Delta Galil Industries Ltd.

2016 Periodic Report

February 22 2017

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2016 Periodic Report

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As of December 31 2016

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Introduction

The Company, Delta Galil Industries Ltd., hereby submits a report describing the corporation's business for December 31 2016, which reviews the description of the corporation and the development of its business, as they occurred in 2016 ("**the Reported Period**"). The report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

The importance of the data included in this Periodic Report, including the description of material transactions, has been assessed from the Company's point of view, while in some cases, additional descriptive information is given in order to provide a comprehensive picture of the matter being described.

Glossary

For the sake of convenience, in this periodic report, the following abbreviations shall be assigned the meaning listed alongside them:

"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
"Dollar"	US dollar

Description of the Corporation's Business

Chapter A – Description of the General Development of the Corporation's Business

1. **The Corporation's Activity and Description of the Development of its Business**

The following is information on the corporation's business, as of February 22 2017.

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 Ltd. On March 25 1999 ,the Company issued American Depositary Shares ("**ADS**") in such manner that each ADS represents a single ordinary 1 NIS NV Company share and starting 2008 Company ADS may only be traded on the U.S. International Prime OTCQX trading arena, or on the Tel Aviv Stock Exchange Ltd. (subject to their conversion to regular Company shares).

1.2. The Group is engaged in the development, design, production, marketing and sales of underwear, socks, children's wear, leisurewear and activewear. In addition, following the purchase of the V.F. Corporation Contemporary Brand Coalition division, the Company also engages in development, design, marketing, distribution and sales of labelled products from the denim and outerwear category and associated women's products.

The Group's sales are divided as follows:

1.2.1. Branded Product Sales

Branded product sales are divided as follows:

a. Sale of brands owned by the Company such as 7 For All Mankind, Splendid, Ella Moss, Schiesser, P.J. Salvage, KN Karen Neuburger, Little Miss Matched, Delta and Fix.

The products sold within this framework largely consist of undergarments, socks, children's clothing, leisurewear, activewear and denim and women's outerwear.

b. Sale of brands to which the Company holds a franchise, such as Maidenform, Converse, Wilson, Avia, Tommy Hilfiger, Kenneth Cole, Columbia, Original Penguin, Marc O'Polo, Lacoste, Juicy Couture and more.

The products sold within the framework of franchises agreements largely consist of undergarments, socks, children's clothing, leisurewear and activewear. The Company pays the franchise holder royalties in return for use of the brand name.

1.2.2. Sale of Products for Customer Private Labels

Sales of products for customer private labels are made to leading retail chains such as Wal-Mart, Marmaxx, Target, Victoria's Secret, Odlo, Marks & Spencer, Primark, Ross Stores, Macy’s, Costco, Kohl's, Hema, Lane Bryant, Nordstrom, Karstadt, Kaufhof as well as to leading brands that include, among others, Nike, Calvin Klein, Maidenform, Tommy Hilfiger, Spanx, Under Armour and more.

The products sold in this method mainly consist of undergarments, socks and activewear.

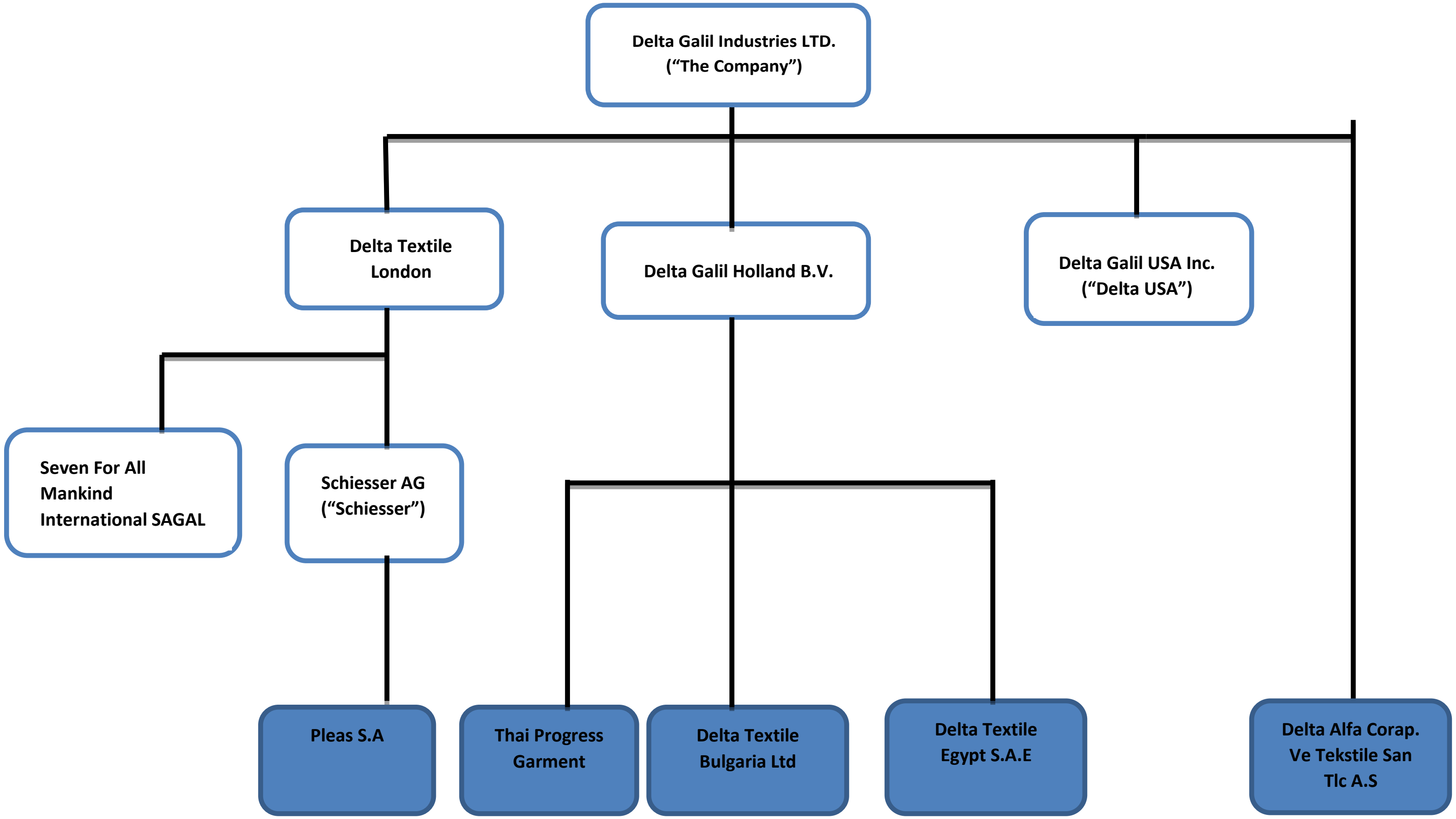
Marketing, Development and Manufacturing Activity

The Company markets its products in the geographic regions in which it is active in retail marketing, through the retail chains in its possession and online – in the United States, Europe and Israel.

The Company designs and develops its products primarily in Israel, in Germany in Switzerland and in the US.

The Company manufactures the products it sells both via subcontracting and in its factories in the Middle East, Europe, Central America and East Asia.

The following is the structure of the Company's holdings in its material subsidiaries as of December 31 2016. All of the stakes in the following countries are 100%.



Manufacturing companies

2. **<u>The Corporation's Area of Activity</u>**

2.1. The Company has five main areas of activity reported as business segments in its December 31 2016 Consolidated Financial Statements: **(a)** Delta USA **(b)** Global Division Upper Market Segment; **(c)** Schiesser; **(d)** Delta Israel and **(e)** Delta Premium Brands

2.2. Group Management has set these operating segments based on the reports reviewed on a regular basis by the Company CEO and Board of Directors. The CEO and the Board of Directors, together, have been identified as the Strategic Steering Committee, which make the Company's strategic decisions (Chief Operating Decision Maker - "CODM").

2.3. <u>The following is a short description of each of the areas of activity in question:</u>

2.3.1. <u>Area of Activity Delta U.S.A</u>

In this area of activity, the Group deals in the development, design and marketing of undergarments, socks and activewear for private labels in the women, men and children categories, sold to the largest retail chains in the United States. It also deals in the development, design and marketing of undergarments, socks and activewear under labels it has received a concession for and labels in its possession. Furthermore, this area of activity concentrates the UK undergarment and sock activity.

For additional details regarding this area of activity, see 7 to 16 below.

2.3.2. <u>Area of Activity Global Upper Market</u>

in this area of activity, the Group mainly deals in the development, design, manufacture and marketing of male and female undergarments active wear and seamless clothing for women, manufactured at the Company's factories and sold to retail chains and leading labels in Europe and the U.S. Most of the sales in this area of activity are to private labels.

For additional details regarding this area of activity, see 7 to 16 below.

2.3.3. <u>Schiesser</u>

In this area of activity, the Company deals in the development, design, manufacture and marketing of labelled undergarments for men, women and children as well as activewear mainly under the Schiesser label, sold to customers in Germany and in other Western European countries both through Schiesser's shops, its website and in retail activity for retail chains. Schiesser products are mainly manufactured at the two production sites owned by the Group in the Czech Republic and in Slovakia; in addition, Schiesser operates a buying office in Hong Kong.

For additional details regarding this area of activity, see 17 to 26 below.

Delta Israel

This area includes the Company's activity in Israel. As part of this area of activity the Company deals in the development, design and marketing of labelled undergarments for women and men, activewear as well as children's clothing mainly under the "Delta" and "Fix" labels, distributed via the Company's shops in Israel as well as in wholesale activity for Israeli retail chains.

For additional details regarding this area of activity, see 17 to 26 below.

2.3.4. Delta Premium Brands

In this area of activity, purchased in August 2016, the Company deals in developing, designing, marketing, distributing and selling premium products under the following brands:

"7 For All Mankind" "Splendid" and-"Ella moss".

The "7 For All Mankind" brand is a leading global denim label and the brands "Splendid" and "Ella Moss" are leading U.S. clothing brands for outerwear and associated products. The products of this area of activity are sold through the Company's retail chain in the United States and in Europe, through the website and in wholesale activity at retail marketing chains.

For additional details regarding this area of activity, see 17 to 26 below.

3. **Investments in the Corporation's Equity and Transactions with its Shares**

The following are details of material transactions carried out by Delta interested parties over the past two years (starting January 1 2015):

Name of Interested Party	Date	Number of Ordinary Shares Purchased (Sold)	Share Price (in USD)	Sum of Transaction (in USD)
Sterling Macro Fund		**2015**		
Fund managed by Mr. Dabah	June and total	(250,000)	32.8	8,191,828
	Movement in			
	*2015			

Name of Interested Party	Date	Number of Ordinary Shares Purchased (Sold)	Share Price (in USD)	Sum of Transaction (in USD)
UAD Trust		**2016**		
A fund held by Mr. Isaac Dabah and his wife Mrs. Yvette Dabah.	March and total movement in 2016	5,000	25.1	125,500

* These shares were sold by Mr. Isaac Dabah through the Sterling Macro Fund, a fund managed by Mr. Dabah. For details see immediate report from June 9 2015 ref. 2015-01-044574.

4. **Distributions of Dividends**

4.1. As 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 accordance with the Company's financial results and financial and other needs, subject to the law.

4.2. In 2015 the Company distributed dividends as follows, with no need for court approval:

Decision Date	Sum Distributed (in USD)	Distribution Date
February 25 2015	3.5 million	March 24 2015
May 11 2015	3.5 million	May 28 2015
July 28 2015	3.5 million	August 20 2015
October 27 2015	3.5 million	November 17 2015

4.3. In 2016 the Company distributed dividends as follows, with no need for court approval:

Decision Date	Sum Distributed (in USD)	Distribution Date
February 23 2016	3.5 million	March 15 2016
May 15 2016	3.5 million	June 7 2016
August 15 2016	3.5 million	September 6 2016
November 15 2016	3.5 million	December 6 2016

4.4. As of the date of the report, the balance of profits eligible for distribution (unassigned retained earnings less treasury shares), as this term is defined in the Companies Law, 1999 is $250,743,000.

4.5. For details regarding restrictions on the Company's ability to distribute dividends, by virtue of the provisions of the deeds of trust regarding the Company's debentures (Series A, B and E), see Note 11 to the Financial Statements, Chapter C of the Periodic Report.

Chapter B – Other Information

5. **Financial Information Regarding the Corporation's Areas of Activity**

For financial information regarding the corporation's areas of activity see explanations in Section 2.3.2 of the Board of Directors' report, Chapter B and Note 5 to the Financial Statements, Chapter C of the Periodic Report.

6. **General Environment and Impact of External Factors on the Corporation's Activity**

6.1. Description of Market Risks to Which the Group is Exposed

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

For details regarding the Group's policy in managing the market risks in question and their impact of these risks on its operating results, see Sections 2.3.1 and 4.3 of the Board of Directors' Report and Chapter B of the Periodic Report.

The Group's activity is exposed to macroeconomic risks, to industry risks and to risks unique to its activity. Full details of these risks factors, to which the Group is exposed, can be found in 39 below.

Chapter C – Description of the Corporation's Business by Area of Activity

The following is a detailed description of the Company's areas of activity:

Delta U.S.A. and Global Upper Market

7. **General Information on Areas of Activity: Delta U.S.A. and Global Upper Market**

The following is a description of the areas of activity in fields in which the areas of activity have similar business characteristics, and which are different from the characteristics of the Company's other areas of activity. The areas of activity shall hereby be referred to, in Paragraphs 7 to 16 as **"the Areas of Activity".** Subjects specific to a certain area of activity shall be clearly noted separately.

7.1. Structure of the Areas of Activity and Changes Occurring Therein

7.1.1. Area of Activity Delta U.S.A.

Delta U.S.A deals in the development, design and marketing of undergarments, socks and sportswear for women, men and children to major U.S. retailers. Sales in this area of activity are to private labels as well as under brand names in accordance with concession agreements it has entered (see 13.3 below), and under labels in its possession, such as P.J. Salvage, Karen Neuburger and Little Miss Matched.

The Company's activity in this area is managed from the United States.

7.1.2. Area of Activity Global Upper Market

This area of activity mainly deals in the development, design, manufacture and marketing of male and female undergarments active wear and seamless clothing for women, most of which are manufactured at the Company's factories and the remainder are manufactured by subcontractors, for retail chains and leading labels in the U.S. as well as under brand names in accordance with concession agreements the Company has entered into see 13.3 below).

Most of the sales for the upper market segment area of activity are to private labels.

The marketing and distribution activity for this area of activity is performed by the Company, while the manufacturing activity is carried out by the Company's factories in Israel , through subsidiaries which are active in Egypt, Bulgaria, Thailand, Turkey and Jordan, through a joint venture in China as well as subcontracted in the Middle East and East Asia.

7.2. Changes in Scope of Activity and Profitability of Areas of Activity

Changes in global trade laws have increased competition in the areas of activity and have compelled the Company to restructure the Group. The restructuring steps taken by the Company, including related expenses, impacted the Company's revenues and profitability, as described in the Board of Directors Report, Chapter B of the periodic report.

7.3. Developments in Markets of the Areas of Activity or Changes in the Customer Characteristics

The primary target markets of the Company's products in the above areas of activity are North America and Europe. The changes in the economic condition in these markets as expressed in recent years, by way of a financial crisis and concerns of the recession's continuation, reduction in consumption and pressure to reduce prices, may impact consumers' consumption habits and levels. In addition, the garment industry is subject to changes in fashion preferences and consumer fashion trends, which by their nature changes more often than in the past, and an increase in the number of product collections needed.

7.4. Critical Success Factors in the Areas of Activity and Changes Occurring Therein

The Company estimates that success in the areas of activity depends on several key factors, the primary of which are as follows:

7.4.1. Innovation – investing resources in design and development departments while constantly focusing on domestic and global developments in the field of undergarments and customer taste and developing and designing fashion collections.

7.4.2. Maintaining long-term relations with customers.

7.4.3. Fabric development – the Company operates in a special fabric development center in Carmiel, which constitutes added value in the product development core.

7.4.4. Adapting products to changing fashions and to the needs of the relevant consumers, while taking care to provide constant innovation.

7.4.5. Upholding a marketing and distribution array that allows the Company to penetrate new markets and establish itself there.

7.4.6. Maintaining a broad variety of suppliers providing high-quality raw materials and high-quality finished products.

7.4.7. Upholding an independent manufacturing infrastructure through subcontractors, which will be steadfast and flexible and keep it competitive.

7.4.8. Assuring product manufacturing quality and quality control in accordance with specifications and Company and customer demand.

7.4.9. Using company' size as an advantage, both in the sizes of purchase orders by customers and in the number of items ordered from each model manufactured, which helps reduce manufacturing costs.

7.4.10. Efficient operational arrays and chain of supply providing full support for sales' needs and meeting supply times, which have shortened in recent years.

7.4.11. Engagement in license agreements.

The Company estimates that these success factors have been reinforced in light of the changes in its business environment which were expressed in increased competition, the erosion of sales prices and shortened supply times.

