Distribution not expected to increase Company's net financial debt ratio to EBITDA beyond 3.5	No dividend shall be distributed following which Company's net financial debt ratio to EBITDA would increase beyond 3.5
Distribution from revaluations	No distribution shall be made from income due to revaluation of the fair value of Company's financial assets or financial instruments	No distribution shall be made from income due to revaluation of the fair value of Company's financial assets or financial instruments	No distribution shall be made from income due to revaluation of the fair value of Company's financial assets or financial instruments
Other restrictions			No dividend shall be distributed in instances as listed below: − Warning signed raised − Company failing to meet any of own material liabilities under the trust deed or debenture terms − Company's equity, including after the dividend distribution, not exceeding a sum of one hundred and fifty (150) million USD − Company's leverage ratio of net financial debt to CAP, including after the dividend distribution, exceeding 60%

As of December 31, 2014, the Company had met all dividend distribution restrictions.

Note 11b – Financial Derivative:

The Group reviews the financial derivative worth at every profile date and employs an outside expert to examine its value. The worth estimation id attached with the Financial Statements.

The financial derivative worth was evaluated based on the difference between the worth of the cash flow to be received by the Company (in NIS) and that to be paid by the Company (in dollars). The future worth values are based in the fixed interests, the interest calculation days base and the risk of one party failing to meet own obligations. The main assumptions employed in the calculation of the financial derivative worth are as follows:

1. Market Interest Rates:

	Market Interest Rates	
Series	**NIS**	**USD**
K	0.06% - 0.20%	0.14% - 0.77%
E	0.04% - 1.68%	0.03% - 0.21%
A	0.06% - 2.71%	0.20% - 2.51%
B	0.06% - 2.36%	0.24% - 2.30%

2. Credit Risk Rate:

Series	Company	Leumi Bank	Mizrahi Bank	Deutsche Bank	Barclays
K	0.99%	1.04%			
E	1.02%		0.47%		
A	1.78%			0.90%	0.57%
B	2.01%	0.97%		1.09%	

Note 11b – Financial Derivative (Continued)**:**

3. Analysis of the vulnerability of swap contract values to changing exchange rates (NIS/USD):

Series K

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected exchange rate	$1 = 3.50 NIS	$1 = 3.69 NIS	**$1 = 3.89 NIS**	$1 = 4.08 NIS	$1 = 4.28 NIS
Forward contract value	1,420	70	**(1,146)**	(2,245)	(3,246)
Difference	2,566	1,216		(1,099)	(2,100)

Series E

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected exchange rate	$1 = 3.50 NIS	$1 = 3.69 NIS	**$1 = 3.89 NIS**	$1 = 4.08 NIS	$1 = 4.28 NIS
Forward contract value	7,516	4,394	**1,583**	(925)	(3,196)
Difference	5,933	2,811		(2,508)	(4,779)

Series A

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected exchange rate	$1 = 3.50 NIS	$1 = 3.69 NIS	**$1 = 3.89 NIS**	$1 = 4.08 NIS	$1 = 4.28 NIS
	4,009	(2,736)	**(8,745)**	(14,130)	(19,023)
	12,754	6,009		(5,385)	(10,278)

Series B

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected exchange rate	$1 = 3.50 NIS	$1 = 3.69 NIS	**$1 = 3.89 NIS**	$1 = 4.08 NIS	$1 = 4.28 NIS
Forward contract value	(71)	(3,294)	**(6,077)**	(8,568)	(10,831)
Difference	6,006	2,783		(2,491)	(4,754)

Note 11b – Financial Derivative (Continued)**:**

4. Analysis of the sensitivity of SWAP contract values to changing NIS interest rates:

Series K

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	6.30%	6.65%	**7%**	7.35%	7.70%
Forward contract value	(1,142)	(1,144)	**(1,146)**	(1,148)	(1,150)
Difference	4	2		(2)	(4)

Series E

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	6.84%	7.22%	**7.6%**	7.98%	8.36%
Forward contract value	1,791	1,687	**1,583**	1,481	1,379
Difference	208	104		(102)	(204)

Series A

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	4.5%	4.75%	**5%**	5.25%	5.5%
Forward contract value	(7,533)	(8,144)	**(8,745)**	(9,339)	(9,925)
Difference	1,212	601		(594)	(1,180)

Series B

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	2.10%	2.21%	**2.33%**	2.45%	2.56%
Forward contract value	(5,773)	(5,765)	**(5,756)**	(5,747)	(5,735)
Difference	(17)	(9)		9	21

Series B Expansion

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	2.10%	2.21%	**2.33%**	2.45%	2.56%
Forward contract value	(319)	(323)	**(321)**	(317)	(313)
Difference	2	(2)		4	8

Note 11b – Financial Derivative (Continued)**:**

5. Analysis of the sensitivity of SWAP contract values to changing dollar rates:

Series K

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	5.47%	5.78%	**6.08%**	6.38%	6.69%
Forward contract value	(1,162)	(1,154)	**(1,146)**	(1,138)	(1,130)
Difference	(16)	(8)		8	16

Series E

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	5.56%	5.87%	**6.18%**	6.49%	6.80%
Forward contract value	1,276	1,430	**1,583**	1,737	1,890
Difference	(307)	(153)		154	307

Series A

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	3.67%	3.87%	**4.075%**	4.28%	4.48%
Forward contract value	(311)	1	**310**	617	923
Difference	(621)	(309)		307	613

Series A Expansion

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	3.97%	4.19%	**4.41%**	4.63%	4.85%
Forward contract value	(402)	(363)	**(324)**	(285)	(247)
Difference	(78)	(39)		39	77

Series A Expansions 2 and 3

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	4.91%	5.18%	**5.45%**	5.72%	6.00%
Forward contract value	(9,508)	(9,117)	**(8,731)**	(8,349)	(7,971)
Difference	(777)	(386)		382	760

Series B

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	2.80%	2.95%	**3.11%**	3.27%	3.42%
Forward contract value	(5,798)	(5,777)	**(5,756)**	(5,735)	(5,715)
Difference	(429)	(21)		21	41

Series B Expansion

Rate of Change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	2.50%	2.64%	**2.78%**	2.92%	3.06%
Forward contract value	(323)	(322)	**(321)**	(318)	(310)
Difference	(2)	(1)		3	11

Note 12 – Other Non-Current Liabilities:

	December 31	
	2014	2013
	Thousands of Dollars	
Minimum royalty payment liability (1)	21,813	19,605
Vehicle purchase liability	2,162	-
Office rental liability	2,060	799
Long term employee compensation liability	1,874	1,266
Minimum financing lease payment liability (2)	1,161	1,831
Machinery purchase liability (3)	-	1,230
Other liabilities	1,545	1,961
Total liabilities	30,615	26,692
Less current part	10,616	9,496
Total long term liabilities	19,999	17,196

The fair value of non-current liabilities does not differ materially from their book value.

1. See note 9c.
2. The Schiesser operation is a party to a financing lease agreement for a building and land in Jordan and in Germany. The agreement ends in 2016.

   The German subsidiary leases the real estate, which is included under Investment property.
3. In 2011 and 2012, the Company signed agreements to purchase knitting machines for the Seamless Division in Israel and for the socks plant in Bulgaria for a non-discounted total of some $3.1 million.
4. Below are other details of the other, discounted liabilities payable by year:

	December 31	
	2014	2013
	Thousands of Dollars	
2014	-	10,119
2015	11,164	9,015
2016	14,536	6,209
2017	4,431	2,468
2018	616	576
2019 onward	2,981	2,292
Less interest component	(3,113)	(3,987)
	30,615	26,692

Note 13 – Capital:

a. Equity, Capital Reserves and Surpluses

1) Composed of ordinary shares worth 1 NIS NV, as follows:

	Number of Shares As of December 31	
	2014	**2013**
Listed capital	36,000,000	36,000,000
Issued and paid up (with treasury shares neutralized)	25,088,378	24,786,182
Treasury Shares	1,316,719	1,324,557

As of December 31, 2014, Company shares are traded on the Tel Aviv Stock Exchange at $27.23 (105.90 NIS) per share.

2) Dividends distributed in the last three years were as listed below:

Year	Sum Distributed (Thousands of Dollars)	Dividend per Share (USD)
2012	7,995	0.34
2013	10,500	0.43
2014	13,500	0.54

3) Surpluses:

Under the Companies Law, in determining the sums distributable as dividend, the total of Company shares bought back (as presented below) should be subtracted from the total of surpluses as presented under Company's Equity. See note 11a(4).

Shares held by the Company (Treasury Shares) do not grant any voting rights or dividends.

4) Buyback of shares:

On October 31, 2012, the Company's Board of Directors approved a plan for buyback of Company shares. Under the plan, acquisitions were made on and off the stock market from unrelated, non controlling, non Company position holding parties through Clal Finance Batucha Investment Management Ltd. (hereinafter Clal).

The total cost of the shares under the acquisition plan amounted to an accumulated sum of up to $2.5 million. The total of Company shares buyback transactions made by Clal on any buyback day shall not exceed $125,000.

The acquisition plan started on November 9 of 2012 and ended on February 8 of 2013. In 2012, the total of shares acquired amounted to 117,586 shares at a total cost of $1.3 million. No additional shares were acquired in 2013 or in 2014.

Note 13 – Capital (Continued)**:**

b. Share Based Payment

1. 2006 plans:

   In May of 2006, the Company's Board of Directors approved two stock option plans, one for Israeli and non US employees, and the other for US based employees. The plan consists of 1,400,000 options, of which 1,100,000 options may be issued under the plan devised for Israeli and other non US employees, and 300,000 options may be issued under the plan devised for US based employees. Every option is exercisable into one ordinary Company share worth 1 NIS NV.

   As of December 31, 2014, the balance of shares allocatable under these plans amounts to 244,541.

   2009 plans:

   On August 20, 2009, the Company's Board of Directors decided to adopt an additional option plan in compensation of employees, executives, directors, consultants and other services providers of the Company or its subsidiaries and related companies (hereinafter the Offerees). The options shall be granted free of charge.

   Under the plan, the Company is entitled to allocate up to 800,000 non tradable option warrants, exercisable into up to 800,000 ordinary Company shares worth 1 NIS NV each. The exercise price of each option warrant will be determined by the Company's Board of Directors at its sole discretion under the instructions of the law.

   In addition, the Board of Directors decided to also adopt an option plan in compensation of US employees of the Company and its subsidiaries, under which plan the Company shall be entitled to allocate up to 300,000 options warrants, excisable into up to 300,000 ordinary Company shares worth 1 NIS NV each.

   On October 27, 2011, the Company’s Board of Directors decided to increase by 300,000 the number of ordinary Company shares reserved for the compensation plan for employees, executives, directors, consultants and other services providers of the Company or its subsidiaries and related companies, as approved by the Company's Board of Directors on August 20 of 2009, thereby allocating a total number of 1,100,000 shares to be reserved for the plan.

   The Company's Board of Directors also decided on the same date to increase by 300,000 the number of ordinary Company shares reserved for the compensation plan for US employees of the Company or its subsidiaries and related companies, including directors and other executives, as approved by the Company's Board of Directors on August 20 of 2009, thereby allocating a total number of 600,000 shares to be reserved for the plan.

Note 13 – Capital (Continued)**:**

b. Share Based Payment (Continued)

On December 15, 2013, the Company's Board of Directors decided to increase by 500,000 the number of ordinary Company shares reserved for the compensation plan for selected senior employees, executives, directors, consultants and other services providers of the Company or its subsidiaries and related companies, thereby allocating a total number of 1,600,000 shares to be reserved for the 2009 Israeli offerees plan.

Also, with respect to the 500,000 options increase to the plan as above, the Company's Board of Directors decided to amend the 2009 Israeli offerees plan so as to so revise the formula whereby the options grant is calculated using an options exercise mechanism based on the benefit component as to relieve the offerees of the requirement to pay the nominal value of the exercise shares. The Company undertook to maintain in the balance of distributable profits a sum as would suffice to turn it into share capital under the instructions of Section 304 to the Companies Law of 1999 as long as the 2009 Israeli offerees plan remains in effect.

All of the other provisions of the 2009 Israeli offerees plan will remain unchanged.

As of December 31, 2014, the balance of options allocatable under these plans amounts to 1,008,584.

2. Company's CEO options:

On October 20, 2009, the shareholders general and special meeting approved the issue of options to Mr. Isaac Dabah, Company CEO and Director and its controlling shareholder.

Mr. Dabah was granted 720,000 options at the price of $3.27 per option, exercisable as 720,000 Company shares. The vesting of the options in question is contingent on achieving goals as related to the operational profit from standard operations, not including the impact of non recurrent items (hereinafter EBIT), over the course of 2010 through 2012.

These options were exercised In 2012 – 2013.

Note 13 – Capital (Continued)**:**

b. Share Based Payment (Continued)

3. Allocation of Restricted Share Units (RSU):

   a. 2009 Plan for US Offerees:

   On July 30 of 2013 and on July 30 of 2014, the Company's Board of Directors decided to allocate 31,340 and 13,320 restricted share units to a number of US employees, respectively, the entitlement to which shares will vest over the course of 4 years from the date of allocation.

   In 2014, restricted share units as had been allocated to Company employees were exercised thus that the balance of treasury shares was reduced by 7,838 shares.

   b. 2014 Plan:

   On July 28 of 2014, the Company's Board of Directors decided to adopt a plan for the allocation of 300,000 restricted share units, to be granted to offerees at no charge at sole discretion by the Board of Directors and under recommendation by the Company CEO. On October 1 of 2014, the Company's Board of Directors decided to grant 14,775 restricted share units under this plan to two executives, which units would vest over the course of 4 years. On November 4 of 2014, the Company's Board of Directors decided to grant 15,430 restricted share units to three subsidiary executives, of which units 10,000 would vest over the course of 4 years and the others – over the course of 3 years. The balance of share units allocatable under this plan as of December 31 of 2014 is 269,795 units.

   On the day of their grant, the fair value of all restricted share units granted over the course of 2013 and 2014 amounted to approximately $496,000 and $1,239,000, respectively.

4. The fair value of all of the options granted (with the exception of options contingent on goals attained) over the course of 2013 and 2012 (no options were granted in 2014) as of the date of their grant amounted to approximately $355,000 and $368,000, respectively.