7.5. Main Entry and Exit Barriers in the Areas of Activity and Changes Occurring Therein

According to the Company's estimates, the main entry blocks for the areas or activity are as follows:

7.5.1. Familiarity and understanding of the fashion industry's requirements and bottom-line consumer tastes.

7.5.2. Stable, long-term relations with large customers (retail fashion outfits and companies owning fashion labels).

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

7.5.4. Large companies mainly require a commitment on behalf of the manufacturer to uphold the compliance process testing the fitness of the factory and its compliance with strict standards based on customers' requirements. In addition, during the commitment period, these customers often conduct periodic inspections of the production array. Failure to meet the quality requirements and standards set by customers may lead to the end of the commitment with them.

7.5.5. The existence of efficient operational arrays, chains of supply and logistical centers providing full support for sales needs, meeting quality requirements and meeting supply times, which have shortened in recent years.

The Company estimates that there are no material exit barriers from these areas of activity.

7.6. Alternatives for the Products of the Areas of Activity and Changes Occurring Therein

There are many alternatives for the Company's products, offered both by wholesalers and manufacturers marketing products similar in quality to those of the Company. The Company is acting to reinforce and preserve its products' advantage over alternative products, by differentiating itself and making itself more conspicuous in terms of innovation, fashionability and quality, developing special fabrics and increasing the volume of labelled activity.

8. **<u>Customers in Areas of Activity: Delta U.SA and Global Upper Market</u>**

8.1. A material Group customer, sales to which constitutes over 10% of the Company's total consolidated sales, is the U.S. retail chain Wal-Mart. The Company has a 40-year business relationship with Wal-Mart, which constitutes the Group’s largest customer.

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

Sales to Wal-Mart amounted to $153.1 million in 2016 (13% of consolidated sales) compared to $190.1 million in 2015 (18% of consolidated sales) and $175.4 million in 2014 (17% of total consolidated sales).

The Company believes that a drop in the scope of sales to Wal-Mart may have a materially negative impact on its financial results.

The decrease in sales in 2016 vs. 2015 largely derived from a decrease in sales of women's and children's undergarments, offset in part by an increase in activewear sales under the Avia brand.

The increase in sales in 2015 vs. 2014 largely derived from an increase in activewear sales under the Avia brand, which was launched over the course of the second half of 2014, and was included on the basis of a full year 2015.

Other important Group customers in Delta U.S.A.’s area of activity include Marmaxx, Target, Kohl's, Lane Bryant, Ross Stores, Kmart-Sears, Macy's, J.C. Penney, Costco, Nordstrom, Marks & Spencer and Primark.

Other important customers in the Global Upper Market area of activity include Victoria's Secret, Calvin Klein, Tommy Hilfiger, Tommy John, Maidenform, Nike, Hema, Under Armour, Spanx, Odlo and Wacoal.

8.2. For a breakdown of sales by geographical attribution see Note 5c. to the Company’s December 31 2016 Financial Statements, in Chapter C of this periodic report and section 2.3.1 of the Board of Directors report, in Chapter B of this report.

8.3. <u>Characteristics of Engagements with Primary Group Customers</u>

The Group maintains long-term relationships with its customers. The relationship between the Group and its primary customers is generally arranged by a general framework agreement and the customer’s purchase orders from the group. The framework agreement includes general directives on the matter of relations between the customer and the Group, including the commitments required from the manufacturer to meet compliance requirements, testing the factory’s compatibility with the customer's needs, periodic inspections and so on.

Merchandise amounts and supply dates to customers are established in the purchase orders and change from order to order. In most cases the Company's agreements with its customers is carried out on the basis of preparing a product collection for a specific season.

9. **Marketing and Distribution in Areas of Activity: Delta U.S.A. and Global Upper Market**

The Company adapts its marketing and sales strategy to its customers based on the geographic region each operates and according to the market segment it addresses. Thus, for instance, one marketing and sales group is responsible for customers in the upper market segment in Europe and the U.S. while a second marketing and sales group is responsible for customers in the U.S. mass market segment. The Company has sales departments located, based on the location of its target markets, in Europe, North America and Israel, and these set its marketing strategy, in coordination with Company HQ. The Company's sales offices are operated by professional staffs which maintain long-term relationships with their customers and provide a direct and immediate response to their customers' requirements. In addition, the Company employs the services of sales agents as needed.

The Company distributes its products in the U.S. through (owned) distribution centers as well as through direct supply to its customers from the various manufacturing facilities based on purchasing orders. To its European customers, the Company mainly distributes its products directly from its factories. The Company takes care to manage a sufficient level of inventory at its distribution centers in order to satisfy its customers' demands.

The Company is not dependent on its marketing channels.

10. **Backlog in Areas of Activity: Delta U.S.A. and Global Upper Market**

The Company employs two sales methods: ad hoc (specific) orders, particularly in the upper market segment, and replenishment sales, mainly in Delta USA activity.

In replenishment sales, the Company holds inventory in its distribution centers for a period of 8-12 weeks and the customer withdraws merchandise (call off) and issues purchase orders near the withdrawal date. The Company recognizes income on the date of delivery to its customers.

Due to the structure of the industry and the method of commitment characterized by ad hoc orders and replenishment, the Company has accumulated orders referring to a relatively short period. Therefore, the Company believes that the accumulated orders does not provide a full indication of the scope of orders in practice.

The following is a breakdown of the Company's accumulated orders in its areas of activity, in the coming quarters in which recognition of revenues is expected (in millions of dollars):

10.1. Backlog in Delta USA :

	Backlog as of February 10 2017	Backlog as of December 31 2016
First quarter	27.9	34.2
Second quarter	16.0	10.1
Third quarter	2.5	1.6

Fourth quarter	0.1	0.5
Total	46.5	46.4

10.1. Backlog in Global Upper Market :

	Backlog as of February 10 2017	Backlog Orders as of December 31 2016
First quarter	28.7	49.8
Second quarter	38.9	19.1
Third quarter	3.8	0.8
Total	71.4	69.7

11. Competition in Areas of Activity: Delta U.S.A. and Global Upper Market :

11.1. General

The Company operates in areas of activity considered competitive. In recent years, production costs began to increase, which caused product prices for consumers started to gradually rise. Competition in the field of undergarments turns on three main parameters: product price, product quality and the level of customer service. The Company believes that it has several advantages over its competitors, among other reasons due to the reasons detailed below:

11.1.1. Innovative and high-quality product lines – the Company manufactures a broad variety of fashionable, high-quality product lines, and packages its items in attractive containers. The Company invests significant sums in innovative design and in developing fabrics and products. For further details, see 31 below.

11.1.2. Long-term relations with retailers and leading label marketers – the Company has cultivated long-term relationships with its customers. Despite the fact that the Company's agreements with its customers are largely short-term and do not feature any minimum sales obligations, the Company maintains business relations with most of its main customers over a period of greater than ten years. The Company's design, development and technology teams work in conjunction with customers with the goal of providing a comprehensive service package that includes, among other things, designing, developing, manufacturing and marketing new product lines.

11.1.3. Unique status of free trade zones – the Company's activity in Israel, Jordan and Egypt allows it to enjoy beneficial trade agreements.

11.2. Competitive Conditions in the Areas of Activity

In recent years, retail chains have been trying to circumvent private companies designing and developing undergarments and enter into direct relationships with factories so that they manufacture products directly for them, in order to reduce product costs. For details see Section 39.3.3.

11.3. Names of Main Competitors in the Area of Activity

Activity in North America and Europe has dozens of competitors, mainly private companies from the U.S. and East Asia.

11.3.1. Area of Activity: Delta U.S.A.

To the best of the Company's knowledge and according to its internal assessments, the size of the market in which it is active in the Delta USA area of activity, as regards the customers and categories in which it is active (undergarments and activewear), is estimated at $15 billion per year. Company management estimates that the Company's share of this field is between 2% and 3%.

The Company’s material competitors in this area of activity include, among others, Ariella Intimates, Saramax Apparel Group Inc., Komar Company, Vanity Fair, Jockey, Fruit of the Loom, MAS Holdings, Brandix Lanka Limited, Richard Leeds, Tefron and Gelmart.

11.3.2. Area of Activity: Global Upper Market

To the best of the Company's knowledge and according to its internal assessments, the size of the market in which it is active, as regards the customers and categories in which it is active in the field, is between $5 and $6 billion per year. Company management estimates that the Company's share of this field is averages at between 3% and 5% in the various categories and various customers in the field.

The Company’s main competitors in this area of activity include, among others, MAS Holdings, Clover, Regina Miracle, Brandix Lanka Limited, Renfro Corporation, Fillnet, Gildan Active Wear Inc., Tefron, Okamoto, Bogart and Interloop.

11.4. Methods of Dealing with the Competition:

The Company invests a great deal of resources in the design and development of its products in order to provide innovation and fashionability to its customers, with the understanding that this innovation is what differentiates it from its many competitors. For further details, see also 31 below.

Likewise, in order to differentiate and create a competitive edge the Company invests a great deal of resources in increasing the branded segment of its activity by entering into new concession agreements and acts to increase its activewear, brassiere and men’s undergarment sales with existing customers. In addition, the Company invests in establishing new plants and joint ventures in order to strengthen its connection with its customer and improve its level of service.

12. **Production Capabilities in Areas of Activity: Delta U.S.A. and Global Upper Market**

12.1. In the Delta USA area of activity, 98% of sales are of products purchased from subcontractors, so production capability is irrelevant to this area of activity.

In the Global Upper Market area of activity, 30% of the Company's sales are of products purchased from subcontractors.

In the event of increased manufacturing needs, the process of entering into agreements with and preparing existing and additional subcontractors requires preparations, including approval by the end customer of the new factory as well as the new factory's compliance with quality standards defined by the Company regarding product quality, timetables and working conditions. To the best of the Company's estimates, such preparations do not take an extended amount of time that limits the ability to increase production capabilities.

12.2. The Company has manufacturing plants in Egypt, Israel, Thailand, Jordan, Turkey and Bulgaria, mainly serving its Global Upper Market area of activity. Over the course of the fourth quarter of 2016, the Company opened a new sewing, cutting, dyeing and seamless knitting plant in Vietnam. The Company estimates that nothing is restricting it from increasing its production capabilities in its factories.

13. **Intangible Assets in Areas of Activity: Delta U.S.A. and Global Upper Market**

The balance of intangible assets referring to areas of activity as of December 31 2016 largely include $70.1 million for goodwill, $18.6 million for customer relations, $19.2 million for trademarks and brand names and $24.7 million for agreements for label usage rights.

13.1. Goodwill

The Company's intangible assets in the areas of activity include goodwill created by the Company over the years, mainly due to the purchase of three American companies in 2000-2004 as well as for the purchase of P.J. Salvage's activity in July 2015.

The balance of goodwill is not amortized. The Company examines the value of goodwill each year, via valuation.

The Company did not reduce the value of goodwill attributed to these areas of activity in 2016, 2015 and 2014, in light of the yearly examination conducted.

13.2. Customer Relations

The Company's customer relations in the areas of activity created for the Company over the years upon purchasing Burlen in 2004, which is part of the Delta USA area of activity, and upon the purchase of Gibor's activity in 2009 included under the Global Upper Market Segment. In 2015 customer relations were created for the Company as a result of the purchase of P.J. Salvage's activity, included under Delta USA activity, as well as following the purchase of the Turkish sock plant, included under the Global Division Upper Market Segment.

The balance of customer relations amounted to $18.6 million as of December 31 2016 and is amortized over a period of 20 years. The original cost amounted to $27.9 million.

The Company estimates that the balance of goodwill and customer relations has no business impact on its areas of activity.

13.3. Agreements for the Receipt of Usage Rights for Brands

From time to time the Company enters into agreements to receive usage rights for international brands such as a, Columbia, Lacoste, Marc O'Polo, Converse, Wilson, Tommy Hilfiger, Maidenform, Kenneth Cole and Juicy Couture in Delta USA .

The license agreements are usually for a period of 3 to 4 years, and they include the payment of royalties to the concession owner of between 5% and 12% of revenues and usually feature a royalties payment condition at a minimal sum set based on the minimal sales levels over the course of the agreement.

These agreements regulate the obligations of the Company as recipient of the concession to manufacture branded products (hereinafter in this section" "**the Products**"), including in the matter of use of brand names, to design and develop the products and to transfer annual sales plans to the license granter.

The agreements generally include commitments on behalf of the Company to provide the party granting the license a prototype and production forms of the products prior to their manufacture, and an obligation to constantly uphold the quality, reputation and image of the license granter's products. The party granting the license has the right to inspect and supervise the manufacture of the products.

Royalty expenses in the areas of activity amounted to $17.9, $16.1 and $12.4 million in 2016, 2015 and 2014, respectively.

None of the license granted the Company is material to its activity.

The Company estimates that brand usage rights constitute one of the factors behind the areas of activity's success, and integrate into the Company's strategy to grow in the branded operating segment (see 36.4 below).

14. Raw Materials in Areas of Activity: Delta U.S.A. and Global Upper Market

14.1. Main Raw Materials Used in Areas of Activity

As noted, most of the self-manufacturing activity is carried out in the Upper Market Segment. The raw materials and accessories required for the Company's manufacturing activity are purchased from subcontractors and suppliers.

The raw materials used by the Group for the manufacture of the variety of garments it manufactures itself are mainly cotton string, cotton mixes, synthetic string (such as cotton-Spandex, cotton-Lycra, cotton-Viscose, nylon fiber and polyester) as well as additional materials such as elastic bands, lace and other textile components, which are sold in a broad price range. The Group purchases the raw materials from a number of international and local manufacturer and has not encountered any difficulties in the past in securing the raw materials appropriate for manufacturing requirements.

Due to variable supply and demand conditions and other market factors over which the Company has no influence, the price of raw materials is exposed to fluctuations. The Company tracks fluctuations in the price in question and tries to adapt its string and finished product inventory levels to sales projections.

With the exception of cotton string, the Company purchases the raw materials it needed for the manufacture of its products only after receiving purchase orders from its customers. As a rule, the Company does not hold an inventory of raw materials for a period of more than eight weeks. In purchasing basic cotton string, Company practice is to enter into agreements, from time to time and when market conditions are in its favor, with a number of suppliers of cotton string for a period of between three and six months.

14.2. Relations with Vendors

The Company maintains ties with dozens of suppliers, most through regular accounts, and some through letters of credit. Usually, as is normal in the industry, the Company does not enter into agreements with these vendors. Some of the vendors used by the Company are approved by the customers and some are dictated by them.

14.3. Dependence on Vendors and Products in Which Dependence Exists on Vendors

The Company has no material dependence on the various vendors of raw and finished materials due to the existence of multiple vendors and factories. However, in the event that a vendor is replaced, the process of locating an appropriate customer that meets the standards of the Company and the end customer may take several months

14.4. Manufacturing Process at the Company's Plants

The Company provides its customers with a broad array of high-quality products in accordance with their specific requirements, at competitive prices. The Company manufactures some of its products itself and purchases some from subcontractors. The following are the stages of the production process:

14.4.1. Purchase of Raw Materials

The Group purchases the raw materials it uses for the manufacture of its products mainly from international and domestic suppliers and has not encountered any difficulties in the past in finding raw materials meeting its manufacturing requirements.

14.4.2. Knitting

The Company weaves most of its fabric itself and purchases the remaining fabrics required to manufacture its products from suppliers.

14.4.3. Sock Knitting

The Company operates sock knitting machines in its Israeli, Turkish and Bulgarian plants and trough a Chinese venture. The Company intends to operate sock knitting machinery in its new plant in Vietnam over the course of 2017.

14.4.4. Dyeing

The Company dyes most of the products it manufactures using an Egyptian dyeing plant in its possession.

14.4.5. Cutting

The Company operates computerized cutting equipment in its factories in Egypt and Thailand.

14.4.6. Sewing

After the cutting stage, products are sewed at Company plants in Egypt, Jordan and Thailand as well as occasionally through subcontractors.

14.4.7. Manufacture of Seamless Clothing

The Company applies a special manufacturing technology through the use of Santoni knitting machines for the purpose of manufacturing seamless clothing in the undergarment, shapewear and sportswear categories.

14.4.8. Outsourcing

The Company engages subcontractors for the purpose of manufacturing some of its products. The company has relationships with subcontractors in China, Turkey, Pakistan and Bulgaria for the manufactured of socks and in Egypt, Jordan and a number of East Asian countries (mainly in China and Bangladesh) for the manufacture of undergarments and seamless clothing for its other areas of activity. The Company is not dependent on any of these subcontractors.

14.4.9. Quality Assurance

The Company places a great deal of emphasis on the quality of the items of clothing it manufactures. For this purpose, it employs QA teams that examine the products throughout the process. The Company's QA standards meet the tough standards demanded by its customers.

As noted in 12.2 above, in the fourth quarter of 2016 the Company began operating a new plant in Vietnam in which it carried out sewing, knitting, dyeing and seamless clothing weaving activity.

15. Working Capital in Areas of Activity: Delta U.S.A. and Global Upper Market

15.1. Delta U.S.A. Operating Segment

The following are details regarding the average inventory used by the area of activity and inventory days for 2016 and 2015:

	2016	2015
Average Inventory (Millions of Dollars)	74.4	88.3
Inventory Days (Average)	75	81

The decrease in the average inventory balance and in inventory days in 2016 compared to 2015 largely derived from an improvement in inventory management and from the same of surplus inventory.

15.2. Area of Activity Global Upper Market

The following are details regarding the average inventory used by the area of activity and inventory days for 2016 and 2015:

	2016	2015
Average Inventory (Millions of Dollars)	23.4	25.2
Inventory Days (Average)	42	42

For information regarding working capital see 33below.

16. Restrictions and Supervision of the Corporation's Activity in Areas of Activity

16.1. Legality in the Countries in which the Company is Active

The Company is subject to relevant laws in the countries in which it is active, including general legal constraints pertaining to imports, customs, consumer protection, product labelling (if relevant), licensing and labor laws in the countries in which it employs workers.

16.2. Free Trade Agreements

The Company currently enjoys free trade agreements between Israel and the U.S., Canada and the EU. The trade agreements allow the Company to sell the products manufactured in Israel to the countries in question (according to the terms of the agreement) exempt of customs and import quotas. The U.S. has expanded the benefits covered by the U.S-Israel free trade agreement to goods processed in the Company's Jordanian facilities, exempting these products from customs and quotas as well.

Following a free trade agreement between the U.S. and Israel, the products manufactured by the Company in Jordan and sent to the U.S., even without sharing Israeli inputs, are exempt from customers and quotas upon entering the U.S.

In addition, the trade agreement between Israel and the U.S. was expanded so that products manufactured at the Company's Egyptian plants and which include certain rates of Israeli inputs, are exempt from U.S. customs and quotas.

Following the free trade agreement between the EU and Egypt, the Company's products manufactured in Egypt are exempt of taxes and quotas required upon entry into EU member states.

The sales of the areas of activity in question included in the free trade agreements detailed above constitute 7% of total sales of the areas of activity in question in 2016. The balance of sales, which constitutes 93% of the total sales of the areas of activity in question in 2016 and which is not included above, is liable for taxes and quotas.

16.3. Activity Subject to Specific Laws/Business Licenses/Export Licenses

The Company holds appropriate license and operates according to the specific laws of the countries in which it operates.

Delta Israel, Schiesser and Delta Premium Brands Areas of Activity

17. **General Information on Delta Israel, Schiesser and Delta Premium Brands**

The following is a description of the areas of activity in fields in which the areas of activity have similar business characteristics, which are different from the characteristics of the Company's other areas of activity. The areas of activity shall hereby be referred to, in Paragraphs **Error! Reference source not found.** to 26 as **"the Areas of Activity".** Subjects specific to a certain area of activity shall be clearly noted separately.

17.1. Structure of the Areas of Activity and Changes Occurring Therein

Many bodies are active in the field of undergarments and child's wear in Israel and in Germany, most of them importers owning fashion outlets, competing with the Group's activity. The garment industry in general, and the field of undergarments in particular, continues to be characterized in recent years by a high level of competition. The price of finished products increased in recent years, as a result of an increase in wages and other inputs in East Asia.

17.1.1. Delta Israel Area of Activity

In the Delta Israel area of activity, the Company markets a variety of undergarments, leisurewear, activewear, socks and footwear in the retail field in Israel through its chain of "Delta" shops, "FIX" shops and "Puma" shops, some of which it owns and some are operated by concession holders, as well in the wholesale field by sales to retail chains and private shops, and online.

Most of Delta and Fix marketed products are purchased from vendors in East Asia, while Puma products are purchased directly from the company in Europe. The Company markets a number of brands in Israel, some of which it owns and for some it has entered into license agreements.

Over the course of 2016 the Company has opened 6 stores and closed 4 stores, so that as of the report date there are 170 stores active, including 8 Fix stores and one Puma store . Of this total number of stores, 143 are owned and 27 are operated by licensors.

In addition, a website was founded in 2016 to market Fix brand products.

17.1.2. Schiesser Area of Activity

In the Schiesser area of activity, the Group markets branded undergarments for men, women and children as well as bathing suits and sports undergarments, with activity in this area starting from designing and planning the collection, through purchasing, manufacturing and finishing the items of clothing, to the marketing and distribution of the products.

In the Schiesser area of activity, the Group sells most of its products under the area of activity's core label – Schiesser, mainly in Germany, in other German-speaking countries, such as Switzerland and Austria, as well as in the Benelux countries (Belgium, the Netherlands and Luxembourg). In Schiesser's areas of activity, the Company represents a retro undergarment line (“Schiesser Revival”) and positioned a young line (“Uncover”) in its undergarments segment. In addition, the Company manufactures and markets undergarments under the brand names Lacoste, Marc O’Polo and Seidensticker, with whom it has entered into concession agreements.

In the Schiesser area of activity, the Group provides its products to 5,000 points of sales in Europe, including unique undergarment and clothing retailers, shop and department store chain operators, through the wholesale sales channel. In the retail sector, in Germany and in Europe the Group sells its products through 20 wholesale stores in its possession, 77 factory outlets (as of December 31 2016), as well as through its online store.

The Group sells the Schiesser area of activity undergarment products in medium to high market segments, while observing a high level of comfort, durability, and product quality as well as fashion innovation.

About one half of the manufacture of the undergarment collection takes place at two production sites owned by the Group, in the Czech Republic and in Slovakia. In addition, the Company operates, in Schiesser’s area of activity, a buying office in Hong Kong.

17.1.3. Delta Premium Brands Area of Activity

Within the framework of this area of activity, purchased in August 2016, the Company deals in developing, designing, marketing, distributing and selling premium products under the following brands:

"7 For All Mankind ", "Splendid” and “Ella Moss".

The “7 For All Mankind” brand is a leading global denim brand and the brands “Splendid” and “Ella Moss” are leading U.S. clothing brands for outerwear and associated products. The products of this area of activity are sold both through the Company’s retail chain in the United States and in Europe, through the website and in wholesale activity at retail marketing chains.

In the Delta Premium Brands area of activity, the Group provides its products to 4,000 points of sales in the United States and Europe. In the retail sector, the Group sells its products through 105 stores in its possession, of which 77 shops are in the United States and 28 stores are in Europe (as of December 31 2016), as well as online.

70% of the Delta Premium Brands area of activity products are for women, including 60% of the products sold under the “7 For All Mankind” brand.

The Group sells the products of this area of activity to customers in the upper market segment, while observing a high level of comfort, durability, and product quality as well as fashion innovation.

Manufacture of the collection of products sold in the United States is carried out by subcontractors in Mexico and the United States, while the manufacture of products sold in Europe is largely carried out by subcontractors in Italy, Turkey and Eastern Europe.

17.2. Changes in the Scope of Activity in the Area of Activities and their Profitability

17.2.1. Delta Israel Area of Activity

The scope of activity of Delta Israel has increased in recent years, among other reasons due to a larger spread of stores, from an increase in online sales as well as an expansion of product lines sold under the "Delta" brand stores. In addition, the "Fix" retain chain was launched in 2015, and its activity expanded in 2016, among other things through the new website mentioned above. Activity also expanded through the launch of the Puma brand starting January this year, both on the wholesale channel and on the retail channel.

17.2.2. Schiesser Area of Activity

Schiesser's sales were largely sales to wholesale customers in Germany and neighboring European countries. As the German and European fashion market is characterized by increasing competition and a decrease in points of sale in recent years, Schiesser developed a growth strategy by expanding the chain of shops in its possession, which in 2016 included opening 7 new stores (6 factory outlets and one retail store), alongside two stores closing.

The target market for the Company's products in the Schiesser areas of activity is Western Europe, and Germany in particular. The continuation of the financial crisis in these markets and concerns of the recession's continuation, a reduction in consumption and pressure to reduce prices, may impact consumers' consumption habits and levels.

17.2.3. Delta Premium Brands Area of Activity

In the Delta Premium Brands area of activity, the Group markets leading clothing labels in the denim category, outerwear and associated products. The products of this area of activity are sold both through the retail chain in the United States and in Europe, through its websites and through wholesale activity at retail marketing chains.

The marketed products are purchased from vendors in Mexico, the United States, Italy, Turkey and Eastern Europe.

17.3. Success Factors in the Areas of Activity and Changes Occurring Therein

The Company estimates that success in the areas of activity depends on several key factors, as detailed below:

17.3.1. Marketing and branding Company brands through constant investment in advertising and reinforcing Company brands in order to differentiate the brands and emphasize their advantages, innovation and fashionability as well as through the Company's customers' club and its website.

17.3.2. Investing resources in design and development departments while constantly focusing on local and global developments in the field of undergarments and customer taste as well as developing and designing fashion collections, while making sure to apply constant innovation.

17.3.3. Engagement in license agreements.

17.3.4. National deployment and store location.

17.3.5. Maintaining a steadfast, reliable and flexible manufacturing infrastructure through overseas subcontractors and at competitive costs.

17.3.6. The existence of effective product QA system.

17.3.7. The existence of efficient operational arrays, chains of supply and distributional systems providing full support for sales needs and meeting supply times, which have shortened in recent years.

17.4. Main Entry and Exit Barriers in the Areas of Activity and Changes Occurring Therein

According to the Company's estimates, the main entry blocks for the areas or activity are as follows:

17.4.1. Construction of brands with significant awareness in the fashion market and preserving them on a long-term basis through significant investments in marketing and advertising.

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

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

17.4.4. Long-term relationships with primary wholesale customers.

The Company estimates that there are no material exit barriers from these areas of activity, with the exception of exiting long-term rental agreements.

17.5. Alternatives for the Products of the Areas of Activity and Changes Occurring Therein

There are many alternative to the Company's products in the areas of activity offered by local manufacturers or importers marketing at a variety of locations. The Company is acting to reinforce and preserve its products' advantage over alternative products, by differentiating itself and making itself more conspicuous in terms of fashionability, quality and assigning “added value” to its brands by ensuring cutting-edge design, development, competitive pricing, product variety and advertising on various media.

18. **Customers in the Areas of Activity: Delta Israel, Schiesser and Delta Premium Brands**

18.1. Delta Israel Area of Activity

The Company’s customers in this area of activity are divided into retail and wholesale customers in Israel. The Company’s retail customers are the consumers shopping at the Company’s retail outlets.

The sales of the Delta Israel area of activity are to the lower to medium market segment.

The Company’s wholesale customers include department stores, supermarkets and fashion chains. The total sales of the areas of activity in Israel in 2016 and 2015 amounted to \$148.1 and \$125.7 million, respectively. Out of total sales in 2016, 22% of sales (\$32 million) were through department stores, supermarkets and private stores, and 78% of sales (\$116 million) were through the Company’s stores and through its website.

According to the Company’s estimates, it is not dependent on any of its customers in this area of activity.

18.2. Schiesser Area of Activity

The Company’s customers in the areas of activity include wholesale customers and retail customers, through its Western European retail chain. The sales of the Schiesser area of activity are to the medium-high market segment. Sales of the areas of activity in 2016 amounted to €178.0 million or \$195.9 million, compared to €168.4 million or \$185.5 million in 2015. In 2016 62% of sales (€110 million) took place in the wholesale channel through department stores, supermarkets and direct mailing and 38% of sales (€68 million) were through the Company’s retail chain. German sales constitute the largest market out of Schiesser's total sales and these constituted 80% of total sales in 2015 and 2016. The remaining sales were in Western European countries, mainly Switzerland, Belgium and the Netherlands.

18.3. Delta Premium Brands Area of Activity

The Company’s customers in the areas of activity include wholesale customers and retail customers, through its U.S. and European retail chain. The sales of the Delta Premium Brands area of activity are to the upper market segment. 56% of the products of the area of activity are sold on the wholesale sales channel. Sales for the area of activity in the four-month period ending December 31 2016 (from the acquisition date) amounted to \$108.7 million, of which 77% were in the United States, 20% in Europe and 3% in other areas. Activity sales, on a pro forma basis, amounted to \$297 million in 2016, compared to \$344 million in 2015.

19. **Marketing and Distribution in the Areas of Activity: Delta Israel, Schiesser and Delta Premium Brands**

The Company markets its products in the areas of activity through the following two marketing channels: wholesale marketing and marketing through its retail outlets.

19.1. Wholesale Marketing

19.1.1. Delta Israel Area of Activity

The Company's products are sold through a variety of marketing channels, including the New Mashbir Latzarchan, H&O, Superpharm, Newpharm, Brill, food retailers (Shufersal, Hatzi Hinam ,etc.) and hundreds of private stores throughout the country.

For marketing purposes, the Company operates an array consisting of sales agents, account executives, sales stewards and ushers and operates with some of its customers using the consignation method, according to which the inventory remains its property until its sale to the end customer. Alongside marketing the Company's brands, the Company also deals in management, manufacturing and marketing for private brands such as "Life" for Superpharm and "Cherokee" and "D2" for Shufersal.

The company enters into general framework agreements with the retail chains. Amounts and/or supply times are set in the purchase orders and change from order to order.

19.1.2. Schiesser Area of Activity

The Wholesale sales channel is the channel with Schiesser's largest scope of sales. 62% of sales in 2016 were carried out on the wholesale sales channel. Customers on the wholesale sales channel are mainly specializing clothing stores, department stores, supermarket and direct mail retailers, offering Schiesser products in their businesses and as part of their product offerings.

Schiesser handles distribution itself, in the German retail sales channel. Sales abroad are mainly carried out by seven Schiesser distribution companies and through external commercial agents.

Schiesser develops its wholesale sales potential using the "shop-in-a-shop" sales method at primary customers.

19.1.3. Delta Premium Brands Area of Activity

56% of the products of the area of activity are sold on the wholesale sales channel. Customers on the wholesale sales channel are mainly specializing clothing stores and department stores offering labelled products in their businesses and as part of their product offerings. Sales outside the United States and Europe (mainly in Canada, Brazil and China) are carried out by distributors.

19.2. Retail Marketing

19.2.1. Delta Israel Area of Activity

Marketing of products in this channel is through the Company's brand shops which, as of this report, number 170 stores. The retail chain stores are located inside malls, in town centers and in strip malls throughout the country.

For details on sales in identical shops, see Section 2.3.3 of the Board of Directors' Report inChapter B of this periodic report.

19.2.2. Schiesser Area of Activity

The retail sales channel includes the direct sale of Schiesser products to end consumers. In the retail sales channel, goods are sold through the company's old retailers, outlets and an online store (B2C).

At the end of 2016, Schiesser operated 20 retail stores (of which 18 were in Germany) located in accessible locations in the centers of cities, in malls or at traditional sites and with sales areas of 120 m² each.

As noted, Schiesser operated 77 factory outlets as of December 31 2016. 61 of these stores operate in Germany, and 16 operate in other Western European countries. Outlets are located at sites visited often by the public, such a business parks or as part of commercial centers. The sales floor area in outlets is generally larger, reaching 350 m² and larger, and serve to sell a significant portion of the Schiesser Group's general collection and production surplus items.

Schiesser intends to expand the number of stores in coming years, by opening additional sales space operated by it.

In addition to land-based retail, Schiesser targets end consumers through the Group's online stores . The shop currently markets a significant portion of its product offerings in Germany and Austria.

For details on sales in identical shops, see Section 2.3.3 of the Board of Directors' Report in Chapter B of this periodic report.

19.2.3. Delta Premium Brands Area of Activity

Marketing of products in this channel is through the Company's brand retail chain in the United States and Europe, numbering 105 stores, see 17.1.3 above. The retail chain stores are largely located inside malls and in town centers.In addition to the retail chain in question, the products of the area of activity are sold through the Company's websites.

19.3. Distribution

19.3.1. Delta Israel Area of Activity

The Company's products are stored in the company's logistical center, from which they are distributed to shops and to wholesale customers, with orders collected through the private stores' and supermarkets' sales representatives and through a computerized system from the label shops and from department stores. The logistic center in Caesarea employs 115 workers.

19.3.2. Schiesser Area of Activity

The Schiesser distribution center is located in Radolfzell in Germany, where most of the finished products of the area of activity are stored. The logistic center employs 115 workers.

19.3.3. Delta Premium Brands Area of Activity

Delta Premium Brands U.S. logistic center is located in Los Angeles, where the finished products are stored. 50 workers are employed in this logistic center. The logistic center in Europe is located in Belgium and managed by V.F Corporation, until activity will be transferred to Delta's management, see Section 1.3.8 of the Board of Directors' Report in Chapter B of this periodic report.

20. **Backlog in Areas of Activity Delta Israel, Schiesser and Delta Premium Brands**

20.1. Delta Israel Area of Activity

The Company has no material backlog for the sale of products to wholesale customers and sales to customers through the retail chain stores.

20.2. Schiesser Area of Activity

The Schiesser area of activity operates using two sales methods: ad hoc orders referring mainly to fashion product orders; and replenishment orders referring mainly to basic (core) products. Due to this engagement method, the area of activity has accumulated orders referring to a relative small portion and therefore it does not fully indicate the scope of orders in practice.