   The fair value of each option granted (with the exception of options contingent on goals attained) is estimated on the date of grant using the Black & Scholes option pricing model based on the following assumptions:

	2012	**2013**
Dividend yield	0%	0%
Expected standard deviation (*)	49%	39%
Risk free interest rate	1.9%-2.6%	1.4%-1.6%
Expected life span, in years	4.1	4.1

Note 13 – Capital (Continued)**:**

b. Share Based Payment (Continued)

The theoretical economic value of the options subject to the attainment of goals as granted in 2012 (no options were granted in 2013 or in 2014 which are contingent on goals attained) was estimated on the date of grant using the Black & Scholes option pricing model, based the following average assumptions:

	2012
Dividend yield	0%
Expected standard deviation (*)	49%
Risk free interest rate	2.6%
Expected life span, in years	4.1

(*) Based on historical volatility of Company shares over periods corresponding to the option's expected life span to the date of exercise.

5. The sums of the expenses related to the options included in the Financial Statements for 2014, 2013 and 2012 are $350,000, $455,000 and $903,000, respectively.

   The sums of the expenses related to the grant of restricted share units as included in the Financial Statements for 2014 and for 2013 are $366,000 and $108,000, respectively.

6. The balance of benefits not yet recognized for all of the option plans, as of December 31, 2014, assuming that all of the goals set are attained, amounts to a total of $225,000.

   The balance of benefits not yet recognized for the grant of restricted share units, as of December 31, 2014, amounts to a total of $1,261,000, and is expected to be recognized over the course of the next 4 years.

7. The rights granted by the ordinary shares issued upon the exercise of the options would be identical to those granted by other ordinary Company shares.

Note 13 – Capital (Continued)**:**

b. Share Based Payment (Continued)

8. The movements in the number of options not yet exercised and the relevant weighted averages of the exercise prices (original price before adjustment to reflect the distribution of dividends) are as follows:

a. Options not subject to attainment of performance goals:

	2014		2013		2012	
	Quantity	**Average Weighted Exercise Price $**	**Quantity**	**Average Weighted Exercise Price $**	**Quantity**	**Average Weighted Exercise Price $**
In circulation at the beginning of the year	754,435	6.27	1,066,825	5.42	1,343,937	5.48
Granted at market price	-	-	67,000	14.95	100,000	8.07
Forfeited	(1,750)	9.75	(49,684)	7.82	(58,450)	6.03
Expired	(1,750)	3.02	(3,315)	8.43	(11,649)	8.01
Exercised	(*) (271,089)	4.39	(*) (326,391)	5.01	(307,013)	6.19
Outstanding at the end of the year	479,846	7.34	754,435	6.27	1,066,825	5.42
Of the above, exercisable at the end of the year	340,471	6.54	481,851	3.25	591,441	5.05

* Against these options, 9,142 and 34,952 rights have been exercised in 2014 and in 2013, respectively (see subsection d hereunder).

b. Options subject to attainment of performance goals:

	2014		2013		2012	
	Quantity	**Average Weighted Exercise Price $**	**Quantity**	**Average Weighted Exercise Price $**	**Quantity**	**Average Weighted Exercise Price $**
In circulation at the beginning of the year	67,500	6.43	387,500	3.82	781,000	3.40
Granted at market price	-	-	-	-	30,000	7.76
Forfeited	-	-	-	-	(12,500)	5.36
Expired	-	-	-	-	-	-
Exercised	(12,500)	5.36	(320,000)	3.27	(411,000)	3.26
Outstanding at the end of the year	55,000	6.67	67,500	6.43	387,500	3.82
Of the above, exercisable at the end of the year	10,000	7.76	-	-	-	-

Note 13 – Capital (Continued)**:**

b. Share Based Payment (Continued)

c. On July of 2009, the Company's Board of Directors decided to revise the May 2006 option plan so that the exercise price paid for each option would be adjusted by the dividend rate declared by the Company from time to time. With regard to the 2009 plan, such adjustment was approved in the original plan.

d. According to the Shelf Offer Report published by the Company on October 27 of 2009, under which the Company made an offering by way of rights to the Company's ordinary shareholders, the Company adjusted the options which were granted under the 2006 plan and which have not yet vested, all under the terms of the original plan.

Under the said option plan (of 2006), at the vesting date, each exerciser of 4 options would be entitled to 5 shares in return for the payment of 4 times the exercise price plus the rights usage price on the date of issue, which was set at 17 NIS ($4.535) before adjustment for dividends.

In light of the above and as of December 31, 2014, and assuming the exercise of all of the options included under the 2006 plan and which were allocated to non US offerees, a total of 2,975 shares will be added to the ordinary shares converted.

Note 13 – Capital (Continued)**:**

b. Share Based Payment (Continued)

9. Details of Option Balance as of December 31, 2014, December 31, 2013 and movements in 2014, by plan (*):

			31.12.2013	Movements in 2014				31.12.2014	
Plan Date	Granting Date	Exercise Price ($) (**)	Balance of Options Granted, Yet to Be Exercised	Grant	Exercise	Expiry	Forfeiture	Balance of Options Granted, Yet to Be Exercised	Average Weighted Balance of Projected Life Span (Years)
May 2006	March 2007	6.95	9,040	-	(9,040)	-	-	-	-
May 2006	August 2008	4.70	6,900	-	(5,650)	-	-	1,250	0.58
May 2006	July 2009	3.02	43,523	-	(28,625)	(1,750)	-	13,148	1.13
May 2006	November 2009	3.07	200,000	-	(140,000)	-	-	60,000	1.33
May 2006	January 2010	6.93	5,000	-	(4,334)	-	-	666	2.00
May 2006	October 2010	8.00	150,000	-	(36,875)	-	-	113,125	1.79
May 2006	May 2011	7.56	2,804	-	(1,554)	-	-	1,250	3.46
May 2006	September 2011	5.36	20,000	-	-	-	-	20,000	3.33
Oct. 2009	October 2009, to Directors	5.00	31,668	-	(14,998)	-	-	16,670	0.79
Oct. 2009	August 2011	6.69	7,500	-	-	-	-	7,500	3.17
Oct. 2009	September 2011, by performance	5.36	37,500	-	(12,500)	-	-	25,000	3.63
Oct. 2009	November 2011	5.65	131,000	-	(29,763)	-	(1,000)	100,237	2.98
Oct. 2009	May 2012	8.05	10,000	-	-	-	-	10,000	3.08
Oct. 2009	July 2012	7.76	70,000	-	-	-	-	70,000	3.25
Oct. 2009	July 2012, by performance	7.76	30,000	-	-	-	-	30,000	3.25
Oct. 2009	September 2012	9.18	10,000	-	-	-	-	10,000	3.50
Oct. 2009	July 2013	15.22	57,000	-	(250)	-	(750)	56,000	4.33
	Total:		821,935	-,-	(283,589)	(1,750)	(1,750)	534,846	2.67

* See also b above.

** The exercise price listed above is the original price before adjustment to reflect the distribution of dividends.

Note 13 – Capital (Continued)**:**

10. Movements in and balances of block share units are as follows:

a. Restricted share units not subject to attainment of performance goals:

	For the Year Ended on December 31	
	2014	**2013**
Balance at year start	31,340	-
Granted	15,820	31,340
Vested	(7,838)	-
Balance at year end	39,322	31,340

b. Options subject to attainment of performance goals:

	For the Year Ended on December 31	
	2014	**2013**
Balance at year start	-	-
Granted	27,705	-
Vested	-	-
Balance at year end	27,705	-,-

c. Balance of restricted share units as of December 31, 2014 and December 31, 2013, and movement in 2014 under the plan:

		31.12.2013	**Movements in 2014**				**31.12.2014**
Plan Date	**Granting Date**	**Balance of Restricted Share Units yet to Be Exercised**	**Grant**	**Exercise**	**Expiry**	**Forfeiture**	**Balance of Restricted Share Units yet to Be Exercised**
October 2009	July 2013	31,340	-	(7,838)	-	-	23,502
October 2009	July 2014	-	13,320	-	-	-	13,320
July 2014	October 2014, by performance	-	12,275	-	-	-	12,275
July 2014	October 2014	-	2,500	-	-	-	2,500
July 2014	November 2014, by performance	-	15,430	-	-	-	15,430
	Total:	31,340	43,525	(7,838)	-,-	-,-	67,027

Note 14 – Taxes on Income:

a. Company Taxation in Israel

1) Measurement of Results for tax Purposes:

Starting the tax year of 2008 and onward, Company's results in Israel have been measured in nominal value for tax purposes.

2) Tax Rates:

Company's income in Israel (except for such which benefit from reduced tax rates under the Israel Encouragement Laws, see subsection b hereunder) are taxed at statutory tax rates.

On August 5 of 2013, the National Priorities Amendment Act ((Legislative Amendments for the Attainment of Budget Goals in the Years 2013 and 2014) of 2013 was published in the records, whereby, inter alia, the company tax rate would be increased to 26.5% starting the tax year of 2014 and onward. (For increase to the tax rates as apply to preferred plant income as provided under the Encouragement of Capital Investments Law of 1959, see subsection c hereunder).

Company's capital gains in Israel are taxable at the standard company tax rate as applies in the tax year.

b. Taxation of Non Israeli Subsidiaries

Subsidiaries incorporated outside of Israel are assessed for tax purposes according to the laws in the countries of their residence except such which are defined Controlled Foreign Companies under the instructions of the Income Tax Law, whose income may be taxed in Israel in addition to their taxation under the tax laws as apply in own countries of residence. The major tax rates applicable to major subsidiaries incorporated outside of Israel are as follows:

US incorporated subsidiaries are subject to a tax rate of approximately 38% (including federal and state taxes).

Subsidiaries incorporated in Germany are subject to a tax rate of approximately 30%.

Subsidiaries incorporated in the UK are subject to a tax rate of approximately 21%.

Subsidiaries incorporated outside of Israel in free trade zones are recorded for tax purposes under tax laws as apply in their respective countries of residence.

As a rule, intercompany transactions between the Company and the non Israeli subsidiaries are subject to the provisions and reporting requirements set under the Income Tax Regulations (Determination of Market Terms) of 2006.

Note 14 – Taxes on Income (Continued)**:**

c. Encouragement Laws in Israel

1) Amendment to the Encouragement of Capital Investments Law of 1959:

Pursuant to the Economic Policy Act for the years of 2011 and 2012 (Legislative Amendments) of 2011 as approved by the Knesset on December 29 of 2010, the Capital Investment Encouragement Law of 1959 was also amended (hereinafter the Amendment) effective January 1, 2011.

Under the Amendment, benefit plans were established in lieu of the plans currently provided under the Capital Investment Encouragement Law of 1959 (hereinafter the Law) as follows: a grants plan for plants in Development Area A and two new tax benefit plans (Preferred Plant and Special Preferrred Plant) where, basically, a uniform tax rate is applied to all of the Company's preferred revenues as defined under the Amendment.

Preferred plant benefits shall be granted under no time limitations as opposed to benefits to special preferred plant which shall be granted for a period of 10 years. Benefits shall only be granted to companies which will meet the terms stipulated under the Amendment, which basically resemble those set under the Law in its pre-amendment edition. Under the transition instructions, the Company may continue to receive tax benefits as provided under the Law up to the Amendment and until the benefits period as implied by the Law terminates.

In 2011, the Company notified the income tax authorities of its request to apply the instruction of the Preferred Plant Law. In 2011 through 2013, the Company claimed some of its revenues as attained in Israel under the preferred plant provisions, and it intends to do the same in 2014.

The main benefits offered to preferred plants are as listed below:

Reduced tax rate – under the provisions of the Amendment, the tax rates which apply to the preferred revenues of companies with plants in Development Area A shall be reduced incrementally as follows: 10% in 2011 and 2012, 7% in 2013 and 2014, and 6% in 2015 and subsequently.

Under the National Priorities Amendment Act ((Legislative Amendments for the Attainment of Budget Goals in the Years 2013 and 2014) of 2013 as was published in the records on August 5, 2013 (see a2 above), an increase was set, inter alia, to the tax rate applicable to preferred revenues, thus that, starting 2014 and onward, the income tax rate which applies to companies with plants in Development Area A shall be 9%.

Note 14 – Taxes on Income (Continued)**:**

c. Encouragement Laws in Israel (Continued)

Accelerated depreciation –preferred companies are entitled to accelerated depreciation with regard to manufacturing assets employed by the preferred plant as long as the total depreciation deducted does not exceed the original asset price. The plant will be entitled to accelerated depreciation rates in the first 5 tax years of asset operations (and will subsequently resume depreciation claims by the standard rate). For machinery and equipment, the accelerated depreciation rate will be 200% that established under the regulations set by force of Order Section 21, whereas for buildings, the accelerated depreciation rate will be 400% that established under the said regulations, however no higher than 20% per year multiplied by the rate of adjustment.

Divided distribution – dividends paid, which had originated in preferred revenues, will be taxed at a rate of 15% up to the tax year of 2013 and 20% starting 2014.

d. Losses for Tax Purposes Carried On to Subsequent Years

Deferred tax assets due to losses for tax purposes, to be carried on to subsequent years, are recognized to the extent to which the related tax benefit is expected to be realized through the existence of future taxable income.

Losses for tax purposes to be carried on to subsequent years, as derived from the Parent Company, amounted, as of December 31 of 2014 and 2013, to approximately $37 million and $44 million, respectively.

Losses for tax purposes to be carried on to subsequent years, as derived from the Group subsidiaries, amounted, as of December 31 of 2014 and 2013, to approximately $17 million and $18 million, respectively.

The tax asset recognized in Israel as of December 31 of 2014 and 2013 amounted to approximately $9.8 million and $7.8 million, respectively.

Carried on losses for tax purposes as accumulated in Israel may be offset over an unlimited period of time; see also subsection e below.

The tax asset recognized under Income Tax Losses for subsidiaries as of December 31 of 2014 and 2013 amounted to $1.2 million and $1.0 million, respectively.

Note 14 – Taxes on Income (Continued)**:**

e. Deferred Income Taxes

1) The composition of deferred taxes as of the Balance Sheet dates and movements in the respective years are as follows:

	For Balance Sheet Items						
	Fixed Assets	Intangible assets	Inventory	Provision to Employee Benefits	Others	With Respect to Losses for Tax Purposes	Total
	Thousands of Dollars						
Balance on January 1, 2012	(3,522)	(2,635)	717	1,533	418	9,321	5,832
Changes in 2012:							
Entry in consolidation	(1,296)	-	1,042	-	208	721	675
Charged to Statement of Operations	58	(661)	184	175	792	(1,835)	(1,287)
Sums charged to Other Comprehensive Income (Loss)	-	-	-	246	-	-	246
Charged to capital reserve from translation differences	(11)	-	9	-	2	6	6
Balance on December 31, 2012	(4,771)	(3,296)	1,952	1,954	1,420	8,213	5,472
Changes in 2013:							
Charged to Statement of Operations	1,803	(1,352)	32	(6)	(276)	139	340
Influence of change in tax rates on deferred tax balances reported under Statement of Operations	(159)	(2)	2	33	68	412	354
Sums charged to Other Comprehensive Income (Loss)	-	-	-	(285)	-	-	(285)
Influence of change in tax rates on deferred tax balances in Other Comprehensive Income (Loss)	-	-	-	29	-	-	29
Charged to capital reserve from translation differences	(29)	(24)	37	(3)	9	35	25
Exchange rate differences	(8)	-	-	1	2	-	(5)
Balance on December 31, 2013	(3,164)	(4,674)	2,023	1,723	1,223	8,799	5,930
Changes in 2014:							
Charged to Statement of Operations	(495)	851	50	(579)	10	2,287	2,124
Deferred taxes generated on acquisition of a company	-	-	-	-	-	148	148
Sums charged to Other Comprehensive Income (Loss)	-	-	-	224	-	-	224
Charged to capital reserve from translation differences	151	27	(94)	-	(42)	(92)	(50)
Exchange rate differences	36	-	-	(3)	(15)	-	18
Balance on December 31, 2014	(3,472)	(3,796)	1,979	1,365	1,176	11,142	8,394

Delta Galil Industries Ltd.