The following is a breakdown of the Company's backlog in the Schiesser area of activity, referring mainly to orders of fashion products for retail customers in the coming quarters in which recognition of revenues is expected (in millions of dollars):

	Backlog as of February 10 2017	**Backlog as of December 31 2016**
First quarter	16.7	23.8
Second quarter	4.7	3.7
Third quarter	14.7	2.9
Fourth quarter	1.8	0.2
Total	37.9	30.6

20.3. Delta Premium Brands Area of Activity

The backlog do not constitute a full indication of the expected scope of sales of the area of activity, in light of the fact that a significant portion of the sales of the area of activity is to retail customers through the retail chain and websites and to retail customers, who do not order products from the Company far in advance.

The following is a breakdown of the Company's backlog in the Delta Premium Brands area of activity, referring mainly to orders of fashion products for retail customers in the coming quarters in which recognition of revenues is expected (in millions of dollars):

	Backlog as of February 10 2017	Backlog as of December 31 2016
First quarter	22.5	33.3
Second quarter	25.3	16.7
Third quarter	2.9	0.3
Total	50.7	50.3

21. **Competition in the Areas of Activity: Delta Israel, Schiesser and Delta Premium Brands**

21.1. Delta Israel Area of Activity

Fierce competition exists in the Israeli undergarment category between branded chains and private retailers. According to the Company's estimates, in recent years, national chains have strengthened at the expense of local retail shops such as Jack Cuba, Aphrodite, Intima and Castor as well as the introduction of international chains to Israel, such as Aerie (American Eagle), H&M and Etam. Additional Company competitors 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 fierce competition and by multiple competitors, such as Golf, Fox Kids, GAP, H&M, Shilav, Zara, Carter's, Mango, Castro and others. In addition, Israel has hundreds of shops marketing undergarments and socks.

To the best of the Company's knowledge, and based on its internal evaluations, the market it addresses in Israel in the undergarments and children's fashion categories reaches $1.5 billion a year. The Company estimates that its market share in the undergarment category ranges between 10% and 20% and in the children's fashion category at 5%.

This competition compels the Company to set competitive prices and invest a great deal of money in marketing, advertising and sales.

21.2. Schiesser Area of Activity

Schiesser's main area of activity is in the undergarment market, in which Schiesser faces various competitors active in the industry. The chief competitors in the various male, female and child labels are Hugo Boss, Mey, Triumph, Calida, Sanetta, Hunkemöller, Esprit, H&M and house labels of department stores and purchase groups. Most of the competitors are active both in the retail and wholesale markets.

To the best of the Company's knowledge, and based on market surveys conducted in Germany, the branded market it addresses in the male, female and children category (without brassieres) is estimated at $1 billion a year. According to the Company's estimates, its share of the market ranges between 7% and 30% in the various categories.

In order to face the competition, the Company is expanding the retail chain in its possession, as detailed in 17.2.2 above.

21.3. Delta Premium Brands Area of Activity

The Delta Premium Brands area of activity's primary activity is in the denim category, in which it faces various competition. Primary competitors in this category include Paige, Diesel, AG, True Religion, Hudson, J BRAND and more, while Splendid's primary competitors in the women's outerwear premium brands category include Free People and Vince.

22. **Manufacturing Capabilities in Areas of Activity: Delta Israel, Schiesser and Delta Premium Brands**

22.1. Delta Israel Area of Activity

Most of the products in the Delta Israel area of activity are manufactured by suppliers located East Asia and the Company estimates that there are no manufacturing capability restrictions in this area of activity.

22.2. Schiesser Area of Activity

54% of the products sold by Schiesser are manufactured in companies in its possession, in the Czech Republic and in Slovakia, and the remaining products are purchased from various Asian sources. The Company estimates that nothing is restricting it from increasing its production capabilities in its factories.

22.3. Delta Premium Brands Area of Activity

The products of the area of activity sold in the United States and Europe are manufactured by a number of subcontractors. The Company estimates that it is not dependent on any of its suppliers, and it has no manufacturing limits in a manner that it will make it difficult to supply products in the event of increased demand.

23. **Intangible Assets in Areas of Activity: Delta Israel, Schiesser and Delta Premium Brands**

23.1. Delta Israel Area of Activity

The Company owns the following labels: Delta, Yodfat, Matchtonim and other which are listed in the Israeli trademarks registry. These brands have no cost in the Company's books.

In addition, the Company signed license agreements to receive use of the NICI, Disney, Keds, Nike, Wilson, NBA and other brands, which it uses in the undergarments, socks and children categories.

The license agreements are generally for a period of 1-2 years and include the payment of royalties to the party granting the concession of between 4% and 12% of sales. As a result of the relative short agreements period, the balance of the amortized cost of the license agreements in question is not material.

The Company estimates that the brands and franchise agreements are particularly important for the area of activity and they constitute a material success factor and entrance barriers for activity in the field. In addition, the Company estimates that the labels and franchise agreements provide a relative advantage that helps differentiate the Company.

None of the license granted the Company is material to its activity.

23.2. Schiesser Area of Activity

Schiesser holds intellectual property rights to the Schiesser, Schiesser Revival and Uncover labels as well as the Pleas brand in the Czech market. However, Schiesser does not own the rights to the Schiesserbrand in China, Hong Kong, Taiwan and Macau, as these rights were sold to a local company marketing in this area.

The balance of the Schiesser brand in the Company's books amounts to $20.4 million as of December 31 2016.

The brand's life span is not defined and is tested each year for impairment (see Note 2f in Chapter C of this periodic report). The importance of the Schiesser brands is material to this area of activity and constitutes a significant success factor and an entrance barrier to the activity in the field. Furthermore, the Company estimates that the brand creates and preserves the Company's business distinction.

In addition, the Group holds a license for the Seidensticker, Marc O'Polo and Lacoste brands, and licenses serving as beneficiaries for the Schiesser children's brand programs, such as Lilifree, Capt'n Sharky, Rebella and NICI.

23.3. Delta Premium Brands Area of Activity

The balance of the Delta Premium Brands area of activity in the Company's books amounted to $44.6 million as of December 31 2016. The brand's life span is not defined and is tested each year for impairment. The importance of "7 For All Mankind", "Splendid" and "Ella Moss" brands is material to this area of activity and constitutes a significant success factor and an entrance barrier to activity. The Company estimates that the "7 For All Mankind brand" creates and preserves the Company's business distinction. The balance of customer relationships within the framework of the area of activity in the Company's books amounts to $5.4 million as of December 31 2016.

23.4. In 2016 royalties expenses at Delta Israel and Schiesser amounted to $3.6 million, compared to $2.3 and $2.4 million in 2015 and 2014, respectively.

24. Raw Materials and Vendors in Areas of Activity: Delta Israel, Schiesser and Delta Premium Brands

As noted above, 54% of Schiesser's sales are self-manufactured. The raw materials and accessories serving production are purchased from subcontractors and vendors (similar to the details presented in 14.1 above).

25. Working Capital in Areas of Activity: Delta Israel, Schiesser and Delta Premium Brands

25.1. Delta Israel Area of Activity

The following are details regarding the average inventory used by the area of activity and inventory days in 2016 and 2015 in the division's operating currency:

	2016	2015
Average Inventory (Millions of NIS)	149.7	119.3
Inventory Days (Average)	214	194

The increase in average inventory and in inventory days in 2016 vs. 2015 derived from the expansion of the retail chain and the scope of activity, including FIX activity and online activity, as well as from the expansion of the products collection following the launch of the Puma brand and activewear (Delta Fit).

For information regarding working capital see 33 below.

25.2. Schiesser Area of Activity

The following are details regarding the average inventory used by the area of activity and inventory days in 2016 and 2015 in the division's operating currency:

	2016	2015
Average Inventory (Millions of Euros)	**52.8**	**45.8**
Inventory Days (Average)	**223**	**201**

The increase in average inventory and in inventory days in 2016 vs. 2015 derived from the expansion of activity, the retail chain and the website, as well as the launching of products under the Lacoste and Marc O'Polo brands.

For information regarding working capital see 33 below.

25.3. Delta Premium Brands Area of Activity

The following are details regarding the average inventory used by the area of activity and inventory days for 2016 on a pro forma basis:

	2016
Average Inventory (in Millions of Dollars)	**55.5**
Inventory Days (Average)	**150**

26. **Restrictions and Supervision of the Corporation's Activity in Areas if Activity: Delta Israel, Schiesser and Delta Premium Brands**

26.1. Delta Israel Area of Activity

Activity in Israel is subject to general law on matters of imports; quotas; consumer protection; product marking; labor and licensing laws (inasmuch as this pertains to operating Company stores); the Packaging Treatment Arrangement Law; and the Equal Rights for People with Disabilities Regulations (Accessibility Adaptations to Service).

Furthermore, all of the Company's products are covered by legal restrictions regarding price and component marking and laundry instructions in accordance with the Consumer goods and Services Supervision Law, 1957 and resulting ordinances, and in accordance with the Consumer Protection Law, 1981 and resulting ordinances.

The Company is complying with all of the legal requirements in question and holds the appropriate licenses (inasmuch as these are needed).

26.2. Schiesser Area of Activity

26.2.1. As a large portion of its business activity is carried out in Germany, Schiesser is mainly influenced by the German legal and taxation environment, including in the matter of corporations, antitrust law, product liability, product marking, prohibition of unfair business activity, trademarks and consumer protection. EU laws also apply to Schiesser's organizational and business activity.

26.2.2. As Schiesser purchases some one half of its products from countries outside the EU, foreign trade and customs conditions have a material impact on Schiesser's business activity. Imports and exports inside the European economic area are largely exempt from customs. Schiesser is also subject to all anti-dumping measures the EU may apply in accordance with its laws.

26.2.3. The laws applying to the product also include criminal regulations that prevent, among other things, the use of certain chemical materials, for instance, in the case of textile dyeing.

The Company is in compliance with all of the legal requirements in question and holds the required appropriate licenses.

26.3. Delta Premium Brands Area of Activity

Delta Premium Brands activity largely takes place in the United States and in European countries, and is influenced by these countries' legal and taxation environment, including in the matter of corporations, antitrust law, product liability, product marking, prohibition of unfair activity, trademarks and consumer protection. EU laws apply to European activity.

As the area of activity purchases products from countries outside the U.S. and the EU, foreign trade and customs conditions have a material impact on Schiesser's business activity.

The Company is in compliance with all of the legal requirements in question and holds the required appropriate licenses.

Chapter D – Additional Information at the Corporate Level

The following is additional information at the corporate level, pertaining to all of the Company's areas of activity:

27. **General Information on Areas of Activity**

27.1. Technological Changes that May have a Material Impact on the Entire Company

The Company keeps regular track of relevant technological developments in its area of activity and applies these technologies, when possible, to its production processes. Technological developments pertaining to the strings from which the fabric is woven has an indirect impact on the areas of activity, as they allow the manufacture of finished products characterized by innovation, such as products allowing more comfortable movement, high levels of ventilation etc. Such technological developments in string allow the manufacture or advanced textile products, which grant products a distinct competitive advantage and reduce the possibility of pressure on behalf of customer to reduce prices.

27.2. Changes in the Vendor Array and Raw Materials

In recent years there were no material changes in the array of vendors from which the Company purchases the raw materials used to manufacture its products, and in any event the Company can purchase the raw materials and manufacture all of its products at a large number of other vendors and subcontractors in East Asia with no significant increase in manufacturing costs.

The Company is constantly searching for new vendors, evaluating existing vendors and performing quality inspections.

28. **The Company's Products**

28.1. Ladies Intimate Apparel

The Company manufactures basic and designer intimate apparel for ladies , including panties, brassieres, nightwear and seamless garments such as shapewear and activewear.

28.2. Men's Underwear

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, sportive and day-to-day styles, some of which feature prints of familiar cartoon characters as well as prints of other images the Company is licensed to use.

28.4. Children

The Company manufactures a variety of children's clothing in sportive and day-to-day styles, some of which feature prints of familiar cartoon characters as well as prints of other images the Company is licensed to use.

28.5. Denim and Outerwear and Women's Accessories

The Company manufactures denim clothing items under the "7 For All Mankind" brand as well as women's outerwear such as shirts, dresses, jackets, pants, tops, swimwear and associated products under the "Splendid" and "Ella Moss "brands.

29. Seasonal Factors

The Company's revenues are characterized by fluctuations that derive, *inter alia,* from periodic consumer purchases. The Company's revenues in the second half of the year generally exceed its revenues in the first half due to increased consumer purchases in the "back to school" period and during the holiday period.

29.1. The following are the Group's sales by quarter in the past three years in thousands of dollars:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2016 sales - USD	**256,687**	**249,531**	**296,634***	**376,315***	**1,179,167**
2016 sales - %	**21.8%**	**21.2%**	**25.2%**	**31.8%**	**100%**
2015 sales - USD	252,838	255,537	284,556	287,056	1,079,987
2015 sales - %	23.4%	23.7%	26.3%	26.6%	100%
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%

* The data includes sales of Delta Premium Brands activity, consolidated for the first time in the third quarter of 2016.

The following is a breakdown of the Company's pro-forma sales on a quarterly basis in 2016, which include Delta Premium Brands, for the entire year (in thousands of dollars):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2016 sales - USD	331,321	320,559	339,187	376,315	1,367,382
2016 sales - %	**24.2%**	**23.4%**	**24.8%**	**27.6%**	**100%**

30. Fixed Assets, Real Estate and Facilities

30.1. Real Estate and Facilities

The Company has manufacturing facilities in Israel, Jordan, Egypt, Bulgaria, Thailand, the Czech Republic, Turkey and Slovakia as well as a new plant opened in Vietnam in late 2016.

As of this periodic report, the Company owns several real estate properties in Israel. Furthermore, the Company rents additional properties in Israel serving as warehouses, offices and stores. The rental agreements for the properties, including option periods for their extension, end between 2017 and 2033. The Company believes that it will be capable of renewing these rental agreements under terms not inferior to those in effect today.

The Company rents offices in London. This rental period is expected to expire in September 2017.

The Company rents manufacturing and storage facilities in Egypt. This rental period is expected to expire in 2020.

The Company's joint Jordanian venture is located in Irbid and includes a number of sewing facilities and warehouses, rented by the Company.

The Company rents warehouses and offices in the U.S., Europe and China. The rental periods in these agreements are expected to expire between 2017 and 2033. The Company believes that it will be capable of renewing these rental agreements under terms not inferior to those in effect today.

The above information pertaining to the Company's estimates regarding the extension of its rental agreements constitutes forward-looking information as defined in the Securities Law, 1968. No certainty may be attached to the Company's estimate, this, *inter alia*, due to it being based on information existing as of this Periodic Report and its realization is dependent on factors external to the Company such as market conditions, agreements with landlords and more.

Company management believes that the above facilities are in good operational condition, are properly maintained, and their area is appropriate to the Company's current level of activity. In addition, the Company believes that its activity and facilities are in compliance with current government standards pertaining to safety, health and environmental issues. As a rule, the Company has complied with these rules without said compliance having any material impact on the Company's expenses, profitability or competitive ability.

The Company owns a logistical center in Hungary, which is intended for sale but due to the low probability of its realization was included under fixed assets and not in current assets, under assets available for sale.

30.2. Real Estate Assets Intended for Sale

As of this report, real estate properties intended for sale include two properties in Israel the historic cost of which amounts to $1.0 million.

30.3. The following table concentrates material real estate properties owned by the Company or rented by it as of this periodic report*:

Country	Town	Area in M²	Main Use	Rented/Owned	Amortized Cost in the Financial Statements. As of December 31 2016 In Millions of Dollars	Yearly rental fees (in 2016) In Millions of Dollars
Israel	Carmiel	14,014 structure 24,000 land	Fabric development and dyeing, weaving activity and warehouses	Ownership	5.0	
		2,500 buildings 4,700 land	Intended for sale, one rented to 3rd party	Lease from the State of Israel	1.0	
		7,500	Offices and development sewing workshop	Rented		0.3
	Caesarea	9,440	Logistical center	Rented	2.5	0.8
		4,750	Offices	Rented	11.7	0.7
	Chain with 143 stores**	23,000	Delta stores –national retail chain	Rented	7.5	10.6
Jordan	Irbid	5,330	Sewing workshops and warehouses	Rented	0.1	***
Egypt	Cairo	35,300	Knitting, cutting and sewing plant, offices and warehouses	Rented	3.1	0.4
	Khanka City - Qalyubia Governate	4,000	Dyeing plant	Ownership	2.0	
Turkey	Duzce	9,400	Sock manufacturing plant	Rented	0.5	0.4
Vietnam	Phuong Thao	43,700	Undergarments manufacturing plant Sock manufacturing plant under construction	Ownership	15.9	

Country	Town	Area in M²	Main Use	Rented/Owned	Amortized Cost in the Financial Statements. As of December 31 2016 In Millions of Dollars	Yearly rental fees (in 2016) In Millions of Dollars
U.S.A.	New Jersey	2,000	Offices	Rented	0.9	0.4
	New York	4,400	Offices	Rented	5.5	2.4
	New York	2,000	Show rooms (SEM/7FAM)	Rented		0.4
	Williamsport, Pennsylvania	22,480	Warehouse, logistical center and offices	Ownership	1.9	
	Tifton, Georgia	46,000	Warehouse, logistical center and offices	Ownership	3.4	
	Los Angeles	22,000	Show rooms	Rented		1.0
	Los Angeles	20,440	Office and distribution center	Ownership	25.0	
	Chain consisting of 77 stores (SEM/7FAM)	14,690	Retail chain	Rented	4.4	4.4
Hungary	Tizalok	12,000	Logistical center. Not in use and intended for sale	Ownership	1.8	
Bulgaria	Rousse	8,640	Sock manufacturing plant	Ownership and rental	1.8	0.1
Thailand	Ayutaya	1,700	Cutting and sewing plant	Ownership	0.8	
Czech Republic	Havirska	148,000	Knitting, cutting and sowing plant, warehouses and offices	Ownership	7.4	
Slovakia	Slovakia	28,700	Sewing workshop	Ownership	1.8	
Germany	Radolfzell	64,000	Warehouse, logistical center and offices	Ownership and rental	0.5	0.9

Country	Town	Area in M²	Main Use	Rented/Owned	Amortized Cost in the Financial Statements. As of December 31 2016 In Millions of Dollars	Yearly rental fees (in 2016) In Millions of Dollars
		4,540	Investment property	Ownership	3.4	
	Chain consisting of 79 shops	35,330	Retail chain	Rented	2.7	7.1
Western Europe	Belgium, the Netherlands, Switzerland, Denmark and Austria	6,700	Stores and offices	Rented	1.0	1.4

* The real estate properties in this table do not include the 7FAM retail chain in Europe, which is operated by the V.F. Corporation in the transfer period, see Section 1.3.8 of the Board of Directors' Report inChapter B of this periodic report. This retail chain includes 28 stores as of the end of the year (retail & outlet).