Notes to the Financial Statements (Continued)

Note 14 – Taxes on Income (Continued)**:**

e. Deferred Income Taxes (Continued)

2) Deferred income taxes:

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority. The offset sums are as follows:

	December 31	
	2014	**2013**
	Thousands of Dollars	
Deferred tax assets:		
Repayment of which is expected within 12 months of the Balance Sheet date	7,784	7,435
Repayment of which is expected over 12 months after the Balance Sheet date	10,722	8,416
	18,506	15,851
Deferred tax liabilities:		
Repayment of which is expected within 12 months of the Balance Sheet date	(285)	(224)
Repayment of which is expected over 12 months after the Balance Sheet date	(9,827)	(9,697)
	(10,112)	(9,921)
Tax assets, net	8,394	5,930

	December 31	
	2014	**2013**
	Thousands of Dollars	
Presented in the Balance Sheet:	11,348	9,560
Under Deferred Tax Assets	(2,954)	(3,630)
Under Deferred Tax Reserve	8,394	5,930

The deferred taxes are calculated by tax rates in a range between 26.5% and 38%.

Note 14 – Taxes on Income (Continued)**:**

f. Pre-Tax Income Composition

	For the Year Ending December 31		
	2014	2013	2012
	Thousands of Dollars		
Companies in Israel	12,534	18,119	29,201
Non Israeli subsidiaries	44,750	37,293	36,805
	57,284	55,412	66,006

g. Composition of Income Tax Expenses in the Comprehensive Income (Loss) Report

	For the Year Ending on December 31		
	2014	2013	2012
	Thousands of Dollars		
Current:			
Companies in Israel	668	3,169	3,112
Non Israeli subsidiaries	11,179	10,144	4,883
	11,847	13,313	7,995
Deferred:			
The Company in Israel	(1,944)	(702)	672
Non Israeli subsidiaries	(180)	8	615
	(2,124)	(694)	1,287
Current for previous years:			
The Company in Israel	238	113	(6)
Non Israeli subsidiaries	(108)	-	(247)
	130	113	(253)
	9,853	12,732	9,029

Note 14 – Taxes on Income (Continued)**:**

h. The following is a reconciliation of the "theoretical" tax amount that would have applied had all revenues been taxed at the standard tax rate applicable to companies in Israel (see a2 above) with the tax sum charged in the Reports on Comprehensive Income (Loss) for the reported year:

	For the Year Ending on December 31		
	2014	**2013**	**2012**
	Thousands of Dollars		
Income before taxes on income as presented in the Reports on Comprehensive Income	57,284	55,412	66,006
Theoretical tax expenses (income)	15,151	15,827	16,502
Increase (decrease) in tax due to different tax rates applicable to non Israeli subsidiaries	1,314	(358)	(863)
	16,465	15,469	15,639
Increase (decrease) in tax due to fixed differences:			
Income from lucky buy	-	-	(3,155)
Non deductible expenses, net	196	155	260
Tax expenses (income) for previous years, net	130	113	(253)
Increase in taxes deriving from losses for tax purposes created in the reported year and for which no deferred taxes were credited	199	-	394
Decrease in taxes from losses for tax purposes in the reported year for which no deferred taxes were credited in the past	(4,335)	(2,608)	(1,305)
Exchange rate and measurement base differences	(2,594)	(362)	(2,403)
Change to the deferred taxes due to changed tax rates	-	(354)	40
Other – net	(208)	319	(188)
Taxes on income – in Statements of Comprehensive Income	9,853	12,732	9,029

i. Tax Assessments

Agreed assessment as filed by the Company in Israel for the tax year of 2009 is deemed final.

In December of 2014, the Company was presented a judgment based assessment for the year of 2010, under which assessment an additional tax was charged which included interest and amounted to NIS 13.5 million. The Company disputed assessor's position and submitted own appeal in January of 2015. In Company's estimation, it has true arguments in own defense against the respective assessment items and hence did not include any related provision in its Financial Statements.

Self-assessment as filed by the US subsidiary up to the tax year of 2010 is deemed final.

Tax assessment as filed by the German subsidiary for 2009 is deemed final.

Note 14 – Taxes on Income (Continued)**:**

j. The Effect of IFRS Adoption in Israel on Tax Liability

As of January 1 2008, the Company has prepared its Financial Statements in accordance with the IFRS.

The IFRS differ from generally accepted Israeli accounting standards, hence preparation of financial statements as required under the IFRS may reflect a financial situation, operating results and cash flows materially different from those presented under the generally accepted Israeli accounting standards.

Under legal instructions as published in 2010, 2012 and 2014 (hereinafter – Temporary Orders), taxable income for tax years 2007 through 2013 shall not be subject to Accounting Standard 29 as set by the Israeli Accounting Standards Board, even where the Standard had been applied to the Financial Statements prepared for the said tax years. The Temporary Orders provide that the IFRS rules shall not apply in practice in calculating the income reported for tax purposes for the said tax years.

On October 31 of 2011, a legal memorandum was published in amendment of the income tax order (hereinafter the Memorandum) pursuant to the application of the IFRS rules to financial reporting. The Memorandum generally adopts IFRS, however also suggests a number of amendments to the income tax order which would clarify and establish the method by which taxable income shall be calculated in instances of ambiguity and inconsistency between the IFRS rules and the concepts of the Israeli tax methodology. Legislative proceedings with regard to the Memorandum have not been completed and are not expected to be completed in the near future.

Since legislation in the matter of the Memorandum has not completed, Company Management estimates that the Temporary Orders set for the years 2007 through 2013 will eventually be extended to also cover the year of 2014. Hence, the Company, at this point, expects that the new legislation will not apply to tax years preceding that of 2015.

In view of the Temporary Orders as apply to the tax years of 2007 through 2013 and Company's estimation that the Temporary Orders may be extended to also cover the tax year of 2014 as above, the Company calculated its taxable income for the tax years of 2007 through 2014 based on Israeli accounting standards as were in effect prior to the Israeli adoption of the IFRS, subject to certain adjustments.

Note 15 – Post-Employment Benefits

a. Severance Pay Liability

Under the labor laws and labor agreements in effect, the Company and some of its subsidiaries are liable for severance pay and/or retirement pension on employees dismissal or retirement under specific circumstances. The sums of the benefits received by employees entitled to severance pay on retirement as above are based on their years of service and on their last wages.

Also, under the labor laws and labor agreements in effect, including the Expansion Order (Combined Version) for Obligatory Pension under the Collective Agreements Law of 1957 (hereinafter – the Expansion Order), the Company is liable for deposits in provident funds, pension funds or other such funds (hereinafter – Funds) so as to cover own employees' pension insurance as well as some of own severance pay liabilities.

Under the terms of the Expansion Order, Company deposits for severance pay as required under the Expansion Order and also other deposits made by the Company at own choice "in lieu of severance pay" and so announced as required under the Expansion Order, replace all payment of severance pay under Section 14 of the Severance Pay Law with respect to the wages, components, periods and rates for which the deposit alone was made (hereinafter – Deposits under Section 14).

For the balance of Company's severance pay liability which is not covered by deposits under Section 14, including with respect to employment periods preceding the date when the Expansion Order came into effect (hereinafter – the Balance of Severance Pay Liability), the Company makes regular deposits in personal severance pay provident funds made out to the names of the individual employees. The sums deposited as above are on account of the balance of severance pay liability rather than on lieu of severance pay. With respect to the balance of the severance pay liability, member companies of the Group are liable for no minimum level of deposit.

The Israeli Company's liability for deposits to cover own employees' pension insurance and its liability for deposits under Section 14 constitute Defined Deposit plans which are covered by the regular deposits. Sums deposited under Defined Deposit plans as above are not included in the Balance Sheet. With respect to these Defined Deposit plans, the Company has no legal or implied obligation to make additional deposits when the assets accumulated in the funds does not suffice for full payment of the employee benefits owed for work services in the current period and in earlier periods.

The balance of severance pay liability in Israel constitute a Defined Benefit plan which exposes the Company to an actuary risk (mostly wage increases higher than those predicted) as well as to an investment risk (returns on assets invested in personal severance pay provident funds being lower than those predicted). The investments made in personal severance pay provident funds are managed by the funds' managing companies and are subject to various regulations as well as to control by the Capital Market, Insurance and Savings Division of the Ministry of Finance (including with regard to investment methods).

Note 15 – Post-Employment Benefits (Continued)

b. Defined Deposit Plan

Company's severance pay liability as related to Israeli employees for whom the liability as above is subject to Section 14 of the Severance Pay Law and also the severance pay liability of some non Israeli subsidiaries as related to non Israeli employees are covered by regular deposits in Defined Deposit plans. The sums deposited as above are not included in the consolidated Balance Sheet reports.

The sum recorded as expense for Defined Deposit plans in 2014, 2013 and 2012 is $8,066,000, $8,180,000 and $5,191,000, respectively.

c. Defined Benefit Plan

As shown above, the Company and some of its subsidiaries as above are liable for employees severance pay, which liabilities constitute Defined Benefit plans. These liabilities are covered by severance pay and executive insurance reserves where the Company and some of its subsidiaries deposits funds. The sums of severance pay liabilities, net, as included in the Balance Sheet as of December 31 of 2014 and 2013 reflect the gap between the severance pay liability and the severance pay plan assets as reported under subsection d below.

d. Sums Presented in the Balance Sheet

	December 31	
	2014	**2013**
	Thousands of Dollars	
Fair value of plan assets	8,945	10,261
Current value of liabilities due to financed plans	10,638	10,985
Financed plans deficit	(1,693)	(724)
Current value of liabilities due to entirely non financed plans	(336)	(366)
Total deficit from Defined Benefit plans	(2,029)	(1,090)
Impact by asset ceiling	(14)	(8)
Liability in the Balance Sheet, net	(2,043)	(1,098)
Other severance pay liabilities	(285)	(193)
	(2,328)	(1,291)
Presented:		
Severance pay reserve surplus (see note 10)	11	814
With severance pay liability surplus neutralized	(2,339)	(2,105)
	(2,328)	(1,291)

Note 15 – Post-Employment Benefits (Continued)**:**

e. Liability Movement, Net

	Current Value of Liability	Fair Value of Plan Assets	Balance	Impact by Asset Ceiling	Net Liability
	Thousands of Dollars				
Balance as of January 1, 2014	11,351	(10,261)	1,090	8	1,098
Additional service cost	400	-	400	-	400
Interest expenses (income)	338	(287)	51	-	51
Rate differences	(322)	237	(85)	-	(85)
Differences from translation of financial statements	(590)	561	(29)	-	(29)
	11,177	(9,750)	1,427	8	1,435
Remeasurements of net liability:					
Returns on plan assets, less sums included in interest income	-	177	177	-	177
Actuary losses from changed demographic assumptions	42	(41)	1	-	1
Actuary losses (gains) from changed financial assumptions	1,262	(540)	722	-	722
Actuary losses from adjustments by experience	94	53	147	-	147
Change to the asset ceiling impact, less sums included in interest income	-	-	-	6	6
	1,398	(351)	1,047	6	1,053
Plan deposits:					
Deposits by employer	-	(330)	(330)	-	(330)
Deposits by plan participants	-	(82)	(82)	-	(82)
Plan payments:					
Benefit payments	(1,601)	1,568	(33)	-	(33)
Balance as of December 31, 2014	10,974	(8,945)	2,029	14	2,043

The sum of actuary losses due to changed financial assumptions in 2014 includes actuary income at a rate of $92,000 due to the change in the discount rate of Defined Benefit plan liabilities, resulting from the determination that a deep market for high rating corporate debenture is run in Israel. Under this determination, when measuring liabilities as above, use of a discount rate based on the yield of government debentures should be abandoned for use of a discount rate based on the yield of high rating corporate debentures. See note 2q.

Note 15 – Post-Employment Benefits (Continued)**:**

e. Liability Movement, Net (Continued)

	Current Value of Liability	Fair Value of Plan Assets	Balance	Impact by Asset Ceiling	Net Liability
			Thousands of Dollars		
Balance as of January 1, 2013	11,796	(9,573)	2,223	14	2,237
Additional service cost	506	-	506	-	506
Interest expenses (income)	293	(276)	17	-	17
Rate differences	242	(190)	52	-	52
Differences from translation of financial statements	177	(186)	(9)	-	(9)
	13,014	(10,225)	2,789	14	2,803
Remeasurements of net liability:					
Returns on plan assets, less sums included in interest income	-	(397)	(397)	-	(397)
Actuary losses from changed demographic assumptions	11	-	11	-	11
Actuary gains from changed financial assumptions	(452)	-	(452)	-	(452)
Actuary gains from adjustments by experience	(184)	(231)	(415)	-	(415)
Change to the asset ceiling impact, less sums included in interest expenses	-	-	-	(6)	(6)
	(625)	(628)	(1,253)	(6)	(1,259)
Plan deposits:					
Deposits by employer	-	(390)	(390)	-	(390)
Deposits by plan participants	-	(20)	(20)	-	(20)
Plan payments:					
Benefit payments	(1,038)	1,002	(36)	-	(36)
Balance as of December 31, 2013	11,351	(10,261)	1,090	8	1,098

Delta Galil Industries Ltd.

Notes to the Financial Statements (Continued)

Note 15 – Post-Employment Benefits (Continued)**:**

e. Liability Movement, Net (Continued)

	Current Value of Liability	Fair Value of Plan Assets	Balance	Impact by Asset Ceiling	Net Liability
			Thousands of Dollars		
Balance as of January 1, 2012	6,751	(5,783)	968	-	968
Additional service cost	390	-	390	-	390
Interest expenses (income)	336	(224)	112	-	112
Rate differences	84	(72)	12	2	14
Differences from translation of financial statements	64	(44)	20	-	20
	7,625	(6,123)	1,502	2	1,504
Remeasurements of net liability:					
Returns on plan assets, less sums included in interest income	-	62	62	-	62
Actuary losses (gains) from changed demographic assumptions	79	(6)	73	-	73
Actuary losses from changed financial assumptions	792	-	792	-	792
Actuary losses (gains) from adjustments by experience	137	(345)	(208)	-	(208)
Change to the asset ceiling impact, less sums included in interest expenses	-	-	-	12	12
	1,008	(289)	719	12	731
Acquisition of business combinations	3,931	(3,590)	341	-	341
Plan deposits:					
Deposits by employer	-	(270)	(270)	-	(270)
Deposits by plan participants	20	(20)	-	-	-
Plan payments:					
Benefit payments	(788)	719	(69)	-	(69)
Balance as of December 31, 2012	11,796	(9,573)	2,223	14	2,237

One benefit plan of the Group's has recorded a surplus which is recognized since the future economic benefits are available to the subsidiary in the form of refunds from the plan or reduced future deposits in the plan.

Note 15 – Post-Employment Benefits (Continued)**:**

f. Actuary Assumptions

1. The main actuary assumptions employed in establishing the current value of the Defined Benefit liability were as follows:

	December 31											
	2014						2013					
	Israel	USA	Bulgaria	Germany	Holland	Switzerland	Israel	USA	Bulgaria	Germany	Holland	Switzerland
Discount rate	2.85%	3.50%	3.80%	1.95%	2.40%	1.40%	2.59%	4.30%	4.00%	3.38%	3.90%	2.25%
CPI increase rate	1.39%	-	-	-	-	0.90%	2.24%	-	-	-	-	0.90%
Expected retirement rate	10.00%	-	(*)	9.70%	(*)	(*)	10.00%	-	(*)	7.50%	(*)	(*)
Wage increase rate	3.50%	-	(**)	2.00%	2.00%	1.50%	3.50%	-	5.00%	2.00%	2.00%	1.50%

(*) Specific by age group.

(**) 10% in 2015 and 5% starting 2016.

Assumptions with regard to future mortality rates are made by statistics as had been published and relevant experience as has accumulated.

Note 15 – Post-Employment Benefits (Continued)**:**

f. Actuary Assumptions (Continued)

2. Presented below is an analysis of Defined Benefit liability's sensitivity to any reasonably likely changes at the end of the reporting period to significant weighted actuary assumptions:

	Defined Benefit Liability Increase (Decrease), Net					
	December 31, 2014					
	Percent					
	Israel	USA	Bulgaria	Germany	Holland	Switzerland
Discount rate:						
0.5% increase	(10.39)	(16.23)	(5.30)	(2.89)	(11.90)	(8.89)
0.5% decrease	13.31	17.70	5.80	3.08	14.10	10.49
Wage increase rate:						
0.5% increase	14.08	-	5.70	0.46	1.90	1.56
0.5% decrease	(11.35)	-	(5.30)	(0.43)	(2.00)	(1.56)
CPI increase rate:						
0.5% increase	(0.96)	-	-	-	-	-
0.5% decrease	0.91	-	-	-	-	-

Sensitivity analyses as presented above were accomplished by changing of one specific assumption at a time with all other assumptions kept unchanged. This is unlikely in practice, since the changes and assumptions may correlate.

The Defined Benefit liability's sensitivity to any changes to significant actuary assumptions was calculated by the same method (measurement of the current value of the Defined Benefit liability based on the Projected Unit Credit method at the end of the reporting period) as that employed in calculation of the Defined Benefit liability in the Balance Sheet.

The methods employed and the assumptions made in preparation of the sensitivity analysis have remained unchanged as compared with the preceding reporting period.

g. Plan Assets

Plan assets composition is as presented below:

	December 31	
	2014	2013
	Thousands of Dollars	
Israel	2,229	3,449
USA	2,355	2,485
Holland	1,702	1,225
Switzerland	2,659	3,102
	8,945	10,261

Note 15 – Post-Employment Benefits (Continued)**:**

h. Entity Risks Imposed by the Plan

Defined Benefit plans expose the Group to a number of risks, the most significant of which are the volatile value of the plan assets which include a considerable number of capital instruments; changes to debenture returns; and the risk of actual wage increase measuring higher than that considered in actuary calculations.

Some of the local investments made in personal severance pay provident funds are managed by the funds' managing company and are subject to various regulations as well as to control by the Capital Market, Insurance and Savings Division of the Ministry of Finance (including with regard to investment methods).

i. Impact on Future Cash Flows

To finance their liabilities as related to the plan, member companies of the Group make monthly deposits in personal severance pay provident funds made out to the names of the individual employees.

Rate of Deposits from the Monthly Wage					
2014					
Percent					
Israel	USA	Bulgaria	Germany	Switzerland	Holland
Employer 8.33	-	-	-	Employee 5.00 Employer - specific	Employer 3.50

The forecast of Defined Benefit plan deposits over the course of 2015 is for a total of $424,000.

The weighted average life span of the Defined Benefit liability as of December 31, 2014, ranges between 6 and 26 years (as compared with a range between 5 and 24 years as of December 31, 2013).

Presented below is an analysis of expected, non discounted benefit payment dates, as of December 31, 2014:

	Thousands of Dollars
Under 1 year	1,153
1 to 2 years	689
2 to 5 years	1,233
Over 5 years	13,320
Total	16,395

Note 16 – Earnings per Share:

a. Basic

To calculate the basic earnings per share, the profit attributed to shareholders of the Parent Company is divided by the weighted average number of ordinary shares issued, excluding ordinary shares purchased by the Company and held as treasury shares.

	Year		
	2014	**2013**	**2012**
Net income attributed to Parent Company shareholders (in thousands of dollars)	46,760	42,560	56,857
Weighted average number of ordinary shares issued (in thousands)	26,217	25,835	24,864
Less treasury shares (in thousands)	1,321	1,325	1,214
Total number of shares considered in calculation of basic earnings per share	24,896	24,510	23,650
Basic earnings per share (in dollars per share)**,** net	1.88	1.74	2.40

b. Diluted

To calculate the diluted earnings per share, the weighted average number of ordinary shares outstanding (net of) treasury shares are adjusted, with of all ordinary shares of dilutive potential included.

	Year		
	2014	**2013**	**2012**
Net income used for calculating diluted income per share (in thousands of dollars)	46,760	42,560	56,857
Weighted average of the number of ordinary shares issued (in thousands) used for the calculation of profit per share	26,217	25,835	24,864
Less treasury shares (in thousands)	1,321	1,325	1,214
Adjustment due to incremental shares from the exercise of options and restricted share units (in thousands)	745	744	1,065
Weighted average of the number of ordinary shares in calculation of diluted income per share (in thousands)	25,641	25,254	24,715
Net diluted income per share (dollars per share)	1.82	1.69	2.30
In calculation of profit per share, adaptations due to non diluted options (in thousands) were not taken into account.	-	21	104

Note 17 – Commitments:

a) The Company and its subsidiaries lease 12 buildings under an operational lease agreement and also some 127 stores rented by the Delta Israel segment, 82 by the Schiesser chain in Europe and 7 by the Delta USA segment (Little Miss Matched). The lease (including optional extension) for 11 buildings and 216 stores are due to expire at different dates in the period between 2015 and 2033.

The minimum future annual lease fees (considering optional extensions likely to be exercised) for each of the years in the period between 2015 and 2019 will amount to approximately $25.2 million, $21.8 million, $20.1 million, $17.3 million and $13.8 million, respectively.

In the period between 2020 and the end of the lease term, accumulated lease fees will amount to some $53.7 million.

Lease expenses for each of the years of 2014, 2013 and 2012 amounted to $27.4 million, $24.2 million and $17.5 million, respectively.

b) See notes 12 and 9c for the minimum royalty payments liability.

c) As of December 31, 2014, the Company and some subsidiaries thereof produced bank guarantees at a rate of some $17.1 million, mostly to cover lease agreements and royalty agreements to which they are a party.

Note 18 – Transactions and Balances with Stakeholders and Related Parties:

The company is controlled by Isaac Dabah who holds, through GMM Capital LLC and directly, approximatly 49.3% of the Company's shares. Sterling Macro**,** a US fund run by Mr. Dabah, also holds some 6.3% of the Compny shares as of the date of the Report.

"Stakeholders" are as defined under the Securities Regulations (Yearly Financial Statements) of 2010.

"Related Parties" are as defined under IAS 24 – "Related Party Disclosures".

Key Company management personnel covered under the definition of "Related Parties" in IAS 24 include Company's members of the Board of Directors and CEO.

a. Transactions with Stakeholders and Related Parties:

Benefits were given stakeholders and related parties as follows:

	For the Year Ending December 31		
	2014	**2013**	**2012**
Wages and benefit component for options granted stakeholders and related parties employed by the Company or on its behalf:			
Sum – in thousands of dollars, see (1) and (3) below	2,515	2,467	1,275
Number of people to whom the benefits refer	3	3	3
Wages, consulting expenses, expense refunds paid and the benefit component for options granted directors			
Sum – in thousands of dollars, see (2) below	228	239	255
Number of people to whom the benefits refer	6	6	6
	26,074	-	-

Note 18 – Transactions and Balances with Stakeholders and Related Parties (Continued)**:**

a. Transactions with Stakeholders and Related Parties (Continued)

1) Options to the Company CEO

On October 20 of 2009, the Company's CEO and controlling shareholder was granted 720,000 options at $3.27 per option, contingent on the attainment of operational goals in the period between 2010 and 2012 (see note 13b2). The benefit component for these options listed as an expense in 2013 and 2012 amounts to approximately $34,000 and $177,000, respectively.

See note 13 for the exercise of options by the Company CEO and controlling shareholder.

2) Consultation Agreement with Mr. Israel Baum

The Company has a consultation agreement with a Company director. In return for consultation under the agreement, the director is entitled to payment according by hours invested. In 2014 and in 2013, no consultation services were provided by Mr. Baum. In 2012, the director received approximately $16,000 for the consultation services provided.

3) Approval of Stakeholder Terms of Employment

a. Approval of the employment terms of the daughter of the Company's controlling shareholder in her position of a subsidiary Product Manager and R&D Facilitator:

On December 31 of 2013, Company's General Shareholders Assembly approved the new employment terms of Company's CEO and controlling shareholder's daughter Ms. Gloria Dabah in her position of Product Manager, effective January 1 of 2014, all at recommendations by the Company's Compensation Committee and Board of Directors who considered, inter alia, the extension of Ms. Dabah's authority in her position as above as well as the increase in the sales and gross profit of the children and babies wear category under her charge, and finally acknowledged that the new terms of employment were acceptable, reasonable and fair under the circumstances. The review of Ms. Gloria Dabah terms of employment, achievements and contributions to the attainment of Company's business goals, and also the adjustment of her annual compensation to the scope of her duties, were accomplished in November 19 and 25 of 2013 by the Company's Compensation Committee and Board of Directors, who have since been reported of no change to the conditions or circumstances which would merit further consideration of these terms of employment.

b. On November 4 and 7 of 2012, the Audit Committee and the Company's Board of Directors made a decision of interest to a Company executive to the effect that a donation of 45.5 thousand NIS be made in the form of sponsorship awarded and tickets purchased for a fund raising event held by the IsrA.L.S Association where a Company stakeholder served as President.

Note 18 – Transactions and Balances with Stakeholders and Related Parties (Continued)

b. Balances with Stakeholders and Related Parties

	December 31	
	2014	2013
	Thousands of Dollars	
Current payables due to wage expenses, consultation fees and expense refunds to directors:		
Balance as of the Balance Sheet date	65	78
Payables due to wages and bonuses granted to stakeholders and related parties employed by the Company:		
Balance as of the Balance Sheet date	1,830	1,409
Current payables due to purchases from associated companies handled by the equity method	5,490	-
Current receivables for advance payment to a related party, see note 19a2	3,942	-

c. Directors Indemnity and Insurance

The Company has an indemnity and insurance arrangement for directors and executives, including executives in subsidiaries where the Company holds at least 25% of their stock capital. Indemnity is limited to a total of $15 million, of which $10 million are covered under an insurance policy with an annual premium amounting to approximately $31,000.

d. Negligible Transactions with Stakeholders

The Company's Board of Directors has decided to adopt guidelines and rules by which transactions shall be classified Negligible as defined under Securities Regulation 41(a3) (Financial Statements) of 2010. These rules and guidelines shall also serve to consider the extent of disclosure with regard to a company's transaction with a controlling interest holder or where the controlling interest holder also has a personal interest in authorization of the transaction as provided under Securities Regulation 22 (Periodic and Immediate Reports) of 1970 and under Securities Regulation 54 (Prospectus Details and Draft – Structure and Format) of 1969, and also to consider the need for immediate reporting of such company transaction as required under Securities Regulation 37a(6) (Periodic and Immediate Reports) of 1970.

Note 18 – Transactions and Balances with Stakeholders and Related Parties (Continued)

d. Negligible Transactions with Stakeholders (continued)

The Company's Board of Directors has determined that a company's transaction with a controlling interest holder or where the controlling interest holder also has a personal interest in authorization of the transaction shall be considered a "negligible transaction" if it meets all of the following criteria:

1) The transaction is not considered an exceptional one as defined under Section 1 of the Companies Law of 1999;
2) The transaction is not expected to have a material or strategic impact on the Company, with respect to the quality of the transaction;
3) The rate of transaction's impact on the relevant parameter (as provided hereafter) does not exceed 1%. For all intents and purposes of this criterion, the parameter relevant to the transaction will be judged as the most relevant of the following: (a) ratio of sales, i.e. total of all sales under the transaction divided by company's annual sales total; (b) cost to sales ratio, i.e. cost of transaction divided by company's annual sales total; (c) profits ratio, i.e. forecasted operating profit or loss attributed to the transaction divided by the annual profit or loss; (d) assets ratio, i.e. the volume of assets under the transaction divided by the company's total of all assets; (e) liabilities ratio, i.e. liabilities under the transaction divided by the company's total of all liabilities; and (f) operating expenses ratio, i.e. the volume of expenses under the transaction divided by the company's total of all operating expenses. The impact of the transaction shall be reviewed annually based on the yearly and audited (consolidated) financial statements.

   Where, in Company's judgment, all of the quantitative criteria above are irrelevant to the consideration of a transaction's negligibility, the transaction shall be considered negligible under another relevant quantitative criterion as will be set by the Company, providing that the rate of the relevant criterion calculated for the transaction does not exceed 1% of the relevant parameter.
4) In considering the negligibility of a transaction expected in future, consideration shall also include transaction's and transaction impact's probability of realizing.
5) Separate however interdependent transactions which thus constitute a part of the same commitment shall be considered as one transaction.