** Not including stores operated by concessionaires, not rented by the Company.

*** Under $100,000.

30.4. Equipment

The Company operates equipment and machinery in its possession in its various plants and it estimates that there are no restrictions influencing the scope of production using them.

31. **Research and Development**

The Company has a number of creative teams featuring a design team, fashion, textile and graphic designers, knitting, finishing and dyeing technologists, and product designers. These teams keep up to date on global market trends and relevant technological innovations.

The Company's development and design teams mainly reside in Israel, Germany, the U.S. and Switzerland.

Design and development work is carried out using SIP – Systematic Innovation Process. This method is designed for innovative thinking intended to bring about groundbreaking products for Company Customers, which emphasize and maintain the Company's added value and competitive edge.

The process includes integrated work by all disciplines – design, marketing, development and technology, from the search and research stage, through development and design to presentation to the end customer and reaching conclusions.

In addition, the Company creates "Cross-Company" projects using the same method, placing emphasis on creative thinking, designed to bring about breakthroughs for markets in the Company's product categories.

The work of the development and design teams is integrated with the work of the Company's sales and marketing systems.

In addition, the Company operates in a special fabric development center, which constitutes added value in the product development core; a sock development center, which places and emphasis on specializing in professional sports socks (Performance); and a seamless development center, specializing in shapewear and activewear for men and women. The Company also operates a strategic development center for socks and seamless sewing products in conjunction with Nike, at the client's U.S. site.

Development and design costs amounted to $37 million in each of the years of 2016 and 2015.

Design and development costs in 2017 are expected to increase as a result of the purchase of Delta Premium Brands and amount to $47 million, constituting 3.5% of total sales[1].

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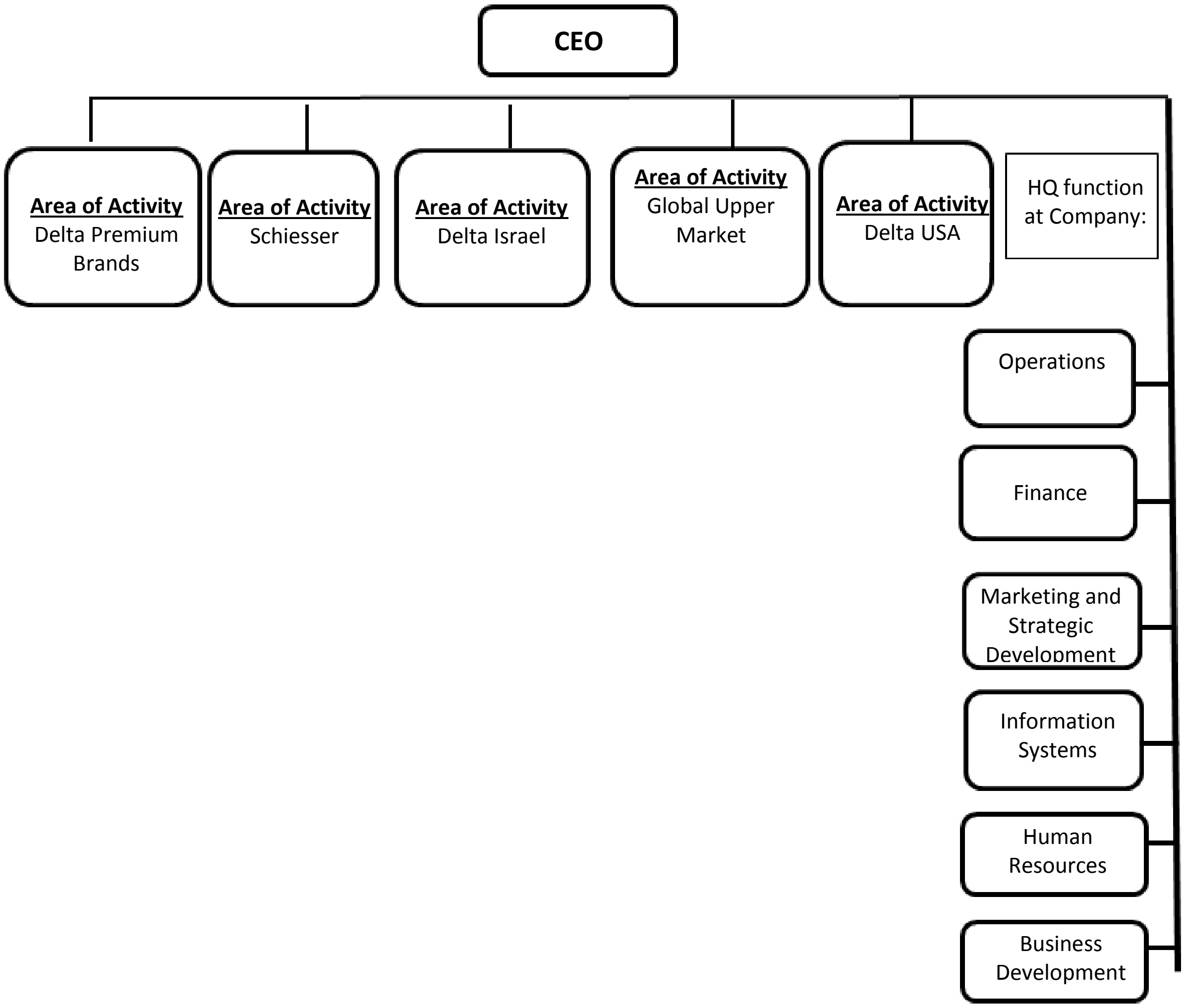
[1] The above is an estimate and forward-looking information, which may or may not materialize or may differ from Company estimates and forecasts, due to circumstances outside of the Company's control, and due to being based on information available as of the report date, including Company estimates as of the report date.

32. **<u>Human Capital</u>**

32.1. <u>Description of Organizational Structure</u>

The following is a description of Group management's organizational structure and its areas of activity:



32.2. <u>Worker Roll</u>

As of December 31 2016, the Group employs 10,300 workers.

32.3. The following is a breakdown of employees by countries and areas of activity in which they are employed:

	As of December 31 2016	As of December 31 2015
Egypt (Upper Market Segment)	2,360	2,015
U.S.A (Delta USA and Delta Premium Brands)	1,430	640
Israel (Upper Market Segment, Delta Israel and HQ)	1,320	1,360
Far East– mainly Thailand and Vietnam (Upper Market Segment)	1,520	980
Germany (Schiesser)	920	960
Czech Republic (Schiesser)	710	715
Bulgaria (Upper Market Segment)	630	620
Turkey (Upper Market Segment)	520	510
Jordan (Upper Market Segment)	455	475
Slovakia (Schiesser)	270	275
Others	165	200
Total employees	10,300	8,750

32.4. Of the employees as of December 31 2016, some 6,100 employees are employed in manufacturing activity and 4,200 employees are employed in development, logistics, marketing, sales and administrative activities.

32.5. Material Changes to the Worker Roll

The increase in the number of employees as of December 31 2016 compared to December 2015 largely derived from the purchase of Delta Premium Brands activity in August 2016, which increased U.S. personnel levels from 640 to 1,430 employees. The total number of employees in the area of activity in question in the United States amounted to 845 and included workers in the distribution center, the Company shops and HQ. Workers in the area of activity in Europe are not included in the above table, as they are still employed by the V.F. Corporation during the transfer of activity to Delta, see Section 1.3.8 of the Board of Directors' Report, in Chapter B of this periodic report. In addition, the number of the Company's manufacturing workers increased in the reported year, mainly in light of the expansion of the new Egyptian plant (at El Menia) and in light of the opening of the new plant in Vietnam, as per 12.2 above.

32.6. Remuneration Plans (Options and Blocked Share Units) for Company Employees

For details regarding the remuneration plans for Company workers see Note 13b to the Financial Statements, in Chapter C of this periodic report.

32.7. Human Capital Development Plants

The Company invests in developing its human capital by holding courses and training programs with the goal of developing management in professional and in administrative areas. In addition, the Company holds various lectures for all employees on various subjects such as thinking outside the box, personal growth and more, which encourage employees to initiate and develop, each in their own field.

32.8. Benefits and the Nature of Employment Agreements

As of December 31 2016, 1,320 of the Company's employees work in Israel. The Company's engagement with most of the employees is according to general collective work agreements for the textile and garment industry and general expansion orders applicable to them.

The workers employed by Schiesser in Germany are employed under a collective agreement signed between the Company and the Commerce Branch Committee. Employees of Schiesser subsidiaries in the Czech Republic and Slovakia are also employed under similar agreements.

The Company upholds the directives of these agreements.

The engagement in Israel with 198 employees, including senior officers and management employees, is via personal agreements.

The personal contracts the Company signs with its Israeli employees arrange, among other things, the following matters: monthly salaries, social rights such as yearly vacations, advance notice, provisions to pension funds, executive insurance and education funds. Each party may end the commitment by providing written notice of one to 2.5 days for each month of work and one month's notice after one year of work.

32.9. Agreements with Senior Executives and Senior Management (Excluding Internal Auditor)

32.9.1. Agreements with Senior Executives (Excluding Internal Auditor)

The employment agreements of senior executives include, among other things, details of the senior executives' social rights and other benefits to which the senior executive is entitled. In addition to salaries, senior executives are generally entitled to a yearly bonus of up to 50% of their yearly pay, based on goals met and according to the formula set in their employment agreement, except in cases in which a higher ceiling was set, as approved by the Company. The Company places at the senior executive's disposal a vehicle and mobile phone and bears all related costs. Senior Company executives undertake to uphold absolute confidentiality in the matter of all issues pertaining to the Company's business, and to make no use of the confidential information even after the end of their employment at the Company. As a rule, the company or senior executive may end the senior executive's employment at the Company by providing 90 to 180 days' written notice, with the exception of exceptional cases established.

For further details on the terms of service and employment of some of the Company's officers and interested parties, see details in Additional Information Regarding the Corporation, Chapter D of this periodic report.

32.9.2. Group Executive Remuneration Plan – Payment for Performance

Starting 2006, the Company has operated a remuneration plan for 370 Group executives. This plan consists of three components of the remuneration: **(a)** remuneration on the basis of personal goals achieved; **(b)** remuneration on the basis of achieving goals derived from the budget of the division in which the executive works (sales and profitability); and **(c)** remuneration on the basis of achieving goals derived from the Company's consolidated budget.

The remuneration mixture changes based on the rank of the executive and may change from year to year. Furthermore, goals change from year to year at the start of the year, based on the decision of Company management.

The Company intends to implement a multi-year remuneration plan starting 2017, which will include a capital component in accordance with compliance with multi-year goals.

The remuneration rate according to the plan is generally between 20% and 50% of the executive's yearly salary; except in cases in which a higher rate is set, which were approved by the Company's organs.

32.9.3. Senior Executive Remuneration Policy

The Company's remuneration policy was ratified by the General Meeting of the Company's shareholders on January 20 2016. For details see the December 16 2015 immediate report and the report on the meeting results from January 20 2016 (Ref. no. 2015-01-181197 and 2016-01-0149259, respectively), referred to in this report.

On January 24 2017 the Company announced that it was convening a general meeting of the Company's shareholders on March 1 2017, on the agenda of which would be amending the Company's remuneration policy. For further details, see Immediate Report from January 24 2017 (ref. no. 2017-01-008206) presented included by way of referral. To be clear, as of this report, the Company's remuneration policy is the policy approved by the January 20 2016 General Meeting, and that the revised remuneration policy will come into effect subject to the approval of the general meeting of Company shareholders.

32.9.4. Severance Pay Liability

The Company's obligations resulting from the discontinuation of employer-employee relations for Group employees in Israel are mostly covered by provisions to executive insurance policies, comprehensive pension funds and Company provident funds or other provident funds.

In other countries in which the Company has significant activity, which mainly consist of Thailand, Bulgaria and Egypt, the workers have no pension rights or other rights to compensation or other payments in the event of termination.

Rights for Schiesser workers in Germany and for its subsidiaries are covered by ongoing provisions.

33. **Working Capital**

The following is composition of net working capital as of December 31 2016 and 2015 on a consolidated basis, in millions of dollars:

	2016	**2015**
Current Assets *	405.4	326.6
Current Liabilities **	204.0	169.4
Working Capital, Net	201.4	157.2
% of sales – as reported	17.1%	**14.6%**
% of sales – on a pro forma basis, see Section 29.1. above	**14.7%**	

*   Including customer balances, other liabilities, income tax receivable and inventory.
** Including vendor balances, other payables and income tax payable.

33.1. Raw Material Inventory Holding Policy

The main raw materials used by the Company are cotton string, cotton blends and synthetic string and other textile components. Most raw materials are purchased by the Company parallel to receiving manufacturing orders from customers, and therefore the Company does not generally hold raw material inventories for extended periods of time.

33.2. Finished Product Inventory Holding Policy

The Company's sales are mostly conducted in two manners, either on the basis of specific production orders or on the basis of replenishment orders. See Section 10 above.

The Company places a great deal of emphasis on high levels of inventory maintenance, so that its ability to satisfy customer demands is not impacted.

34. **Finance**

34.1. Financial Covenants

For details regarding financial covenants connected to agreements with banks, see Note 18d to the financial statements, in Chapter C of this periodic report.

For details regarding financial covenants included in deeds of trust for debentures (Series A, B and E), see Note 11.a.(3) to the Financial Statements, in Chapter C of this periodic report.

34.2. The Corporation's Credit Frameworks and their Terms and Unused Credit Balances as of the Report

For details regarding the Group's credit frameworks, see Note 18d to the financial statements, in Chapter C of this periodic report.

34.3. The Corporation’s Credit Rating

For details regarding the credit rating of Company debentures, see he designated disclosure for debenture holders detailed in Section 9 of the Board of Directors’ Report, in Chapter B of this periodic report.

34.4. The Corporation’s Estimate Regarding the Need to Raise Sources of Finance

The Company finances its operations from its cash flow from current activity, from bank credit frameworks and from the proceeds from the issuance of debentures. From time to time, based on market conditions and its changing needs, the Company studies the possibility of making its various sources of finance more variable.

34.5. Bank Liabilities

34.5.1. From time to time the Company has bank liabilities mainly deriving from the need to finance working capital and investments in fixed assets. These liabilities are guaranteed by liens on assets of the Company and some of its subsidiaries.

The Company's credit frameworks permit short-term loans and the receipt of documentary credit, and issuing collateral. The Company’s short-term loans reach their redemption date within a period of up to one year. The redemption date of some of the loans is shorter, in order to maintain flexibility in financial management.

34.5.2. In Israel, the Company has credit frameworks renewable for a period of up to one year from a number of banks. The banks have current liens on the Company's assets including its stock capital and goodwill. Interest for the credit frameworks is set from time to time in negotiations between the Company and each of the banks separately. The banks have entered into a pari passu agreement among themselves regarding the manner in which this collateral is realized.

34.6. Liabilities to Debenture Holders

For further details regarding liabilities to debenture holders and the cash flow swap agreements for debentures, see Note 11 to the Financial Statements in Chapter C of this periodic report.

35. **Taxation**

For details regarding tax laws applicable to the Company, see Note 14 to the Financial Statements in Chapter C of this periodic report.

36. **Goals and Business Strategy**

This paragraph, pertaining to the Company’s goals, its strategy and its expectations of further growth and development in the coming year, constitutes forward-looking information. Forward-looking information is uncertain information regarding the future, based on information existing at the Company on the periodic report date and includes Company estimates or intents as of the periodic report taking into account past experience,

various estimates regarding the state of the economies in which the Company operates and depends on many external factors not under the Company's control. Therefore, no certainty exists that the below will in fact be realized and results in practice may be materially different from the results estimated or implied from this information, among other things in the event of deterioration, new or additional, in the state of the economies in which the Company is active, if the risk factors relevant to the Company are realized and more.

36.1. General

The Company's main strategic goal is achieving growth in its business activity. The Company is interested in growing in its activity with existing and new customers, through a broad selection of products and entry into new categories.

In order to achieve these goals, the Company invests in innovation in research and development, in streamlining the production process and chain of supply and through branding. In addition, the Company considers making strategic acquisitions that will fill in its product lines and improve its relationships with customers.

36.2. Strategic Acquisitions

As noted, in order to achieve growth, the Company considers making strategic acquisitions that will fill in its product lines and improve its relations with customers and allow penetration to new markets and customers.

In examining these purchases, the Company focuses on increasing the scope of its branded activity.

Due to the size of the American market, the Company has marked this market as a strategic target that can have a significant contribution to the Company's growth and profitability. By way of a series of acquisitions made by the Group in the American market, the latest of which took place over the course of the year, its presence has increased significantly in the American market in such a manner that the scope of sales to North America leapt from a total of $47 million in 1998, which constituted 16% of the Company's sales that year to $641 million in 2016, 55% of the Company's sales and even more in 2017 upon consolidating the results of the new area of activity on the basis of a full year.

In addition, the Company has targeted the European market as having large expansion potential, as expressed in the purchase of Schiesser in July 2012 and the recent purchase of "7 For All Mankind" (Delta Premium Brands area of activity) in August 2016, so that European sales increased from $162 million or 24% of total sales in 2011 to $350 million or 29% of total sales in 2016 and even more so in 2017, upon consolidating the Delta Premium Brands area of activity on a full yearly basis.

36.3. Customers

One of the Company's chief assets is its customers. The Company places an emphasis on the level of service and innovation provided customers and acts on several levels to develop business with them, as follows:

36.3.1. Increasing Sales to Existing Customers

The Company is interested in increasing the scope of sales of existing products and of new products presented to existing Company customers. The Company believes that the broad selection of products it offers, placing an emphasis on customer service and reliability, provides the Company with a competitive advantage over its competitors, as retailers generally prefer engaging a small number of suppliers. The Company intends to continue this trend by reinforcing and expanding the Company's relationship with its customers.

36.3.2. Maintaining Relationships with Company Customers

The Company's presence in the U.S. and in Europe allows the Company's design team to advise Company management on marketing and sales in Europe and the U.S. Despite the fact that a large portion of the Company's products are sold under its customers' private brand names, the Company's development and design experts cooperate closely with the Company's customers in designing and developing products. The development and design teams prepare presentations for customers that include, among other things, an analysis of successes and failures from previous seasons, and develop, along with customers, the basic idea, the product and the packaging, all in accordance with the customers' needs. The Company believes that the comprehensive package of services it offers its customers is a significant factor in the steadfastness of relations with it.

36.3.3. Developing Relations with New Customers

The Company develops relations with new customers who demand high quality products to sell under their private labels, who are capable of making large-scale orders, as well as display significant growth potential and demand the high level of service offered by the Company.

36.3.4. Innovation and Investment in Research and Development

The Company invests significant resources in the development and design of products in order to present its customers with breakthrough products, to allow penetration of new categories and to preserve its competitive advantage.

36.3.5. Streamlining Production Processes and the Chain of Supply

The Company is constantly working to streamline its production processes, by continuing to transfer manufacturing processes requiring significant manpower to countries offering a cheap workforce, and by continued automation of manufacturing processes and presenting new technologies.

The Company invests in the development of its chain of supply while recognizing its importance in guaranteeing high standards of service to its customers.

36.4. Branding

The importance of branding is constantly increasing and plays a major role in the end customer's (the consumer's) decision whether or not to purchase a product. Behind each brand name is a message that creates an emotional connection between the consumer and the product. The Company, which operated in the past as a manufacturer for private labels, invests in developing its branded product both through such purchases and through strengthening the brands in its possession.

In addition, the Company enters into concession agreements to market male and female undergarments, socks and activewear under leading brands names (see **Error! Reference source not found.** above). Accordingly, the Company intends to continue to act to acquire licenses for marketing under additional brand names, this strengthening its position with the end customer (the consumer).

36.5. Reinforcing and Expanding Branded Retail Activity

The Company aims to reinforce the branded retail activity segment of its business, whether by expanding existing Delta Israel, Schiesser and Delta Premium Brands activity or by making new strategic purchases in order to strengthen its competitive positioning.

37. **Projected Developments in the Coming Year**

This section includes forward-looking information. Forward-looking information is uncertain information regarding the future, based on information existing at the Company on the periodic report date and includes Company estimates or intents as of the periodic report, based on past development and on various estimates regarding expected developments in industries in which the Company is active and at its customers. Therefore, no certainty exists that the below will in fact be realized and results in practice may be materially different from the results estimated or implied from this information, among other things in cases of changes in market conditions, of inability to reach agreement with customers or with suppliers, or the Company's economic assessments failing to be realized, or if the risk factors relevant to the Company are realized and more.

37.1. The Company's Forecasts and Estimates Regarding its Business in 2017

The following is the Company's forecast for 2017, before the impact of non-recurring items, based on current market conditions and on an exchange rate of $1.06 per EUR and 3.75 NIS per USD:

The Company estimates that its total sales in 2017 will amount to $1,330 to $1,370 million US, constituting an increase of between 13% and 16% compared to $1,179.2 million in 2016.

The Company estimates that its total operating income in 2017 will amount to $86 to $91 million, constituting an increase of between 3% and 9% compared to $83.2 million in 2016.

The Company estimates that its operating income before depreciation and amortization (EBITDA) in 2017 will amount to $113 to $118 million US, constituting an increase of between 6% and 10% compared to $107 million in 2016.

The Company estimates that its total net profit in 2017 will amount to $50 to $52 million US, constituting an increase of between 6% and 10% compared to the total net profit amounting to $47.2 million in 2016.

The Company estimates that its diluted profit per share in 2017 will amount to $1.95 to $2.02 per share, constituting an increase of between 5% and 9% compared to $1.85 per share in 2016.

The Company estimates that the permanent tax rate that will apply to its profits in the coming year will be 25% of its pre-tax profit.

37.2. Forecast of Material Acquisition of Fixed Assets and the Company's production capability after making the purchases in question.

From time to time, the Company invests in the purchase of fixed asset items, such as knitting, dyeing and sewing machine and other equipment based on requirements and needs at various production sites. In addition, the Company is investing in expanding its retail chain in Israel and Germany.

In 2017 the Company estimates that its capital investments will amount to $30 million.

38. **Financial Data on Geographic Regions**

The Company does not operate according to geographical regions.

For further details on sales and asset balances see Note 5c to the Financial Statements.

39. **Discussion of Risk Factors**

The following is a description of the possible impact of the risk factors relevant to the Company’s activity, in accordance with Company management's estimates. Note that the following estimates regarding the impact of the risk factor reflect the impact of the risk factor assuming the risk factor will be realized, and this shall not express an assessment or give weight to the chances of such realization.

39.1. Macro-Economic Risk Factors

39.1.1. Increased Costs of Purchasing Finished Products from East Asian Manufacturers.

The Company purchases and manufactures a significant portion of the products it sells, from subcontractors or at its factories located in Easy Asian countries. Increases in the costs of finished products and self-manufacturing costs, that may derive from an increase in raw material prices as well as a result of increased salaries and other inputs, among other things, as a result of the strengthening of local currencies vs. the USD, may erode the Company’s gross profits.

39.1.2. Exchange Rate Volatility

As the Company is active in a variety of countries, it is exposed to risks deriving from changes in exchange rates of 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's sales are carried out around the world in a variety of currencies.

In order to limit the Company's exposure to fluctuations in exchange rates of the various currencies, from time to time the Company considers taking action to protect its currency exposure so that purchases and other costs will be denominated in the sales currency, including by purchasing future contracts to convert foreign currency to the USD at a pre-fixed price, and is acts to change the sales currency to the dollar.

At the same time, these hedging agreements will not protect the Company if the depreciation of these currencies against the USD continues after the end of the future contracts period. For further details, see Section 4.3 of the Board of Directors' Report, Chapter B of the Periodic Report.

39.1.3. Free Trade Agreements

The Company currently enjoys free trade agreements between Israel and the U.S., Canada, the EU and the European Free Trade Association. The trade agreements allow the Company to sell the products manufactured in Israel to the relevant countries in question, exempt of customs and import quotas. Changes to global free trade agreements may lead to changes in customs and quotas procedures in the countries constituting the Company's chief target and production countries.

Loss of the free trade advantages will cancel one of the Company's most important competitive advantages and may lead to an erosion in profitability.

39.1.4. Economic Situation in Target Markets

The economic situation in the target markets and concerns of continued recession in these markets may impact consumer habits and the scope of their consumption in the areas of activity and may lead to a reduction in the Company's sales.

39.1.5. Security and Political Situation.

The political, economic and security status of the State of Israel and of the countries in which the Company is active, has a direct impact on the Company, the management, offices and some of the manufacturing facilities of which are located in Israel. Hostilities and/or conflicts between Israel and its Arab neighbors may have a material impact on the Company's activity, including delays to Israel's international trade activity. In addition, Israel features a reserve duty obligation, both on a yearly basis and/or during emergencies, applicable to citizens of the State of Israel and permanent residents. The Company cannot predict the full impact of this reserve duty on the Company's work force, in the event that some of the Company’s workers and executives are called up to reserve duty.

In light of the Company’s activities in Jordan and Egypt, the deterioration of the security situation between Israel and the region’s states in general and with these countries in particular, as well as the deterioration of the internal political conditions in these countries, may impact the Company’s activities and production capabilities in these countries. Activity in Egypt is responsible for supplying 3% of the Company’s sales in 2016. A worsening of the political, economic and social instability in that country may impact the Company’s activity. Products sewed in Jordan constitute 1% of the Company’s sales in 2016, with these products largely manufactured in Israel, with only the sewing and finishing taking place in Jordan.

39.2. Industry Risk Factors

39.2.1. Competition

The Company might be incapable of dealing with competition on behalf of different manufacturers with economic, geographic and other advantages over the Company. The Company is in direct competition with a number of garment manufacturers who enjoy reduced manufacturing costs due to economy of scale, cheaper work force, geographic proximity to consumers and suppliers and who have larger economic and marketing resources at their disposal. Increasing competition on behalf of the competitors may lead to pressure to reduce prices or loss of market shares, and thus have a negative impact on the Company's revenues and profitability. No certainty exists that the Company will successfully handle competition with existing or new competitors.

39.2.2. Seasonal Factors

As a result of seasonal fluctuations, the results of the Company's activity on a quarterly basis might not reflect the Company's future performance. In light of seasonal consumer purchases, the Company's revenues underwent quarterly fluctuations in it operating results, in such a manner that the Company’s revenues in the last two quarters of exceeded the Company’s revenues in the first two quarters thanks to holiday and back-to-school purchases. In light of this inconsistency, the results of the Company's activity on a quarterly basis might not reflect the Company's future performance. The above inconsistency may make it harder for investors to properly estimate the Company's future performance.

39.2.3. Changes in Fashion Preferences

The garment industry is subject to changes in fashion preferences and consumer fashion trends. The Company’s sales rates may decrease if the Company or its customers err in evaluating current fashion. The Company’s success is partially dependent on its ability to design and produce products its customers like and which withstand changes in fashion trends. The Company may fail in its attempt to predict fashion trends. In the event that the Company, or its customers, err in evaluating fashion trends, product orders from Company customers may decrease, which may have a negative impact on the Company.

39.2.4. Online Trade

The garment and fashion industry is subject to rapid changes and market trends according to which an increase has occurred in the market share of products, particularly labelled products, sold via websites. The Company believes that its customers sell products purchased wholesale form Delta online as well. At the same time, the Company has no precise data regarding the percentage of such sales from the total sales of any of its customers.

The Company operates a number of websites of its own on which some of its branded products can be purchased in Israel, Europe and the United States, in the Delta Israel, Schiesser and Delta Premium Brands areas of activity, mainly under the Delta, Fix, Schiesser, 7 For All Mankind and Splendid brands.

The percentage of online sales out of the total sales of the areas of activity in question in particular and out of total Delta sales in general is relatively low, but has been rising. If any of the Company’s customers fails to open its own online sales channels and as a result, their sales levels are negatively impacted, the scope of sales of Company products intended for that customer may be indirectly impacted.

39.2.5. Changes in Fashion Preferences

The garment industry is subject to changes in fashion preferences and consumer fashion trends. The Company’s sales rates may decrease if the Company or if its customers err in evaluating current fashion. The Company’s success is partially dependent on its ability to design and produce products its customers like and which withstand changes in fashion trends. The Company may fail in its attempt to predict fashion trends. In the event that the Company, or its customers, err in evaluating fashion trends, the scope of product orders from Company customers may decrease, which may have a negative impact on the Company.

39.2.6. Changes in Raw Material Costs and Shipping Prices

The Company has no control of changes in the prices of raw materials it uses or changes in shipping prices. Increases in costs of raw materials or shipping may harm the Company’s profitability. The majority of raw materials used by the Company for the manufacture of its products are cotton strings, Lycra, nylon strings and rubber. The Company’s financial results are to a large degree dependent on the cost and availability of raw materials. Raw material prices, as well as shipping prices, are unstable, in light of variable supply and demand conditions and in light of other market factors over which the Company has no control. The Company might not be able to pass on the increase in costs in question to its customers. This situation may have a negative impact on the Company and on its economic status.

39.2.7. Regulatory Developments

As the Company is active 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 management of international operations, social, political and economic changes as well as other risks inherent to international business activity, any of which may have a significant impact on the Company's financial results. Any of the above factors may have a negative impact on the Company's ability to provide or receive merchandise under competitive conditions and according to worthwhile timetables and may have a negative impact on its operating results.

39.3. Risk Factors Unique to the Company

39.3.1. Dependence on Major Customers

A substantial part of the Company's revenues is derived from sales to large customers. A reduction in orders from these customers may have a material negative impact on the Company's revenues. The Company's agreements with its customers, including with the customers detailed in this report, are short-term agreements and do not include minimum purchase requirements. Company customers may decide not to purchase Company products in the future at the same amount or under the same conditions as in the past. Any decrease in purchases on behalf of these customers, or of any material customer, may have a negative impact on the Company's economic results.

39.3.2. Completion of Integration Proceedings with Subsidiaries

In recent years, the Group has purchase a number of companies and/or activities, integration with which has not been completed and which claim administrative resources. In July 2015 the Company purchased the activity of the P.J Salvage brands and in August 2016 it purchased CBC activity, see Section 1.3.8 of the Board of Directors' Report, in Chapter B of this periodic report. The possibility exists that the Company will not successfully complete the integration proceedings. The Company is continuing with the integration process of these purchases, with the aim of merging and combining their facilities, IT systems and personnel into the Company. The Company diverts a great deal of the time inputs of its senior management from their day-to-day activities in the United States and Europe for the purposes of this integration and as a result, a significant work load is created for the Company's management team. Completion of the integration process may be negatively influenced by economic conditions, by failure to integrate economic and operational systems, by reactions from competitors or customers or by regulatory developments, insomuch as such exist. The Company's inability to successfully complete integration may have a negative impact on the Company.

39.3.3. Direct Engagement by Retailers with East Asian Manufacturers

In recent years, a number of retail chains have been trying to circumvent companies designing and developing undergarment labels and enter into direct relationships with factories so that they manufacture products for them. The Company believes that this phenomenon largely occurs with basic products intended for the general market, where the design element is less significant. The Company's sales may be impacted in the event that this phenomenon becomes more common.

39.3.4. Reduction in the Market Share of Company Customers

The Company's sales may be impacted in the event that Company customers are unsuccessful in competing in the competitive markets in which they are active. If a central customer's sales have decreased for some reason, whether or not it has any connection to the Company and its products, the Company's sales to such a customer may also drop.

39.4. The following table shows the Company's evaluation of the degree of impact of the risk factors detailed above on the Company:

	Degree of Impact of Risk Factor on the Company		
	Major Impact	Medium Impact	Minor Impact
Macroeconomic Risks			
Increased Costs of Purchasing Finished Products from East Asian Manufacturers.	X		
Exchange Rate Volatility		X	
Free Trade Agreements		X	
Economic Situation in Target Markets	X		
Security and Political Situation.	X		
Industry Risk Factors			
Competition	X		
Seasonal Factors			X
Changes in Fashion Preferences			X
Online Trade		X	
Changes in Raw Material Costs and Shipping Prices	X		
Regulatory Developments		X	
Risk Factors Unique to the Company			
Dependence on Major Customers	X		
Completion of Integration Proceedings with Subsidiaries	X		
Direct Engagement by Retailers with East Asian Manufacturers	X		
Reduction in the Market Share of Company Customers		X	

Delta Galil Industries Ltd.