A transaction's negligibility shall be considered by the Company's CFO, who shall report the transaction and the results of own consideration to the Chairman of the Audit Committee as early as possible.

Notwithstanding any of the above, the Company may also report transactions with a controlling interest holder in instances when such reporting is not required under the provisions above.

Note 19 – Additional Information Pertaining to the Financial Statements:

a. Accounts Receivable

1. Trade Receivables:

	December 31	
	2014	2013
	Thousands of Dollars	
Outstanding debts	106,699	110,327
Checks collectable	1,860	1,966
	108,559	112,293
This item is presented net of provision to doubtful debts to the amount of	2,020	2,819

a. As of December 31, 2014, a trade receivables balance of approximately $1.6 million (as compared with approximately $1.6 million on December 31, 2013) is a balance exceeding the contractual payment date for which no provision had been made to doubtful debts and which had not been paid by the approval date of these Financial Statements. This balance represents a number of non dependent receivables with no insolvency record. Most of the balances are no older than 3 months.

The Company periodically reviews the aging of its trade receivables and generates a provision to doubtful debts for customers whom the Company believes are insolvent.

Movements in Company's provisions to doubtful debts in the trade receivables item are as follows:

	December 31	
	2014	2013
	Thousands of Dollars	
Balance at the beginning of the period	2,819	2,489
Increase (decrease) in provision to doubtful debts	(534)	205
Exchange rate differences	(265)	125
Balance at the end of the period	2,020	2,819

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

a. Accounts Receivable (Continued)

1. Trade Receivables (Continued)

b. Expenses (income) from doubtful and bad debts:

	For the Year Ending December 31	
	2014	**2013**
	Thousands of Dollars	
For trade receivables:		
Doubtful debts	(365)	709
Bad debts	(189)	(66)
	(554)	643

The generation and release of provisions to doubtful debts due to trade receivable balances were included under "Administrative and General Expenses" in the Statement of Operations. Trade receivable balances charged to doubtful debt provisions are written off when collection is judged improbable.

See note 4a2) for the credit rating of a prime customer.

2. Other Accounts Receivable

	December 31	
	2014	**2013**
	Thousands of Dollars	
Government institutions	155	518
Advanced payments to suppliers and subcontractors [(1)]	6,809	1,657
Prepaid expenses	3,732	3,660
Employees	185	205
Deposits	585	609
Income receivables	1,703	1,870
Receivables from the sale of real estate property in Nahariya**,** see note 8b2	12,083	-
Miscellaneous	950	1,003
	26,202	9,522

[(1)] The balance as of December 31, 2014, includes a $3,942 advanced payment made to an investee company. See note 18b.

The fair value of financial items of the total balance of other accounts receivable approximates that presented in the books. Balances included under Receivables and Other Accounts Receivable for financial items do not include overdue sums. The maximum exposure to credit risks as of the Balance Sheet date due to receivable balances is the fair value of all receivables less non financial balances (from prepaid expenses). The Group does not hold any collateral for these receivables except collateral for receivables from the sale of the real estate property in Nahariya.

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

b. Inventory

Composition of inventory:

	December 31	
	2014	**2013**
	Thousands of Dollars	
Finished products	156,014	136,478
Products in process	10,582	12,454
Raw materials	13,076	18,490
Auxiliary and packing materials	2,015	1,881
	181,687	169,303

As of December 31, 2014, the inventory balance impaired is presented net of write down provision to the amount of $18.0 million (as compared with $17.2 million as of December 31, 2013). The inventory balance is presented net of sale costs. The change in the impairment provision is included under Cost of Sales in the Report on Comprehensive Income.

c. Short Term Bank Loans

1. The average interest rate on the balance of credit and short term loans as of December 31, 2014, was 1.9% as compared with 2.4% on December 31, 2013.
2. The sum of all short and long term credit lines, including off Balance Sheet credit line, made available to the Company by the banks as of December 31, 2014, amounted to approximately $211 million (as compared with $232 million in 2013), of which approximately $190 million were not used (as compared with $177 million in 2013). In addition to these credit lines, the Company holds, as of December 31, 2014, a short term bank deposit which amounts to approximately $129 million (as compared with $83 million as of end of 2013) as well as $38 million in cash, such that the total of all of the Company's unused credit resources amounted to approximately $357 million on December 31 of 2014. The total of all credit resources as above includes some $28 million in non binding lines.

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

c. Short Term Bank Loans (Continued)

3. On June 1 of 2009, Delta USA entered in a credit agreement with Bank Leumi USA and with Bank Hapoalim Ltd., which renews annually. On June 1 of 2014, the agreement was amended vis-à-vis Bank Leumi USA alone for a period of two years. The short term, automatic renewal credit facility totals $80 million. This credit agreement is guaranteed by a floating, unlimited lien on Delta USA assets and rights as well as on some assets of its subsidiaries. As of December 31, 2014, no actual use was made of the credit facility. Company's unused credit line totaled approximately $66 million. As of the date of this Report, short term loans shall be subject to an interest rate of LIBOR + 2.5% annually. In some instances, the amendment also allows for loans at prime interest.

   The credit agreement is subject to the following financial stipulations:

   Delta USA’s net annual profit shall be no smaller than $1.

   Capital investments shall not exceed $5 million on the basis of the past four quarter years (not including label purchases).

   Tangible equity defined as equity less intangible assets (primarily goodwill) shall be no lower than $28 million.

   The ratio of tangible equity to the total of all assets less intangible assets shall not be lower than 20%..

   Under the credit agreement, subsidiary Delta USA shall be granted an option to pay the loans it was given by the Parent Company as long as it meets the financial stipulations above.

   The current agreement will remain in effect until June 1 of 2016.

   As of the date of the Balance Sheet and of this Report, the Company has met all of the financial stipulations above.

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

c. Short Term Bank Loans (Continued)

4. In December of 2012, subsidiary Schiesser AG entered in a 3-year credit agreement with the German Commerzbank, which credit agreement is guaranteed by liens on trade receivable balances, on inventory balances and on rights as related to the sale of intangible assets in the event of insolvency. As of the date of this Report, the short term credit facility amounts to €20 million or approximately $24 million. Short term loans are subject to an interest rate of Euro-LIBOR + 1.80%. As of the date of this Report, this credit line has not been used.

   This credit agreement is subject to the following financial stipulations:

   1) The ratio of financial liabilities net to EBITDA shall be kept under 3.

   2) The ratio of operational income (EBIT) to net interest expenses shall be kept higher than 4.0.

   3) The ratio of equity to the balance total shall be kept higher than 40%.

   Under the agreement, these financial stipulations shall be reviewed in June and in December of every year, starting in June of 2013.

   As of the date of the Balance Sheet and of this Report, the Company has met all of the financial stipulations above.

5. The fair value of the short term loans equals their book value since capitalization has no material impact.

d. Payables and Other Accounts Payable

	December 31	
	2014	**2013**
	Thousands of Dollars	
Employees and payroll institutions	15,521	17,093
Accrued expenses	13,953	12,926
Liability for minimum royalty payments	9,029	6,761
Provision for vacation and convalescence pay	4,883	5,470
Interest payables on debentures (1)	2,750	2,221
Forward contract	79	784
Restructuring expenses payable	628	949
Institutions	5,420	5,473
Others	5,285	4,764
	57,548	56,441

The book value of Payables and other Accounts Payable approximate reasonably their fair value since capitalization has no material impact.

(1) See also note 11**.**

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

e. Restructuring Expenses

2014 Plan

In Q3 of 2014, as a part of the Company's risk management policy and following its strategy of maintaining operational flexibility, the Company decided to take streamlining measures which included relocation of some of its London and Israel development and manufacturing operations to Far Eastern sites with an end, inter alia, to reduce the complexity of its manufacturing and development processes and to improve its customer service.

These streamlining efforts include reduced production volumes and overheads, and are expected to complete over the course of Q3 of 2015.

Restructuring expenses as related to these measures include some $0.9 million in employee termination costs.

2013 Plan

In Q3 of 2013, as a part of the Company's risk management policy and following its strategy of maintaining operational flexibility and improving its customer service, the Company decided to take streamlining measures which included relocation of its manufacturing operations to Far Eastern sites and reducing the operation of the Egyptian plant, all designed, inter alia, to reduce the complexity of plant manufacturing processes and improve its customer service. The streamlining efforts include reduced production (consolidation of 6 production sites into 4 sites) and reduced overheads, and are expected to complete over the course of Q3 of 2014.

Restructuring expenses as related to these measures amount to $3.5 million and include some $1.1 million in cash for employee termination costs and some $2.4 million for impairment of fixed assets.

The Company completed this plan in the course of Q3 of 2014, with actual restructuring expenses lower by $0.7 million than the estimate included under the Financial Statements of 2013. This decrease in restructuring expenses was included as Income in 2014.

2012 Plan

In Q2 and Q3 of 2012, the Company included under its Financial Statements restructuring expenses as were related to streamlining measures it took in its Karmiel plants, which included, inter alia, consolidation of the Karmiel manufacturing sites into one manufacturing site pursuant to its strategy of reducing manufacturing costs by relocation to areas where labor and manufacturing costs are lower. These costs totaled approximately $5.4 million, including some $2.7 million for employee retirement and severance pay costs and some $2.3 million for fixed assets impairment. In Q2 of 2012, the Company also included restructuring expenses at the rate of $0.4 million for relocation of the Delta Israel segment's logistics center from Rosh Ha'Ayin to Caesarea.

In Q3 of 2013, the Company completed its restructuring plan which included the consolidation of the Karmiel manufacturing sites, as was embarked on in 2012. The actual restructuring expenses suffered by the Company were $1.5 million lower than the estimate included under the 2012 Financial Statements. This decrease in the restructuring expenses was included as Income in Q3 of 2013.

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

e. Restructuring Expenses (Continued)

In Q3 of 2013, the Company also recorded an income of $0.5 million from write-off of restructuring expenses previously recorded for a burdening rental agreement, on grounds of asset's subletting.

1. Movement in the Employee Costs Provision Included under Restructuring Expenses in 2014 and 2013:

	2014	2013
	Thousands of Dollars	
Opening balance	949	2,230
Additional provisions during the year	887	1,152
Utilization during the year	(503)	(937)
Write-off of the provision due to the 2012 and 2013 plans	(705)	(1,496)
Closing balance	628	949

2. Principal Components of Expenses as Related to the Restructuring Plan:

	For the Year Ending December 31		
	2014	2013	2012
	Thousands of Dollars		
Costs (income) as related to workforce reduction as above	182	(344)	2,826
Impairment of fixed asset and computer software	-	2,348	2,484
Other expenses (income)	-	(475)	114
	182	1,529	5,424

f. Sales

See note 5e for sales to a prime customer.

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

g. Cost of Sales

	For the Year Ending December 31		
	2014	**2013**	**2012**
	Thousands of Dollars		
Purchases from subcontractors	489,292	438,098	356,403
Materials consumed	93,235	93,702	74,928
Wages and associated expenses	63,951	68,566	56,409
Shipping and customs	58,946	51,361	42,522
Other manufacturing expenses	13,464	27,927	20,793
Royalties	14,802	12,591	11,149
Depreciation and amortization	7,566	8,947	8,179
Decrease (increase) in inventory of finished and in-process products	(27,458)	(20,766)	37,363
	713,798	680,426	607,746

h. Selling, Marketing, General and Administrative Expenses

	For the Year Ending December 31		
	2014	**2013**	**2012**
Selling and marketing:			
Wages and associated expenses	106,209	96,503	73,387
Rent and maintenance	41,977	37,263	21,358
Advertising	13,098	10,307	5,464
Packing, shipping and storage	9,402	8,612	4,883
Commissions to franchise holders and agents	8,793	7,886	5,591
Depreciation and amortization	9,370	7,708	4,360
Amortization of intangible assets, except software	1,033	1,033	994
Other expenses	21,625	21,281	17,677
Total sales and marketing expenses	211,507	190,593	133,714
General and Administrative:			
Wages and associated expenses	23,032	22,435	16,307
Professional fees	5,155	5,128	4,825
Office rental and maintenance	1,534	1,549	1,254
Subsistence, entertainment and travel	1,453	1,532	1,313
Office expenses	768	804	948
Doubtful and bad debts	(553)	643	488
Depreciation and amortization	562	562	562
Telephone and postage	480	433	352
Other expenses	3,349	3,164	1,802
Total administrative and general expenses	35,780	36,250	27,851
Total sales, marketing, administrative and general expenses	247,287	226,843	161,565

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

i. Expenses by Type

	For the Year Ending December 31		
	2014	2013	2012
Purchases from subcontractors	489,292	438,098	356,403
Salary and wages	193,192	187,504	146,103
Materials consumed	93,235	93,702	74,928
Shipping, packaging, storage and customs expenses	68,348	59,973	47,405
Depreciation and amortization	18,602	18,250	14,095
Royalties expenses, net	14,802	12,591	11,149
Advertising expenses	13,098	10,307	5,464
Other expenses	98,045	107,610	76,401
Changes in finished and in-process products	(27,529)	(20,766)	37,363
Total cost of sales, sale and marketing, management and general expenses and impairment of fixed assets	961,085	907,269	769,311

j. Other Income, Net

	For the Year Ending December 31		
	2014	2013	2012
	Thousands of Dollars		
Capital gain from the sale of an asset classified as held for sale, see note 8b1	-	1,151	-
Capital gain from the sale of a fixed asset	1,257	(30)	137
Capital gain (loss) from financial derivatives	1,417	(649)	434
Total other income, net	2,674	472	571

Note 19 – Additional Information Pertaining to the Financial Statements (Continued)**:**

k. Financing Expenses, Net

	For the Year Ending December 31		
	2014	**2013**	**2012**
	In Thousands of Dollars		
Interest expenses due to credit and bank loans	2,427	3,585	3,073
Interest expenses due to debentures, see note 11	9,718	6,541	5,274
Other interest expenses	628	993	414
Capitalization component of long term assets and liabilities	1,908	1,389	767
Interest expenses and fees due to discount arrangements with customers (1)	488	338	371
Total finance expenses	15,169	12,846	9,899
Interest income from banks and others	(1,940)	(888)	(706)
Exchange rate difference expenses (income), net	2,577	(977)	(268)
Total financing expenses, net	15,806	10,981	8,925

(1) See note 2l.