Chapter B

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

As of December 31 2016

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

We hereby present to you the report of the Board of Directors of Delta Galil Industries Ltd. (hereinafter: "**the Company**" or "**Delta**") in reference to the Consolidated Financial Statements of the Company and its subsidiaries in Israel and overseas (hereinafter: "**the Group**") for the year ending December 31 2016 in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. The Board of Directors' Report is an inseparable part of the Periodic Report, and the Periodic Reports as a whole must be read as a single unit.

1. Summary Description of the Corporation and its Business Environment

1.1. General

The Group is engaged in the design, development, production, marketing and sales of underwear, socks, children's wear, leisurewear and activewear. In addition, following the purchase of the V.F. Corporation Contemporary Brand Coalition division, the Company engages in development, design, marketing, distribution and sales of branded products from the denim and outerwear category and associated women's products.

The Group's sales are divided as follows:

1.1.1. Branded Product Sales

Branded product sales are divided as follows:

a. Sale of brands owned by the Company such as 7 For All Mankind, Splendid, Ella Moss, Schiesser, P.J. Salvage, KN Karen Neuburger, Little Miss Matched, Delta and Fix.

   The products sold within this framework consist of undergarments, socks, children's clothing, leisurewear, activewear and denim and women's outerwear.

b. Sale of brands to which the Company holds a franchise, such as Maidenform, Converse, Wilson, Avia, Tommy Hilfiger, Kenneth Cole, Columbia, Original Penguin, Marc O'Polo, Lacoste, Juicy Couture and more.

The products sold within the framework of franchises agreements consist of undergarments, socks, children's clothing, leisurewear and activewear. The Company pays the franchise holder royalties in return for use of the brand name.

1.1.2. Sale of Products for Customer Private Labels

Sales of products to the customer's private label are made to leading retail chains such as Wal-Mart, Marmaxx, Target, Victoria's Secret, Odlo, Marks & Spencer, Primark, Ross Stores, Macy's, Costco, Kohl's, Hema, Lane Bryant, Nordstrom, Karstadt, Kaufhof as well as leading labels that include Nike, Calvin Klein, Maidenform, Tommy Hilfiger, Spanx, Under Armour and more.

The products sold in this method consist of undergarments, socks and activewear.

1.2. Marketing, Development and Manufacturing Activity

The Company markets its products in the geographic regions in which it is active in retail marketing, through the retail chains in its possession – in the United States, Europe and Israel, and online.

The Company designs and develops its products primarily in Israel, Germany, Switzerland and in the US.

The Company manufactures the products it sells both via subcontracting and in its factories in the Middle East, Europe, Central America and Far East.

1.3. Material Events in the Corporation's Activities During and After the Reported Period

1.3.1. Dividends

Declaration Date	Size of Distribution (In Cents per Share)	Size of Distribution (In Millions of Dollars)	Distribution Date	Immediate Report Containing Additional Details (Presented on an inclusive basis by way of reference)
February 23 2016	13.9	3.5	March 15 2016	February 24 2016 (2016-01-033469)
May 15 2016	13.9	3.5	June 7 2016	May 15 2016 (2016-01-026247)
August 15 2016	13.9	3.5	September 6 2016	August 15 2016 (2016-01-103825)
November 15 2015	13.9	3.5	December 6 2016	November 15 2016 (2016-01-078609)

1.3.2. Declaration of Dividends Distributed Subsequent to the Balance Sheet Date

Declaration Date	Size of Distribution (In Cents per Share)	Size of Distribution (In Millions of Dollars)	Distribution Date	Determining Date/X Date
February 22 2017	13.9	3.5	March 14 2017	March 2 2017

The dividend distribution shall be according to the dollar's representative rate of exchange as published the day prior to the payment date. For further details, see the immediate report on the distribution of dividend published alongside this report.

1.3.3. Shareholders' Meeting Assembly

On January 20 2016, a special general meeting was held of the Company's shareholders, with the following decisions on the agenda: (a) reappointment of the serving Company directors (except for the external directors): approval of the reappointment for an additional term of office of all serving Company directors who are not external directors; (b) discussion in the Company's Financial Statements and Board of Directors report for the year ending December 31 2014; (c) approval of amendment to the Company's remuneration policy; and (d) approval of the terms of service and employment of Mr. Isaac Dabah, CEO, Company Director and controlling shareholder. The general meeting ratified the above decisions. For further details, see the immediate report on summoning the meeting from December 16 2015 (ref. no. 2015-01-181197) and for further details regarding the results of the meeting see the immediate report from January 20 2016 (ref. no. 2016-01-014929), presented by inclusion by way of referral.

On January 2 2017, a special yearly general meeting was held of the Company's shareholders, with the following on the agenda: (a) reappointment of the Company's serving directors (with the exception of the external directors); (b) confirmation of the reappointment of the accounting form of PWC Israel (Kesselman and Kesselman) as the Company's auditing accountant until the Company's next annual general meeting and certification of the Company Board of Directors to set their salary; (v) a discussion of the Company's Financial Statements and Board of Directors' Report for the year ending December 31 2015; (d) approval of an amendment to the Company's remuneration policy; (e) approval of the terms of employment of Mrs. Gloria Dabah, daughter of the Company's Controlling Shareholder, as Vice President Kids Division DG Premium Brands, for a three-year period starting January 1 2017; (f) amendment of the Company's Articles of Association in the matter or insurance and indemnification items; (g) increasing the Company's listed capital and approving the relevant section in the Company's Articles of Association; (h) amendment of the Company's Articles of Association on additional matters; (i) amendment to the Company's Memorandum of Association; (j) updating the wording of the letter of indemnification used by the Company, and granting it to officers serving at the Company and/or subsidiaries, as they will serve from time to time, who are not Company controlling shareholders or related to them; and (k) granting the revised letter of indemnification to the Company's and/or the subsidiaries' officers who are or are related to controlling shareholders. With the exception of Resolution (d) above, in the matter of the Company's remuneration policy, the general meeting ratified the above decisions. For further details, see the immediate report on summoning the meeting from December 12 2016 (ref. no. 2016-01-092952) and for further details regarding the results of the meeting see the immediate report from January 2 2017 (ref. no. 2017-01-000970), presented by inclusion by way of referral.

On January 24 2017, the Company announced that it was summoning a special general meeting to be held on March 1 2017, on the agenda of which would be amending the Company's remuneration policy. For further details, see the immediate report on summoning the meeting from January 24 2017 (ref. no. 2017-01-008206), presented by inclusion by way of referral.

1.3.4. Company Shares Purchase Plan

On February 23 2016, the Company Board of Directors approved a purchase plan for company shares. For further details on the purchase plan see Note 13 to the Financial Statements and the Immediate Report from February 24 2017 (ref. no. 2016-01-033460) presented included by way of referral.

1.3.5. Holdings of Interested Parties and Officers

On March 13 2016, the Company announced that U/A/D Trust, which is held by Mr. Isaac Dabah and his wife, Mrs. Yvette Dabah, had purchased 5,000 shares at 98.00 per share, so that the fund's holdings after the purchase amounted to 0.02% of the Company's capital. For further details, see Immediate Report from March 13 2017 (ref. no. 2016-01-004560), included by way of referral.

For details regarding the holdings of interested parties and officers see the Company's immediate report dated October 13 2016 (ref. no. 2016-01-064164), included by way of referral.

1.3.6. Midroog Rating Report

On March 31 2016, the Company announced that Midroog Ltd. had reapproved the A1 stable outlook rating for the debentures (Series A, B, T and E) issued by the Company. For further details on the rating report see Immediate Report from March 31 2017 (ref. no. 2016-01-021264), included by way of referral.

For details on an issuer comment report from Midroog Ltd. in connection with purchasing the area of activity, published by the Company on July 10 2016, see 1.3.8 below.

1.3.7. Merger of a Subsidiary

On June 28 2016, the Company announced that it had signed a merger agreement with Fix Label Marketing Ltd., a fully owned and controlled Company subsidiary.

For further details on the merger see Immediate Report from June 28 2016 (ref. no. 2016-01-067876), included by way of referral.

1.3.8. Acquisition of Area of Activity

On June 30 2016, the Company announced that on June 29 2016, the Company and some of its subsidiaries had signed an agreement with the V.F. Corporation, an American publicly-owned company, and with some of its subsidiaries, for the purchase of the activity of the V.F. Corporation Contemporary Brands Coalition division (CBC) The purchased activity includes the development, design, marketing, distribution and sale of premium products under the Brands “7 for All Mankind”, “Splendid” and “Ella Moss”. The “7 For All Mankind” brand is a leading global denim label and the brands “Splendid” and “Ella Moss” are leading U.S. clothing Brands for outerwear and associated products.

The Company closed the transaction in late August 2016, and the purchased activity in Europe will be passed on when one year has passed from the completion of the transaction after the Company is prepared to operate this activity itself. The Group has consolidated the results of the purchased activity in its W3 2016 Statements and presents it under a new area of activity called Delta Premium Brands, see Sections 2.3.2-2.3.3.

For further details on the purchase of activity see the Immediate Reports from June 30 2016 and August 28 2016 (ref. no. 2016-01-070210 and 2016-01-110998), included by way of referral.

On July 10 2016, the Company announced that Midroog Ltd. had assessed the influence of purchasing the activity has having a neutral impact on the Company’s rating. For further details, see Immediate Report from July 10 2017 (ref. no. 2016-01-078640) presented included by way of referral.

1.3.9. Changes in Company Management

On July 5 2016, the Company announced that Mr. Manny Alon, Manager of the Company’s Seamless Division, would depart the Company on August 5 2016. For further details on Mr. Alon’s departure, see Immediate Report from July 5 2017 (ref. no. 2016-01-074671) presented included by way of referral.

On July 10 2016, the Company announced that Mr. Iric Browndorf had been appointed Executive Vice President of Sourcing and Production at subsidiary Delta Galil USA Inc. Mr. Browndorf began serving on August 1 2016. For further details, see Immediate Report from July 10 2016 and August 1 2016 (ref. no. 2016-01-078280 and 2016-01-094921), included by way of referral.

On February 1 2017 the Company announced that Mr. Gil Shimon had been appointed President of Global Upper Market Division. Mr. Shimon began serving on February 7 2017. For further details, see Immediate Report from February 7 2017 (ref. no. 2017-01-009904), included by way of referral.

1.3.10. Submittal of Shelf Prospectus

On January 19 2017 the Company submitted to the Securities Authority a draft shelf prospectus on the basis of its September 30 2016 Financial Statements. For further details, see Immediate Report from January 18 2017 (ref. no. 2017-01-006697), included by way of referral.

Board of Directors' Discussion of the State of Corporate Affairs

2. Analysis of Financial Position

2.1. Balance Sheet

The following are explanations regarding developments occurring in balance sheet items, in millions of dollars:

Section	December 31 2016	December 31 2015	Explanation for Key Changes
Cash and Cash Equivalents and Restricted Cash	83.7	168.1	The decrease in cash balance as of December 31 2016 compared to December 31 2015 mainly derives from a cash flow used for investment activity, including fixed asset purchases and the purchase of CBC activity and the redemption of the debenture funds, partially offset by a cash flow from current activity in 2016.
Current Assets	490.4	495.9	The decrease in the balance of current assets as of December 31 2016 compared to December 31 2015 derives from a decrease in cash balance, as explained above, offset in part by the consolidation of CBC activity, which increased the customer, other payables and inventory items by a total of $76 million.
Non-Current Assets	423.1	302.3	The increase in the balance of non-current assets as of December 31 2016 compared to December 31 2015 derives from the consolidation of CBC activity, which increased the fixed asset and intangible asset items by $90 million as well as from investments in fixed assets, mainly as a result of the investment in the Vietnam plant and in the Company's offices in Israel and in the United States.
Balance Sheet Total	913.5	798.2	The increase in the balance sheet total as of December 31 2016 vs. December 31 2015 largely derives from an increase in non-current assets, as detailed above.
Current Liabilities	264.9	195.9	The increase in the balance of current liabilities as of December 31 2016 compared to December 31 2015 derives from the consolidation of the results of CBC's activity, which increased the balance of suppliers and other creditors by $35 million, as well as due to an increase in the balance of short-term bank credit used to finance the purchase in question.
Non-Current Liabilities	258.0	244.8	The increase in the balance of non-current liabilities as of December 31 2016 vs. December 31 2015 derives from the consolidation of CBC activity as well as the increase in commitments to minimal royalties as a result of the renewal of concessional contracts offset in part by debenture redemptions over the course of the period, see Note 11 to the Financial Statements.
Equity	390.6	357.5	The increase in equity balance as of December 31 2016 largely derives from the comprehensive profit derived in 2016 less dividends distributed to shareholders and the buyback of Company shares.

2.2. Operating Results

The following are the Group's Statements of Operations for 2016 and 2015 on a quarterly basis for 2016 and for the fourth quarter of 2015, in which certain sections are sorted differently than in the Financial Statements, in order to allow analysis and comparison with corresponding reporting periods.

An adaptation of the reported net profit to the net profit before non-recurring items, is presented in 2.2.2 below:

In Thousands of Dollars, Except for Earnings per Share Data	Year		Q4	Q3	Q2	Q1	Q4
	2016	2015	2016	2016	2016	2016	**2015**
	Audited			Unaudited			
Sales	**1,179,167**	**1,079,987**	**376,315**	296,634	249,531	256,687	**287,056**
Cost of sales	**787,650**	**763,261**	**239,499**	196,164	174,114	177,873	**198,712**
Gross Profit	**391,517**	**316,726**	**136,816**	100,470	75,417	78,814	**88,344**
% of sales	**33.2%**	**29.3%**	**36.4%**	33.9%	30.2%	30.7%	**30.8%**
Selling and marketing expenses	**262,527**	**208,283**	**90,405**	65,191	54,463	52,468	**57,495**
General % of sales	**22.3%**	**19.3%**	**24.0%**	22.0%	21.8%	20.4%	**20.0%**
General and Administrative expenses	**46,967**	**35,828**	**16,031**	12,483	8,425	10,028	**8,608**
% of sales	**4.0%**	**3.3%**	**4.3%**	4.2%	3.4%	3.9%	**3.0%**
Other Income(expenses), net	**832**	**2,208**	**1,885**	(427)	868	(1,494)	**1,323**
Share in the profits of investees handled using the book value method	**351**	**710**	**46**	166	112	27	**116**
Profit from Activity Before Non-Recurring Items	**83,206**	**75,533**	**32,311**	22,535	13,509	14,851	**23,680**
% of sales	**7.1%**	**7.0%**	**8.6%**	7.6%	5.4%	5.8%	**8.2%**
Restructuring expenses	**6,895**	**5,747**		6,895			**5,747**
Income from bargain purchase	**10,420**			10,420			
Activity acquisition expenses	**1,456**	**809**		1,456			**-**
Operating income	**85,275**	**68,977**	**32,311**	24,604			**17,933**
Net financing expenses	**17,420**	**16,594**	**6,634**	3,519	3,648	3,619	**4,472**
Profit before taxes on income	**67,855**	**52,383**	**25,677**	21,085	9,861	11,232	**13,461**
Taxes on income	**15,953**	**8,435**	**7,130**	3,430	2,050	3,343	**1,188**
Net profit for the period	**51,902**	**43,948**	**18,547**	17,655	7,811	7,889	**12,273**
Net profit before including non-recurring items, net of tax for the period, see 2.2.2.	**47,217**	**48,454**	**18,547**	12,970	7,811	7,889	**16,051**
Attribution of net income for the period:							
To Company shareholders	**51,782**	**43,828**	**18,517**	17,625	7,781	7,859	**12,243**
To non-controlling interests	**120**	**120**	**30**	30	30	30	**30**
	51,902	**43,948**	**18,547**	17,655	7,811	7,889	**12,273**
Net profit attributed to shareholders before non-recurring items, net of tax for the period	**47,097**	**48,334**	**18,517**	12,940	7,781	7,859	**16,021**
Diluted profit per share attributable to Company shareholders	**2.03**	**1.71**	**0.73**	0.69	0.30	0.31	**0.48**
Diluted profit per share before non-recurring items net of tax, attributable to Company shareholders	**1.85**	**1.88**	**0.73**	0.51	0.30	0.31	**0.62**

2.2.1. The following tables lists major data in millions of dollars:

	Fourth Quarter		Year	
	2016	2015	2016	2015
Sales	**376.3**	**287.1**	**1,179.2**	**1,080.0**
Profit from activity before non-recurrent items	**32.3**	**23.7**	**83.2**	**75.5**
Operating income	**32.3**	**17.9**	**85.3**	**69.0**
EBITDA	**39.2**	**29.5**	**107.0**	**95.3**
Net profit before non-recurring items net of tax	**18.5**	**16.0**	**47.2**	**48.5**
Net profit before non-recurring items net of tax attributed to Company shareholders	**18.5**	**16.0**	**47.1**	**48.3**
Net profit attributed to company shareholders	**18.5**	**12.2**	**51.8**	**43.8**
Cash flow from current activity	**61.1**	**60.3**	**76.6**	**70.5**

EBITDA in the fourth quarter of 2016, increased by 33% to $39.2 million, compared to $29.5 million in the corresponding quarter last year.

EBITDA in 2016, increased by 12% to $107.0 million, compared to $95.3 million in 2015.