Note 20 – Additional Details Regarding Material Investments in Direct Investee Companies as of December 31, 2014:

Fully Controlled and Fully Held (100%) Subsidiaries	Number of Shares of Any Type as Held by the Company	Notional Value of Shares in Foreign Currency	Cost of Investment	Balance Sheet Value	Loans	Dividend Revenues
			In Thousands of Dollars			
Delta Galil USA Inc.	100	$10	39,126	109,295	55,000	-
Delta Textile (London) Ltd.	10,000	£10,000	2,941	45,896	-	-
Delta Galil Holland BV	250	$21,000	21	53,258	1,896	1,690
Delta Galil UK Ltd.	1	€1	53,821	52,274	-	-

Note 21 – Event Subsequent to the Balance Sheet Date:

Dividend Distribution:

On February 25 of 2015, the Company decided to distribute dividends to the amount of $3.5 million at approximately 13.9 cents per share, to be distributed on March 24 of 2015 according to the USD representative rate of exchange as published on the day preceding the date of payment.

The determining and X date for distribution as above shall be March 9 of 2015.

Delta Galil Industries Ltd.

Appendix A – Details of Subsidiaries and Associates

Ownership and control by the holding company directly and through subsidiaries as of December 31, 2014:

	Holding's rate	Company's name	Holding Company
Subsidiary	100%	Delta Galil USA. Inc.	**Delta Galil Industries Ltd.**
Subsidiary	100%	Delta Galil Holland BV	
Subsidiary	100%	Delta Textiles (London) Ltd.	
Subsidiary	100%	Peace Bridge Co. **	
Subsidiary	100%	Delta Galil UK Limited	
Subsidiary	100%	Delta Galil Nechasim (1998) Ltd.	
Subsidiary	100%	DGT (Holdings) Ltd. *	
Associate	50%	Delta Alfa Corap Ve Tekstil San Tlc AC	
Associate	50%	Zhejiang Guangtai Delta Socks CO LTD	**Delta Galil Nechasim (1998) Ltd.**
Subsidiary	100%	Wundies Bangladesh Limited	**Delta Galil USA. Inc.**
Subsidiary	100%	Delta Textile Egypt – Free Zone SAE	**Delta Galil Holland BV**
Subsidiary	50%	Century Wear Corporation (WLL)	
Subsidiary	100%	Delta Textile Upper Egypt	
Subsidiary	100%	Thai Progress Garment Co. Ltd.	
Subsidiary	100%	Delta Textile Bulgaria Ltd.	
Subsidiary	100%	Delta Galil Hong Kong Ltd.	
Subsidiary	100%	Dominion Hosiery mills Inc.	
Subsidiary	100%	Delta Galil Hungary Kft.	
Subsidiary	100%	Delta Galil Limited Apparel (Guangzhou) Co. Ltd.	**Delta Galil Hong Kong Ltd.**
Subsidiary	100%	Delta Galil Europe Ltd.*	**Delta Textiles (London) Ltd.**
Subsidiary	100%	Delta Galil Textile Germany GmbH & Co. KG	
Subsidiary	100%	Sport Socks company (Belgium) Ltd.	
Subsidiary	100%	Delta Galil Germany GMBH	
Subsidiary	100%	Schiesser AG	**Delta Galil Textile Germany GmbH & Co. KG**
Subsidiary	100%	Schiesser Marken GmbH	**Schiesser AG**

	Holding's rate	Company's name	Holding Company
Subsidiary	100%	Schiesser International NV Belgium	
Subsidiary	100%	Schiesser International BV Nederland	
Subsidiary	100%	Schiesser Italia SRL Italy	
Subsidiary	100%	Schiesser International A/S Denmark	
Subsidiary	100%	Schiesser Schweiz AG Switzerland	
Subsidiary	100%	Schiesser Ireland Trading Ltd, Ireland	
Subsidiary	100%	Schiesser Ges m.b.H. Austria	
Subsidiary	100%	Pleas a.s.	
Subsidiary	100%	Gemtex a.s	
Subsidiary	100%	Reliable Global Sourcing Ltd., Hong Kong	
Subsidiary	100%	Textilveredelung Niederfrohna GmbH IL. **	
Subsidiary	100%	Schiesser Body Faison Center SRO **	
Subsidiary	2%	Schiesser Slovakia SRO **	
Subsidiary	98%	Schiesser Slovakia SRO **	**Schiesser Body Fashion Center SRO ****
Associate	50%	Adumit Ltd .**	**Delta Galil Nechasim (1998) Ltd.**

*   Inactive companies.
** Undergoing liquidation.

Delta Galil Industries Ltd.

Part D

Additional Information Regarding the Corporation

As of December 31, 2014

Part D – Additional Information Regarding the Corporation

Regulation 10a – Concise Quarterly Statements of Comprehensive Earnings

See Section 2.2 of the Board of Directors' Report.

Regulation 10c – Use of Proceeds of Securities

Designation of the Proceeds of Debenture Issue (Series A and B)

Under the shelf prospectus it published on May 28 of 2013, the Company offered (Series A and B) debentures in the reported period based on own three shelf offering reports published on May 13, June 1 and September 17 of 2014 whereby it raised a total of some $109 million, gross. The proceeds of the issue was designed to finance Company's business operations and recycle a financial debt.

Regulation 11 – List of Investments in Material Subsidiaries, Directly and Indirectly, as of December 31, 2014

Fully Controlled and Fully Held (100%) Subsidiaries	Number of Shares Held by the Company, of All Types	Notional Value of the Shares Foreign Currency	Cost of Investment in Thousands of USD	Balance Sheet Value In Thousands of USD
Delta Galil USA Inc.	100	$10	39,126	109,295
Delta (Textile) London Ltd.	10,000	£10,000	2,941	45,896
Delta Galil Holland BV	250	$21,000	21	53,258
Delta Galil UK Ltd.	1	€1	53,821	52,274

Regulation 13 – Revenues of Subsidiaries and Consequent Corporation's Revenues as of the Date of the Report

	Year 2014				
	In Thousands of USD				
Name of Subsidiary (3)	Income (Loss) Before Tax	Net Income (Loss) (After Tax)	Other Comprehensive Income	Interest Revenues Received from Subsidiary (1)	Dividends Received from Subsidiary (2)
Delta Galil USA Inc.	17,832	10,991	10,838	3,964	-
Delta (Textile) London Ltd.	26,502	23,281	8,461	542	-
Delta Galil Holland BV	6,749	5,810	5,829	35	1,690
Delta Galil UK Ltd.	(7,123)	(6,948)	(6,948)	-	-

(1) The data listed in the table above are cumulative and relate to interest revenues received from subsidiaries in 2014. The total interest received in cash in December of 2014 amounted to $3,968,000.

(2) The dividend received in cash in 2014 totaled $1,690,000. This amount was received on the following dates: $1,575,000 in February, $85,000 in May and $30,000 in September of 2014.

(3) The data listed in the table above include the profits of second tier subsidiaries as included under Subsidiaries Income.

Regulation 20 – Stock Market Trade – Securities Listed for Trade – Dates and Causes of Trade Discontinuation

Except for the exercise of (non-tradable) options by Company employees over the course of 2014, the Company issued no shares.

During the reported period, trade of the Company's securities listed for trade on the stock exchange did not discontinue.

Regulation 21 – Remuneration of Stakeholders and Senior Executives

a. Following are details of remuneration cost for the Company (remuneration awarded in the reported year, including Company's remuneration liabilities for the reported year) for its five highest remunerated senior executives, including three highest remunerated senior executives who were remunerated for their position in the very Company, in USD and in NIS:

Remuneration Recipient Details					Remuneration for Services [1]						
Name	Position	Scope of Position	Gender	Holdings in Corporation's Equity [3]	Wage, Benefits and Expenses	Current Grant	Long Term Grant [4]	Total Grant	Shares Based Payments [2]	Total	Total in NIS At an Average Exchange Rate
					In US Dollar						
Isaac Dabah	CEO	100%	M	55.60%	641,723	750,000	500,000	1,250,000	-	1,891,723	6,766,692
Steve Klein [5]	CEO of Burlen	100%	M	-	755,989	350,000	-	350,000	9,160	1,115,149	3,988,887
Yossi Hajaj	CFO	100%	M	0.32%	470,960	184,584	98,546	283,130	32,900	786,990	2,815,065
Esti Maoz [6]	VP Marketing and Strategic Development	100%	F	-	570,777	129,432	-	129,432	-	700,209	2,504,647
Shlomo Doron [7]	VP Operations and Deputy CEO	100%	M	0.10%	500,492	35,895	-	35,895	-	536,387	1,918,655

(1) In terms of annual cost to the Company.

(2) Option based payment includes the benefit component for options granted to executives as part of the 2006 and 2009 plans, calculated by the B&S model and as included under expenses in the Company's statements for the reported year. It shall be noted that this component was not paid in cash. For further detail on the exercise price and the value of the options, see note 13 to the Financial Statements in Part C of This Periodic Report.

(3) The rate of Mr. Dabah's holding as above includes Sterling Macro holdings (a fund managed by Mr. Dabah).

(4) Part of the long term grant is not paid in practice but rather relates to attainment of Company's performance goals in 2015, to the extent attained. Company Management estimates that it is highly likely that grant payment requirements will be met and hence expects that the long term grant will be paid in full. Part of the long term grant was limited to instances when the annual grant total exceeds the predefined ceiling of 12 salaries per year.

(5) Mr. Steve Klein ceased to be a senior executive of the Company on January 29 of 2015 and will resign from the Company on March 31 of 2015.

(6) Ms. Maoz terminated her employment with the Company on September 30 of 2014, from which date she have been providing services against invoices as reported hereunder. The wage cost listed in the table above includes NIS 510,000 (approximately $142,000) in adjustment allowance amounting to a 6 month wage as well as fee payments starting October 1 of 2014 under the new mechanism.

(7) Mr. Shlomo Doron resigned from the Company on December 31 of 2014.

b. Following are details of remuneration to stakeholders and directors, in USD and in NIS:

				Remuneration for Services [1]			
Name	Position	Scope of Position	Holdings in Corporation's Equity	Wage, Benefits and Expenses	Grant	Total	Total in NIS
				In US Dollar			
Directors	6 in total		* 0.24%	228,363	-	228,363	832,787
Gloria Dabah [2]	Product Manager and Merchandising Manager in Delta USA	100%	-	159,657	29,109	188,766	675,218
Itzhak Weinstock [2]	COO with Delta USA	100%	0.40%	415,260	19,454	434,714	1,554,973

* Related to holding at the rate of 0.20% by Mr. Gideon Chitayat, 0.03% by Mr. Israel Baum and 0.01% by Mr. Yehezkel Dovrat. The other directors are not Company shareholders except Mr. Noam Lautman who controls shares as he holds in companies which he owns.

(1) In terms of annual cost to the Company.

(2) For detail on updated employment terms of Mr. Itzhak Weinstock and Ms. Gloria Dabah, see note 18 to the Financial Statements in Part C of This Periodic Report.

The remuneration sums paid to Directors Shaul Ben Ze'ev, Yehezkel Dovrat, Gideon Chitayat and Tzippora Carmon are made to their respective fully controlled companies: Meishar Omer Ltd., Yehezkel Dovrat Consulting and Enterprising, GMBS Consultants Ltd., and Tzipa Carmon Exports Ltd., respectively.

Mr. Isaac Dabah, Company's CEO and director;

For details of Mr. Dabah's terms of employment as Company CEO, as approved by the Company's Audit Committee, Board of Directors and General Assembly, see Company's immediate reports of December 20, 2012 (Ref. 2012-01-316569) and also the immediate report on the dispositions of the December 27, 2012 General Assembly (Ref. 2012-01-322602), as included herein by reference.

In view of the good business results attained by Delta in 2014 under the leadership of Mr. Dabah, which greatly exceeded the goals set for him, Mr. Dabah is entitled to a bonus with respect to 2014, which mounts to $1,250,000, including the long term portion, which, if the goal for its attainment is attained by the end of 2015, will be paid at the beginning of 2016.

Mr. Steve Klein, CEO of Burlen – following are the key terms of Mr. Klein's employment with the Company:

As reported above, Mr. Klein ceased to be a senior executive of the Company on January 29 of 2015 and will resign from the Company on March 31 of 2015.

Mr. Klein's gross monthly wage was $56,250 ($675,000 annually). On February 18 of 2014, Mr. Klein's gross annual wage was increased to $700,000, effective March 1 of 2014.

Under the terms of his employment agreement, Mr. Klein was entitled to an annual bonus subject to the Company policy, the goals set and evaluation by the Board of Directors, which bonus was not to exceed 50% of Mr. Klein's annual wage. Mr. Klein is hence entitled to a total bonus at the rate of $350,000 for the year of 2014.

Mr. Klein's employment agreement also included an occupational restriction and a non-compete clause for a period of 24 months from termination of his employment with the Company.

In September of 2011, Mr. Klein was allocated 50,000 goal contingent options at an exercise price of $5.36 per option under the 2009 plan. As of the date of this report, Mr. Klein holds 25,000 options as had been granted to him under the 2009 plan.

Mr. Yossi Hajaj, Chief Financial Officer – following is key terms of Mr. Hajaj's employment by the Company:

Mr. Hajaj's gross monthly wage is NIS 100,000.

Mr. Hajaj is entitled to social benefits as set under own employment agreement, e.g. 23 days of vacation and various expense reimbursements such as telephone expenses, an education fund, executive insurance, car and mobile phone.

Mr. Hajaj is entitled to an annual bonus under Company's policy and subject to the attainment of goals set. The annual bonus shall not exceed 9 of Mr. Hajaj's monthly wages[1]. In view of the above, Mr. Hajaj is entitled to a total bonus in the amount of $283,130 with respect to 2014, including the long term portion, which will be paid at the beginning of 2016 if its attainment goal is achieved by the end of 2015.

As of the date of this report, Mr. Hajaj holds 115,625 options as had been granted to him under the 2006 plan.

Mr. Hajaj's employment agreement was made out to an undefined period of time, whereby either party may terminate it under a prior, written notice to the other party. The Company may discontinue Mr. Hajaj's employment at a 180 days written notice, while, under a written agreement as was made between the parties following the date of the employment agreement, Mr. Hajaj may terminate his employment with the Company at a 90 days written notice.

Ms. Esti Maoz, VP Marketing and Strategic Development – following are the key terms of Ms. Maoz employment by the Company:

Ms. Maoz's gross monthly wage is NIS 85,000.

Ms. Maoz's employment agreement was made out to an undefined period of time. On September 30 of 2014, the parties signed a termination agreement, starting which date Ms. Maoz has been providing marketing and design management services under a consulting agreement as the Company signed with a firm owned and controlled by Ms. Maoz, whereby up to December 31 of 2015, Ms. Maoz shall devote no fewer than 186 hours monthly to Company service. The consulting agreement period was set, as well as a provision whereby either party may terminate it under a written 180 days notice to the other party.

Ms. Maoz is entitled to social benefits as provided under the consulting agreement, and also to reimbursement of various expenses.

Under the terms of the consulting agreement and otherwise, Ms. Maoz is entitled to an annual bonus under Company's policy and subject to the attainment of goals set, which bonus is not to exceed 50% of her total annual pay[2].

Since Ms. Maoz has met the goals set for her, she is entitled to a total bonus in the amount of $129,432, including the long term portion which will be paid at the beginning of 2016 if its attainment goal is achieved by the end of 2015.

---

[1] Note that, should the actual results exceed the goals set, the executive shall be entitled to additional benefits as will be duly approved from time to time.

[2] Note that, should the actual results exceed the goals set, the executive shall be entitled to additional benefits as will be duly aproved from time to time

Mr. Shlomo Doron, Deputy CEO and VP Operations – following are the key terms of Mr. Doron's employment with the Company:

As reported above, Mr. Doron resigned from the Company on December 31 of 2014.

Mr. Doron's gross monthly wage was NIS 110,000.

Mr. Doron is entitled to an annual bonus under Company's policy and subject to the attainment of goals set, which is not to exceed 12 of Mr. Doron's monthly wages. For 2014, Mr. Doron will be granted a total bonus in the amount of $35,895.

The Company has allocated to Mr. Doron 250,000 option warrants under the 2006 plan. As of the date of this report, Mr. Doron holds 20,946 options as had been granted to him under the 2006 plan.

Company's Board of Directors – Company directors[3] are entitled to directors compensation not exceeding generally accepted levels and set under the directives of the Companies Regulations (Rules Regarding Compensation and Expenses for Outside Directors) of 2000, subject to the Company's rank. The Company pays its directors yearly compensation to the amount of approximately NIS 69,000 per year plus participation compensation amounting to approximately NIS 2,600 per meeting, which sums are all linked to the CPI.

In addition, on October 20 and December 7 of 2009, the Company's General Assembly approved an allocation of 10,000 non tradable options exercisable as 10,000 ordinary Company shares worth 1 NIS NV at an exercise price of $5 to directors Mr. Israel Baum, Mr. Noam Lautman, Ms. Tzipporah Carmon and Mr. Gideon Chitayat, and also to the outside director Mr. Shaul Ben Zeev and Mr. Yehezkel Dovrat, under the 2009 option allocation plan as was adopted by the Board of Directors on August 20 of 2009.

Ms. Gloria Dabah, daughter of Company's controlling shareholder, Product Manager and Development Coordinator in a Delta subsidiary – On December 31 of 2013, the General Assembly of Company stakeholders approved the new employment terms of Ms. Gloria Dabah, daughter of Company's CEO and controlling shareholder, as Product Manager, effective as of January 1, 2014, all according to the recommendations of the Company's Remuneration Committee and Board of Directors.

For further detail, see Company's supplementary report of December 19, 2013 (Ref. 2013-01-102967) and immediate report of General Assembly results of December 31, 2013 (Ref. 2013-01-114991) as included herein by reference.

[3] With the exception of Company CEO Mr. Isaac Dabah so long as he serves as the Company's CEO, and Mr. Weinstock so long as he serves as COO of a subsidiary, for whom different terms of service were set.

Since Ms. Dabah has met the goals set for her, she is entitled to a bonus in the amount of $29,109 for the year of 2014.

Mr. Itzhak Weinstock, COO with Delta USA and a Company Director – On December 31 of 2013, the General Assembly of Company stakeholders approved the new employment terms of Mr. Itzhak Weinstock. For further detail, see Company's supplementary report of December 19, 2013 (Ref. 2013-01-102967) and immediate report of General Assembly results of December 31, 2013 (Ref. 2013-01-114991) as included herein by reference.

Mr. Weinstock is entitled to an annual bonus under Company's policy and subject to the attainment of goals set, which is not to exceed 50% of his total annual wage. Since Mr. Weinstock has met the goals set for him, he is entitled to a bonus in the amount of $19,454 for the year of 2014.

Regulation 21a – Controlling Interests of the Corporation

Company's controlling interest holder is Mr. Isaac Dabah by own right and through own controlled holdings.

Regulation 22 – Transactions with the Controlling Interest Holder

Transactions Listed under Section 270(4) of the Companies Law of 1999

Company's controlling shareholder and Chairman of the Board of Directors Mr. Isaac Dabah's terms of employment as the Company CEO were approved by the General Assembly of December 27, 2012, for a period of three years starting January 1 of 2013. For further detail, see Regulation 21 above.

Product Manager in a subsidiary, daughter of Company's controlling shareholder, Ms. Gloria Dabah's terms of employment as Product Manager in a Subsidiary, were approved by the General Assembly of December 31, 2013, for a period of three years starting January 1 of 2014. For further detail, see Regulation 21 above.

On December 15, 2014, the General Assembly approved renewed grant of indemnity letters to Company directors and executives who are the controlling interest holder or relatives thereof. For further detail, Regulation 29a hereunder.

Regulation 24 – Holdings of Stakeholders and Senior Executives

For detail on shares and securities held by corporate stakeholders and senior executives, see immediate report of February 5, 2015 (Ref. 2015-01-025804), as included herein by reference.

Regulation 24a – Listed Capital, Issued Capital and Convertible Securities

For detail on listed capital, issued capital and convertible securities, including options and restricted shares allocated to Company employees, see note 13 to the Financial Statements in Part C of This Periodic Report.

Regulation 24b – List of the Corporate Shareholders

For detail on the corporate shareholders listed, see immediate report of February 11, 2015 (Ref. 2015-01-029425), as included herein by reference.

Regulation 25a – Listed Corporate Address and Details

Address: 2 Kaufman, Tel Aviv 68012

Telephone: 03-5193744

Tel: 03-5193744, 03-5193760; Fax: 03-5193730

Email: yossi.hajaj@deltagalil.com

Website: www.deltagalil.com

Regulation 26 – Corporate Directors on the Report Date

a) Members of the Board of Directors

Director's Name		ID No.	Address			Appointment Date		
Last Name	First Name		Town	Street	House No.	Year	Month	Day
Lautman	Noam	24407280	Tel Aviv, Israel	Harav Amiel	34	01	11	30
Dabah	Issac	054907852	NY, USA	Broadway St.	1450	05	11	15
Chitayat	Gideon	72644339	Tel Aviv, Israel	Shlomo Ben Yossef	32	05	11	15
Ben Ze'ev	Shaul	006347702	Omer, Israel	Erez	50	09	10	20
Dovrat	Yeheskel	007627649	Ramat Hasharon, Israel	Nachsjon	1	09	12	16
Baum	Israel	005172796	Rishon LeZion, Israel	Ein Hakore	22	05	12	26
Weinstock	Itzhak	6139265	NJ, USA	Harmon Plaza	1	07	10	21
Carmon	Tzipporah	51528933	Savyon, Israel	Hatichon	9	09	10	20

b) Additional Details of the Board Members

Director's Name - Chairman of the Board of Directors	Noam Lautman
ID No.	24407280
Citizenship	Israeli
Date of Birth	16.4.1969
Address for delivering court of law letters	34, Harav Amiel Street, Tel Aviv, Israel
Service starting date	30.11.2001
Membership on Board of Director committees	Chairman of the Board of Directors
Outside or non dependent directorship	No
Accounting and financial competency or professional qualifications	No
Employment with the Company, a subsidiary, a related company or a stakeholder	No
Education and occupation in past five years	**Education**: 1995 – BSc – Mathematics and Computer Sciences – Tel Aviv University 2000 – MBA – Business Administration – New York University **Employment**: 2006 to date – 2gether Capital Ltd – CEO
Directorship in other corporations	Babcom Centers Ltd. Adinoam Assets Ltd., NDRL Investments (1998) Ltd.
Family relations with another stakeholder of the Corporation	No
Accounting and financial expertise as required to meet the minimum number set by the Board of Directors	No

Director's Name	Gideon Chitayat
ID No.	72644339
Citizenship	Israeli
Date of Birth	29.8.1939
Address for delivering court of law letters	32, Ben Yosef Street, Tel Aviv, Israel
Service starting date	15.11.2005
Membership on Board of Director committees	Financial Statement Approval Committee, Audit Committee, Remuneration Committee
Outside or non dependent directorship	No
Accounting and financial competency or professional qualifications	Yes – expertise in accounting and finance
Employment with the Company, a subsidiary, a related company or a stakeholder	No

Education and occupation in past five years	**<u>Education</u>**: MA, PhD – Business Administration – Wharton School MBA – Financing – Hebrew University, Jerusalem BA – Economics – Hebrew University, Jerusalem **<u>Employment</u>**: Chairman and President of GMBS Consultants Ltd. Director with a number of companies
Directorship in other corporations	Paz Petroleum Industries Ltd. - Outside director BATM – traded in London – Deputy Chairman of the Board of Directors Melisseron – Outside director The Tel Aviv Museum – Director
Family relations with another stakeholder of the Corporation	No
Accounting and financial expertise as required to meet the minimum number set by the Board of Directors	Yes

Director's Name - CEO and Director Corporate market risks management responsibility	**Isaac Dabah**
I.D. No.	054907852
Citizenship	Israeli, American
Date of Birth	11.8.1957
Address for delivering court of law letters	1450 Broadway St., New York, NY, USA
Service starting date	15.11.2005
Membership on Board of Director committees	None
Outside or non dependent directorship	No
Accounting and financial competency or professional qualifications	No
Employment with the Company, a subsidiary, a related company or of a stakeholder	Yes – Company CEO; Company's Market Risks Management Director
Education and occupation in past five years	**<u>Education</u>**: Attended Baruch College of the City University of NY **<u>Employment</u>**: 2008 to date – Company CEO 2005 to 2011 – CEO of GMM Capital LLC
Directorship in other corporations	Subsidiaries Delta Galil UK Ltd., Delta Galil USA Inc., Delta Textile (London) Ltd., Schiesser AG (Supervisory Board, Delta Textile Egypt SAE, Garment Co. Ltd., Thai Progress
Family relations with another stakeholder of the Corporation	No
Accounting and financial expertise as required to meet the minimum number set by the Board of Directors	No

Director's Name - External Director	Shaul Ben Ze’ev
ID No.	006347702
Citizenship	Israeli
Date of Birth	03.09.1946
Address for delivering court of law letters	50, Erez Street, Omer, Israel
Service starting date	20.10.2009
Membership on Board of Director committees	Chairman of the Audit Committee, Financial Statement Examination Committee, Chairman of the Remuneration Committee
Outside or non dependent directorship	Outside Director
Accounting and financial competency or professional qualifications	Yes – expertise in accounting and finance
Expert outside director	No
Employment with the Company, a subsidiary, a related company or a stakeholder	No
Education and occupation in past five years	**Education**: BA – Economics and Statistics –Hebrew University, Jerusalem MBA – Business Administration – New York University **Employment**: 2001 to date – Chief Business Manager, Avraham Livnat Ltd. Director with private and public companies
Directorship in other corporations	Peanut Marketing, Tnuvot Sadeh Umata, Meishar Omer Ltd. Director with Shlomo Angel Ltd.
Family relations with another stakeholder of the Corporation	No
Accounting and financial expertise as required to meet the minimum number set by the Board of Directors	Yes

Director's Name - External Director	Yehezkel Dovrat
ID No.	007627649
Citizenship	Israeli
Date of Birth	13.02.1946
Address for delivering court of law letters	1, Nachshon Street, Ramat Hasharon, Israel
Service starting date	16.12.2009
Membership on Board of Director committees	Chair of the Financial Statement Examination Committee, Audit Committee, Remuneration Committee
Outside or non dependent directorship	Outside Director
Accounting and financial competency or professional qualifications	Yes – expertise in accounting and finance
Expert outside director	No
Employment with the Company, a subsidiary, a related company or a stakeholder	No

Education and occupation in past five years	<u>Education</u>: BA – Economics and Accounting – Tel Aviv University Certified Public Accountant <u>Employment</u>: 2002 to date – director with private and public companies. - Chairman of Ta'avura Holdings Ltd. - Chairman of Equipment and Construction Infrastructure Ltd. (of Ta'avura Group) – up to December of 2011 - Acting Chairman of Tamig Tire Marketing Ltd. (of the Ta'avura Group). - Shlomo A. Angel Ltd. (outside director) – until September of 2008. - Pangaea Real Estate Ltd. (outside director) – until July of 2010. - Clal Industries and Investments Ltd. – until July of 2012. - YOEL Jerusalem Oil Exploration Ltd. - up to July of 2013.
Directorship in other corporations	Mivtach Shamir Holdings Ltd. – Chairman, H&O Fashion Ltd., Efcon Industries Ltd., Migdalei Ha'arava Exports Ltd., and A.M.S Electronic Ltd. – outside director.
Family relations with another stakeholder of the Corporation	No
Accounting and financial expertise as required to meet the minimum number set by the Board of Directors	Yes

Director's Name - COO with Delta USA and Director	**Itzhak Weinstock**
I.D. No.	6139265
Citizenship	Israeli; American
Date of Birth	25.11.1946
Address for delivering court of law letters	1 Harmon Plaza, NJ, USA
Service starting date	21.10.2007
Membership on Board of Director committees	No
Outside or non dependent directorship	No
Accounting and financial competency or professional qualifications	No
Employment with the Company, a subsidiary, a related company or of a stakeholder	COO with subsidiary Delta Galil USA starting January 1 of 2011
Education and occupation in past five years	**<u>Education</u>**: 1971 – MBA – Business Administration – Columbia University 1979 – Certified Public Accountant **<u>Employment</u>**: 2005 to 2010 – GMM Capital LLC
Directorship in other corporations	No

Family relations with another stakeholder of the Corporation	No
Accounting and financial expertise as required to meet the minimum number set by the Board of Directors	No

Director's Name	Tzipporah Carmon
I.D. No.	51528933
Citizenship	Israeli
Date of Birth	07.12.1952
Address for delivering court of law letters	9, Hatichon Street, Savyon, Israel
Service starting date	20.10.2009
Membership on Board of Director committees	No
Outside or non dependent directorship	No
Accounting and financial competency or professional qualifications	No
Employment with the Company, a subsidiary, a related company or a stakeholder	No
Education and occupation in past five years	**Education**: BA – Sociology and Education – Hebrew University, Jerusalem MBA –International Marketing and Trade – UCLA, California **Employment**: 1993 to date – Manager and Owner of TC Exports
Directorship in other corporations	Azrieli Group Ltd.
Family relations with another stakeholder of the Corporation	No
Accounting and financial expertise as required to meet the minimum number set by the Board of Directors	No

Director's Name	Israel Baum
I.D. No.	005172796
Citizenship	Israeli
Date of Birth	24.1.1938
Address for delivering court of law letters	22 Ein Hakore Street, Rishon LeZion, Israel
Service starting date	26.12.2005
Membership on Board of Director committees	No
Outside or non dependent directorship	No
Accounting and financial competency or professional qualifications	No
Employment with the Company, a subsidiary, a related company or of a stakeholder	No
Education and occupation in past five years	**Education**: BSC – Manufacturing Engineer – Temple University,

	Philadelphia **Employment**: Provider of consulting services to the Company
Directorship in other corporations	No
Family relations with another stakeholder of the Corporation	No
Accounting and financial expertise as required to meet the minimum number set by the Board of Directors	No

Regulation 26a – Company Senior Executives[4]

For detail on Company's Director and CEO Isaac Dabah, see Regulation 26 above.

Name of Senior Executive	Maurice Reznik
Date of Birth	21.01.1954
Position with the Company, a Company subsidiary or a Company stakeholder	President of Delta Galil USA and CEO of Intimate Ladies Business for USA & UK
Education and occupation in past five years	**Education**: Economics and Spanish – Queens College NY **Employment**: 1998 to 2013 – President and subsequently CEO with Maidenform Inc. Started office with Delta on 5.1.2015.
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	Yossi Hajaj
Date of Birth	15.6.1968
Position with the Company, a Company subsidiary or a Company stakeholder	Chief Financial Officer; Director in several subsidiaries; Director of Market Risks Management (Exchange and Interest Rates)
Education and occupation in past five years	**Education**: Certified Public Accountant BA – Accounting and Economics – Tel Aviv University **Employment**:

4 With the exception of executives reported having terminated office before the date of this report.

	2004 to date – Company CFO
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	**Esti Maoz**
Date of Birth	26.6.1947
Position with the Company, a Company subsidiary or a Company stakeholder	VP Marketing and Strategic Development
Education and occupation in past five years	**Education**: Marketing – Certificate Studies – Haifa University **Employment:** 2003 to date – Company VP Marketing and Strategic Development
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	**Inbar Schwartz**
Date of Birth	25.11.1972
Position with the Company, a Company subsidiary or a Company stakeholder	VP Business Development
Education and occupation in past five years	**Education**: BA – History – Columbia College Master of Laws – Harvard Law School **Employment:** 2007 to 2009 – Senior VP with Keren Tene 2009 to 2014 – Director with Fishman Thermal Technologies Ltd.
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	**Miki Laxer**
Date of Birth	24.10.1969
Position with the Company, a Company subsidiary or a Company stakeholder	Accountant and Secretary, Director in several subsidiaries
Education and occupation in past five years	**Education**: Certified Public Accountant BA – Accounting and Business Administration – Tel Aviv College of Management MBA – Tel Aviv College of Management **Employment:** 2004 to date – Company Controller and Secretary
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	Zvika Shwimmer
Date of Birth	07.07.1978
Position with the Company, a Company subsidiary or a Company stakeholder	CEO of the Delta Israel Segment
Education and occupation in past five years	**Education**: BA –Business Administration – Peres Academic Center **Employment**: 2008 to 2011 – CEO – Lalin Candles and Soap Ltd. 2011 to date - CEO of the Delta Israel Segment
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	Einat Menachem Amitay
Date of Birth	27.7.1972
Position with the Company, a Company subsidiary or a Company stakeholder	VP Human Resources
Education and occupation in past five years	**Education**: MBA – Business Management – Ben-Gurion University BA – Education and Literature – Tel Aviv University **Employment**: 2012 to 2014 – Senior VP Human Resources – Ness Technology 2001 to 2011 – HR Manager with the Strauss Group
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	Avi Avital
Date of Birth	26.01.1958
Position with the Company, a Company subsidiary or a Company stakeholder	VP Information Systems
Education and occupation in past five years	**Education**: Graduate, School of Computer Practical Engineering, Computers – Technion **Employment**: 2008 to date – VP Information Systems with the Company
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	Menny Alon
Date of Birth	2.1.1964
Position with the Company, a Company subsidiary or a Company stakeholder	Seamless Division Manager
Education and occupation in past five years	**<u>Education</u>**: Industry and Management Engineer – Shenkar **<u>Employment</u>**: Seamless Division Manager with the Company
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Name of Senior Executive	Moshe Cohen
Date of Birth	3.4.1952
Position with the Company, a Company subsidiary or a Company stakeholder	Internal Auditor
Education and occupation in past five years	**<u>Education</u>**: BA – Economics and Accounting – Tel Aviv University **<u>Employment</u>**: 2003 to date – senior partner in Heikin, Cohen, Rubin & Co.
Company stakeholding or family relations with another stakeholder of the Corporation or senior executive	No

Regulation 26b – Independent Authorized Signatory

The Company engages no independent authorized signatories.

Regulation 27 – Company CPAs

Name of Accountant: Kesselman & Kesselman (Firm of PWC)

Office Address: 25 Hamered, Tel Aviv

Regulation 28 – Changes to Bylaws or Articles of Association

No change to the Articles was made in the reported period.

Regulation 29 – Director Recommendations and Dispositions; Dispositions by the Special General Assembly

On December 15 of 2014, a Special General Assembly approved renewed grant of indemnity letters to Company executives and directors who are the controlling interest holder or relatives thereof, and also approved amendment to the Company's remuneration policy. For further detail, see immediate report of November 10, 2014 (Ref. 2014-01-192105), and also immediate reports on General Assembly Results of December 15, 2014 (Ref: 2014-01-222165 and 2014-01-222171), as included herein by way of reference.

Regulation 29a – Company Dispositions

Following are Company's dispositions regarding exemptions, insurance or indemnity to executives, in effect on the date of the report:

Liability Insurance Policy for Directors and Executives

Under the amended Remuneration policy for Company executives as was approved by the General Assembly on December 15 of 2014, to remain in effect for 3 years under the provisions of the Companies Law and notwithstanding the provisions of any law, the Remuneration Committee may, from time to time and as long as the Remuneration policy is in effect, approve Company's purchasing of insurance policies covering the liability of all Company executives, including directors (and also including executive and directors who are controlling interest holders) providing that the total annual coverage under the policy for each specific year does not exceed $300,000 and the annual premium does not exceed $100,000.

Under the provisions above, the Company holds a policy covering the liability of directors and executives in office with the Company and with its subsidiaries. The policy has a liability limit of $10 million per insurance incident and for the accumulated insurance period. The insurance period spans between April 1 of 2014 and April 30 of 2015. The total premium for the said policy amounts to approximately $33,500.

Advance Indemnity for Directors and Executives

On October 25 of 2011, the General Shareholders Assembly approved the grant of indemnity letters to Company directors and executives. For further detail, see amendment report on transactions with controlling interest holder and Annual and Special General Assembly Summons notice of October 17, 2011, (Ref. 2011-01-302754), as included herein by reference.

On December 15 of 2014, on authorization by the Remuneration Committee and the Board of Directors, Company's General Assembly approved renewed grant of indemnity letters to Company directors and executives who are the controlling interest holder or relatives thereof, formulated identically to the existing indemnity letters attached with the Assembly Summons report of November 10, 2014 (Ref. 2014-01-192105). The terms of these indemnity letters are identical to those granted to executives and directors who are the controlling interest holder or relatives thereof by force of an earlier General Assembly disposition of November 25, 2011.

Part E

Yearly Report on the Effectiveness of Internal Control of Financial Reporting and Disclosure under Regulation 9b(a) of the Securities Regulations (Periodic and Immediate Reports) of 1970:

Under supervision by the Board of Directors of Delta Galil Industries Ltd. (hereinafter – the Corporation), it is Management's responsibility to establish and maintain adequate internal control of financial reporting and disclosure in the Corporation.

For all intents and purposes of this report, Management members are the following:

1. Mr. Isaac Dabah, CEO and director;
2. Mr. Yossi Hajaj, Chief Financial Officer;
3. Ms. Esti Maoz, VP Marketing and Strategic Development;
4. Mr. Itzhak Weinstock, Chief Operations officer with Delta USA;
5. Mr. Steve Klein, Manager of Burlen and Delta USA Women's Wear Segment;
6. Mr. Zvika Shwimmer, Manager of Delta Israel Segment;
7. Ms. Einat Amitay, VP Human Resources;
8. Mr. Menny Alon, Seamless Division Manager;
9. Mr. Avi Avital, VP Information Systems;
10. Mr. Miki Laxer, Controller and Secretary.

Internal control of financial reporting and disclosure includes existing Corporation controls and procedures as devised by or under supervision by the CEO and CFO, or by persons serving in these positions under supervision by the Corporation’s Board of Directors, which were designed to provide a reasonable level of confidence regarding the reliability of the financial statements and their preparation in compliance with the instructions of the law, and to guarantee that information which the corporation is required to disclose in its published statements under the instructions of the law has been collected, processed, summarized and reported on a date and in a format as required by law.

Internal control includes, inter alia, controls and procedures designed to ensure that the information which the corporation is required to disclose as above has been accumulated and forwarded to the Corporation's Management, including the CEO, COO and CFO, or to whoever serves in these positions in practice, so as to allow timely decision making with regard to the pursuit of disclosure requirements.

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

Under supervision by the Board of Directors, the Corporation's Management has reviewed and evaluated the Corporation's internal control of own financial reporting and disclosure, and effectiveness thereof, to include the following:

1. Revision to the scoping document as had been prepared by the Company in 2014 with regard to 2014, so as to verify material processes and sites as are to be included in the current scope.

2. Revision to processes and controls in segments and sites defined as most material to the Company operations, to reflect changes which occurred in the course of 2014 as follows:

   - Purchasing and inventory;
   - Sales.

   These controls were evaluated as above for the Delta USA, Schiesser, Delta Israel and Upper Market segments on Israeli sites.

   Evaluation of internal control effectiveness also included definition of key controls as are applied to information systems (ITGC) and to financial reporting on sites as listed above and at the Company's head office, and also as are applied to entity levels (ELC) at the Company's head office.

3. Over the course of 2014, the Company reviewed the implementation of controls as had been defined and also checked whether or not the documentation level required was adequate and conforming with the requirements.

4. Over the course of 2014, the Company reported to the Audit Committee repeatedly of its progress, of the deficiencies found and of the actions taken in their resolution.

Based on own evaluation of effectiveness under supervision by the Board of Directors as above, the Corporation’s Board of Directors and Management concluded that the Corporation's internal control over own financial reporting and disclosure as of December 31 2014 is effective.

Executive statements:

(a1) CEO Statement as required under Regulation 9b(d)(1)

Management statements

CEO Statement

I, Isaac Dabah, do hereby state that:

1. I have studied the periodic reports of Delta Galil Industries Ltd. (hereinafter the Corporation) for the year 2014 (hereinafter the Reports);
2. To my knowledge, the reports contain no untrue presentation of a material fact, nor do they omit any presentation of a material fact as required to secure that the presentations included there under, in light of the circumstances under which such presentations were included, will not be misleading with respect to the reported period;
3. To my knowledge, the financial statements and any other financial information as included there under adequately reflect, in all material aspects, the financial status, operating results and cash flows of the Corporation for the dates and periods referred to therein;
4. Based on my most recent evaluation of internal controls over financial reporting and disclosure, I have disclosed to the Corporation's internal controller, Board of Directors, Audit Committee and Financial Statements Committee:
   a) All significant deficiencies and material weaknesses in the establishment or application of internal controls over financial reporting and disclosure, which are reasonably likely to adversely impact the Corporation’s ability to record, process, summarize or report financial information in a way which may cast doubt on the reliability of the financial statements and their preparation as required under the law, and also –
   b) Any fraud, whether material or otherwise, involving the CEO or his direct subordinate or other employees assigned a significant role in internal control over financial reporting and disclosure;
5. I, alone or jointly with others in the Corporation:
   a) Have established controls and procedures, or verified that such controls and procedures have been established and implemented under my supervision, as designed to ensure that any material information related to the Corporation and subsidiaries as defined under the Securities Regulations (Annual Financial Statements) of 2010, will be brought to my attention by others in the Corporation and in its subsidiaries, particularly in the period when the reports are prepared; and also –
   b) Have established controls and procedures, or verified that such controls and procedures have been established and implemented under my supervision, as designed to ensure to a reasonable extent the reliability of the financial reports and their preparation under the instructions of the law, including under generally accepted accounting practices;
   c) Have assessed the effectiveness of internal controls of financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and the Management regarding the effectiveness of internal controls as of the date of the reports.

None of the above relieves me or any other person of our responsibility under any law.

February 25, 2015	Isaac Dabah, CEO

(b) CFO Statement as required under Regulation 9(b)(d)(2):

Management statements

CFO Statement

I, Yossi Hajaj, do hereby state that:

1. I have studied the periodic reports and all other financial data as included under the reports of Delta Galil Industries Ltd. (hereinafter the Corporation) for 2014 (hereinafter the Reports);
2. To my knowledge, the reports and all other financial data as included under the reports contain no untrue presentation of a material fact, nor do they omit any presentation of a material fact as required to secure that the presentations included there under, in light of the circumstances under which such presentations were included, will not be misleading with respect to the reported period;
3. To my knowledge, the financial statements and any other financial information as included there under adequately reflect, in all material aspects, the financial status, operating results and cash flows of the Corporation for the dates and periods referred to therein;
4. Based on my most recent evaluation of internal controls over financial reporting and disclosure, I have disclosed to the Corporation's internal controller, Board of Directors, Audit Committee and Financial Statements Committee:
   a) All significant deficiencies and material weaknesses in the establishment or application of internal controls over financial reporting and disclosure, insofar as it applies to the financial statements and all other financial data as included under the reports which are reasonably likely to adversely impact the Corporation's ability to record, process, summarize or report financial information in a way which may cast doubt on the reliability of the financial statements and their preparation as required under the law, and also –
   b) Any fraud, whether material or otherwise, involving the CEO or his direct subordinate or other employees assigned a significant role in internal control over financial reporting and disclosure;
5. I, alone or jointly with others in the Corporation:
   a) Have established controls and procedures, or verified that such controls and procedures have been established and implemented under my supervision, as designed to ensure that any material information related to the Corporation and subsidiaries as defined under the Securities Regulations (Annual Financial Statements) of 2010, insofar as it applies to the financial statements and all other financial data as included under the reports will be brought to my attention by others in the Corporation and in its subsidiaries, particularly in the period when the reports are prepared; and also –
   b) Have established controls and procedures, or verified that such controls and procedures have been established and implemented under our supervision, as designed to ensure to a reasonable extent the reliability of the financial reports and their preparation under the instructions of the law, including under generally accepted accounting practices;
   c) Have assessed the effectiveness of internal controls of financial reporting and disclosure as related to the financial statements and to other financial data as included there under at the date of the reports; my conclusions with regard to assessment as above have been presented to the Board of Directors and to the Management, and are included in this report.

None of the above relieves me or any other person of our responsibility under any law.

February 25, 2015	Yossi Hajaj, CFO