Calculating EBITDA [(1)]:

	Fourth Quarter		Year	
	2016	2015	2016	2015
Net earnings for the period - as reported	**18.5**	**12.3**	**51.9**	**43.9**
Taxes on income	**7.1**	**1.2**	**16.0**	**8.4**
Net financing expenses	**6.6**	**4.5**	**17.4**	**16.6**
Non-recurring items				
Activity acquisition expenses			**1.4**	**0.8**
Restructuring expenses		**5.7**	**6.9**	**5.7**
Income from bargain purchase			**(10.4)**	
Depreciation and amortization	**7.0**	**5.8**	**23.8**	**19.8**
EBITDA	**39.2**	**29.5**	**107.0**	**95.3**

* Some of the data in the table has been rounded.

(1) EBITDA is a benchmark which is not in accordance with GAAP, which the Company uses to measure its results from continued operations; to the best of the Company's knowledge this is a benchmark commonly used by other companies in the Company's operating sectors. EBITDA is calculated as follows: net income plus taxes on income, net financing expenses, depreciation and amortization, and neutralizing non-recurring items.

2.2.2. The following is the adjustment between net profit reported for the period and net profit before non-recurring items net of tax, in millions of USD*:

	Fourth Quarter 2016	Fourth Quarter 2015	Year 2016	Year 2015
Net profit for the period - as reported	**18.5**	**12.3**	**51.9**	**43.9**
Plus:				
Restructuring expenses		**5.7**	**6.9**	**5.7**
Income from bargain purchase			**(10.4)**	
Activity acquisition expenses			**1.4**	**0.8**
Less:				
Tax effect due to non-recurring items		**(2.0)**	**2.6**	**(2.0)**
Net profit for the period before non-recurring items net of tax	**18.5**	**16.0**	**47.2**	**48.5**

* Some of the data in the table has been rounded.

2.3. Analysis of Operating Results (as Shown in Table 2.2 Above)

2.3.1. General

The Group's **sales** in Q4 2016 amounted to $376.3 million, compared $287.1 million in Q4 2015, a 31% increase.

Sales increased by 9% in 2016, and amounted to $1,179.2 million compared to $1,080.0 million in 2015.

The Group's sales in the fourth quarter and in 2016 included sales of the Delta Premium Brands area of activity, purchased in late August 2016, amounting to $79.8 and $108.7 million, respectively. The Group's sales in organic terms, after neutralizing sales from the Delta Premium Brands area of activity as noted above and P.J. Salvage sales, which were not consolidated in full in 2015, increased by 3% in the fourth quarter and decreased by 2% in 2016, compared to corresponding reporting periods last year.

The following is the distribution of Company sales by geographical areas, in millions of dollars:

	Fourth Quarter					Yearly				
	% Change	**2016**	**% of total**	**2015**	**% of total**	**% Change**	**2016**	**% of total**	**2015**	**% of total**
United States	*37*	**208.3**	*55*	**151.6**	*53*	*3*	**641.6**	*55*	**621.4**	*57*
Europe (Except for Germany)	*40*	**54.9**	*15*	**39.2**	*14*	*17*	**181.3**	*15*	**154.3**	*14*
Germany	*16*	**52.3**	*14*	**45.1**	*16*	*10*	**168.4**	*14*	**152.5**	*14*
Israel	*16*	**46.3**	*12*	**39.9**	*14*	*18*	**148.3**	*13*	**125.8**	*12*
Others	*29*	**14.5**	*4*	**11.3**	*3*	*52*	**39.6**	*3*	**26.0**	*3*
Total	*31%*	**376.3**	*100%*	**287.1**	*100%*	*9%*	**1,179.2**	*100%*	**1,080.0**	*100%*

* Some of the data in the table has been rounded.

The United States

North American sales increased by 37% in the fourth quarter of the year, amounting to $208.3 million, compared to $151.6 million in the corresponding quarter last year.

In organic terms (after neutralizing Delta Premium Brands sales), North American sales decreased by 2% in the fourth quarter of 2016 compared to the corresponding quarter last year, as a result of a decrease in sales in the Global Upper Market area of activity, see 2.3.3 below.

North American sales increased by 3% in 2016 and amounted to $641.6 million, compared to $621.4 million in 2015.

In organic terms (after neutralizing Delta Premium Brands and P.J. Salvage sales, which were not consolidated in full in 2015), North American sales decreased by 11% compared to 2015 as a result of a decrease in sales in the Delta USA and Global Upper Market areas of activity, see 2.3.3 below.

Europe (Excluding Germany)

European sales (excluding Germany) increased by 40% in the fourth quarter of the year, amounting to $54.9 million, compared to $39.2 million in the corresponding quarter last year.

In 2016 European sales (excluding Germany) increased 17% and amounted to $181.3 million compared to $154.3 million in the corresponding period last year.

The increase in sales in Europe (excluding Germany) in euro terms in the 2016 reported period vs. the 2015 reported period derived from an increase in sales in the Global Upper Market area of activity and from Schiesser sales (outside of Germany) as well as the first-time consolidation of the Delta Premium Brands area of activity, see section 2.3.3 below.

In organic terms (after neutralizing sales in the Delta Premium Brands area of activity), sales in Europe (excluding Germany) increased by 7% in the fourth quarter and in 2016, compared to corresponding reporting periods last year.

Germany

German sales increased by 16% in the fourth quarter of the year, amounting to $52.3 million, compared to $45.1 million in the corresponding quarter last year.

German sales increased by 10% in 2016, and amounted to $168.4 million compared to $152.5 million in 2015.

The increase in sales in the 2016 reporting periods compared to corresponding reporting periods last year derived from an increase in sales by Schiesser area of activity and from the first-time consolidation of the Delta Premium Brands area of activity, see section 2.3.3 below.

In organic terms (after neutralizing sales in the Delta Premium Brands area of activity), sales in Germany increased by 6% in the fourth quarter and in 2016, compared to corresponding reporting periods last year.

Israel

Sales in Israel in the fourth quarter of the year increased 16% and amounted to $46.3 million, compared to $39.9 million in the corresponding quarter last year. NIS sales increased 15% in the fourth quarter the year, compared to the corresponding quarter last year.

Sales in Israel increased by 18% in 2016and amounted to $148.3 million compared to $125.8 million in 2015. Sales in NIS in 2016 increased in 16% vs. 2015.

The increase in sales in the 2016 reporting periods compared to corresponding reporting periods last year largely derived from an increase in sales in identical shops, from the launch of the Puma label starting January 2016 and from the launch of an activewear collection (Delta Fit) in the second quarter of 2016, see section 2.3.3 below.

Gross profit in the fourth quarter of 2016 amounted to $136.8 million and constituted 36.4% of sales compared to $88.3 million in the fourth quarter of 2015, which constituted 30.8% of total sales.

In 2016 Gross profits amounted to $391.5 million and constituted 33.2% of total sales compared to $316.7 million or 29.3% of total sales in 2015.

The increase in gross profits and their share of sales in the fourth quarter and in 2016, compared to corresponding reporting periods last year derives from the first-time consolidation of the results of the Delta Premium Brands area of activity, which is characterized by higher gross profit rates than Delta’s average. In addition, the increase in gross profits and in its rate of sales derived from improvements in the results of factories in the Global Upper Market area of activity as well as a result of the consolidation of the Turkish sock factory starting from the fourth quarter last year. The decrease in gross profit in the 2016 reporting periods also derived from an increase in the relative share of Schiesser and Delta Israel sales, which are characterized by a higher gross profit rate, out of total sales without Delta Premium Brands sales.

Selling and marketing expenses in the fourth quarter 2016 increased by 57% to $90.4 million, compared to $57.5 million in the corresponding quarter last year.

Selling and marketing expenses increased by 26% in 2016 and amounted to $262.5 million compared to $208.3 million in 2015.

Selling and marketing expenses in the Delta Premium Brands area of activity amounted to $32.4 and $43.2 million in the fourth quarter and in 2016, respectively.

After neutralizing the expenses deriving from the consolidation of this area of activity, selling and marketing expenses increased by 1% and by 5% in the fourth quarter and in 2016, respectively, compared to corresponding reporting periods last year.

The following table shows the breakdown of selling and marketing expenses for the Delta Israel, Schiesser and Delta Premium Brands segments, compared to the other Group operating segments, in millions of dollars:

	Fourth quarter		Year	
	2016	**2015**	**2016**	**2015**
Delta Israel	**18.1**	**16.0**	**64.1**	**56.3**
% of total Delta Israel sales	***39.1%***	***40.2%***	***43.3%***	***44.8%***
Schiesser	**20.0**	**20.5**	**76.9**	**72.7**
% of total Schiesser sales	***35.5%***	***38.3%***	***39.3%***	***39.2%***
Delta Premium Brands	**32.4**		**43.2**	
% of total Delta Premium Brands sales	**40.6%**		**39.7%**	
Other areas of activity	**19.9**	**21.0**	**78.3**	**79.3**
% of total sales in other areas of activity.	***10.2%***	***10.8%***	***10.8%***	***10.3%***
Total selling and marketing expenses	**90.4**	**57.5**	**262.5**	**208.3**
% of selling and marketing expenses out of total sales	***24.0%***	***20.0%***	***22.3%***	***19.3%***

General and administrative expenses increased by 86% in the fourth quarter of 2016 and amounted to $16.0 million, compared to $8.6 million in the fourth quarter of 2015.

General and administrative expenses increased by 31% in 2016 and amounted to $47.0 million, compared to $35.8 million in 2015.

General and administrative expenses in Delta Premium Brands area of activity amounted to $6.4 and $7.9 million in the fourth quarter and in 2016, respectively. After neutralizing the expenses deriving from this area of activity, general and administrative expenses increased by 12% and by 9% in the fourth quarter and in 2016, respectively, compared to corresponding reporting periods last year.

The increase in general and administrative expenses, after neutralizing the expenses attributed to the new area of activity, in the 2016 reporting periods compared to corresponding reporting periods last year, largely derives from an increase in professional fees and from expenses connected with moving the Company's Israeli offices.

Other net income in the fourth quarter of 2016 amounted to $1.9 million primarily, compared to $1.3 million in the corresponding period last year, primarily from profits from the revaluation of currency transactions.

In 2016 other net income amounted to $0.8 million compared to $2.2 last year and included profits from currency transactions.

Operating income before non-recurring items in the fourth quarter of 2016 amounted to $32.3 million compared to $23.7 million in the fourth quarter of 2015, a 36% increase.

Operating income before non-recurring items in 2016 amounted to $83.2 million compared to $75.5 million in the fourth quarter of 2015, a 10% increase.

The increase in operating profit before non-recurring items in the fourth quarter of 2016 compared to the corresponding quarter last year derives from an improvement in gross profits and an increase in other revenues as explained above, offset in part by an increase in sales, marketing administrative and general expenses.

The increase in operating profit before non-recurring items in 2016 compared to 2015 largely derived from the increase in gross profits, as explained above, offset in part by an increase in sales, marketing, administrative and general expenses.

Net non-recurring items

Non-recurring items amounted to a net income (before tax influence) of $2.1 million in 2016, and included the following items:

1. Income from a bargain purchase amounted $10.4 million, as a result of a purchase price allocation. See Note 6 to the Financial Statements in Chapter C of this periodic report.

2. Restructuring expenses

Restructuring expenses in the 2016 reporting periods amounted to $6.9 million, as detailed below:

<u>Restructuring Expenses in the Delta Premium Brands Area of Activity</u>

As part of the activity purchase plan, the Company decided upon streamlining steps that include, among other things, consolidating the “7 For All Mankind” and “Splendid Ella Moss” headquarters, transferring show rooms and merging them into the Company’s New York show rooms and closing losing stores, which amounted to a total of $4.4 million; of these $2.5 million in cash for compensation and additional severance pay costs, and $1.9 million not in cash and attributed to the costs involved in closing a New York show room.

<u>Restructuring Expenses in the Global Upper Market Area of Activity</u>

As part of a strategy to lower production costs and in light of a drop in production orders in its Israeli plant, the Company has decided to continue to reduce seamless weaving activity in Israel. The sum of reorganization expenses involved in this decision amount to $2.5 million, of which $0.6 million is not in cash for the amortization of the value of fixed assets and the balance is for severance pay costs.

3. Expenses related to the purchase of the Area of Activity

The Company included in its financial results for 2016 expenses for the purchase of CBC activity to the sum of $1.5 million. This expense was included in the Financial Statements under general and administrative expenses.

Non-recurring items in 2015 included expenses for the purchase of P.J. Salvage activity, which amounted to a total of $0.8 million.

Operating income in the fourth quarter and in 2016 amounted to $32.3 and $85.3 million, respectively, compared to $17.9 million and $69.0 million in the corresponding periods last year, an 80% and 24% increase respectively. The decrease in operating income in the 2016 reporting period compared to corresponding periods last year derived from the improvement in gross profits, which was partially offset by an increase in sales, marketing, administrative and general expenses as well as the impact of the non-recurring items described above.

Financing expenses increased by 48% in the fourth quarter of 2016 amounting to $6.6 million – compared to $4.5 million in the corresponding quarter last year. Finance expenses increased by 5% in 2016, and amounted to $17.4 million compared to $16.6 million in 2015.

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

	Q4 2016	Q4 2015		2016	2015
Net interest and commission expenses	**4.1**	**3.8**		**13.7**	**14.5**
Exchange rate expenses	**2.1**	**0.2**		**1.9**	**0.7**
Capitalization component of assets and liabilities	**0.4**	**0.5**		**1.8**	**1.4**
Total financing expenses	**6.6**	**4.5**		**17.4**	**16.6**

The increase in financing expenses in the fourth quarter and in 2016 compared to corresponding reporting periods last year largely derived from exchange rate differences.

Tax expenses in the fourth quarter of 2016 amounted to $7.1 million compared $1.2 million in the corresponding period last year.

Tax expenses in 2016 amounted to $16.0 million compared to $8.4 million in 2015.

The increase in tax expenses and in the effective tax rate in the 2016 reporting periods derives from tax savings for tax benefits and losses from previous years, in corresponding reporting periods last year. In addition, tax expenses in the fourth quarter and in 20165 included $0.2 and $0.6 million, respectively, for the impact of the adaptation of a deferred tax asset as a result of a decrease in the Israeli corporate tax rate from 26.5% to 24% in 2017 and 23% in 2018 onward.

Profit attributed to Company shareholders before including non-recurring items in the fourth quarter of 2016 amounted to $18.5 million, compared to $16.0 million in the corresponding quarter last year, a 16% increase.

The increase in profit attributed to the Company's shareholders before including non-recurring items in the fourth quarter of 2016 compared to the corresponding quarter last year derives from an improvement in operational profits offset in part by an increase in financing costs and taxes.

Profit attributed to Company shareholders in the fourth quarter of 2016 amounted to $18.5 million, compared to $12.2 million in the corresponding quarter last year.

Profit attributed to Company shareholders in 2016 before non-recurring items amounted to $47.1 million compared to $48.3 million in 2015, a 3% decrease.

The decrease in profit attributed to Company shareholders before non-recurring items in 2016 compared to 2015 derived from the above increase in tax and financing expense.

Profit attributed to Company shareholders in 2016 amounted to $-51.8 million compared to $43.8 million in 2015.

The increase in profit attributed to shareholders in 2016 compared to 2015 largely derived from an increase in operating profits, offset in part by the increase in tax and financing expenses, as explained above.

2.3.2. The following is a summary of the Company's consolidated business results, divided by the accounting segments in its Financial Statements, for the entire year and for the fourth quarters of the 2016 and 2015, in thousands of dollars:

	Fourth Quarter Ending December 31 (Audited) (Audited)					
	Sales			Operating profit (loss) Before Non-Recurring Items		Expenses due to Non-Recurring Items
	2016	2015	% Change	2016	2015	2015
Delta USA	126,465	122,285	3%	10,153	6,762	4,054
Global Upper Market	69,385	74,577	(7%)	8,773	7,716	1,693
Schiesser	56,290	53,437	5%	7,932	3,991	
Delta Israel	46,299	39,847	16%	5,111	5,404	
Delta Premium Brands	79,812			1,095		
Cancellation of interdepartmental sales	(1,936)	(3,090)				
Other adjustments [(1)]				(753)	(193)	
Total sales and operating income	376,315	287,056	31%	32,311	23,680	5,747
Restructuring expenses					5,747	
Total reported operating profit				32,311	17,933	

(1) The other adjustments to operating income largely include expenses not attributed to the areas of activity.

	Year Ending December 31 (Audited)						
	Sales			Operating Income (Loss) Before Non-Recurring Items		Expenses (Revenues) Due to Non-Recurring Items	
	2016	2015	% Change	2016	2015	2016	2015
Delta USA	461,470	491,013	(6%)	30,764	29,961		4,863
Global Upper Market	278,079	288,002	(3%)	31,100	25,838	2,500	1,693
Schiesser	195,864	185,458	6%	13,595	13,880		
Delta Israel	148,120	125,719	18%	6,850	6,673	4,395	
Delta Premium Brands	108,709			3,122		(8,964)	
Cancellation of interdepartmental sales	(13,075)	(10,205)					
Other adjustments [1]				(2,225)	(819)		
Total sales and operating income before non-recurring items	1,179,167	1,079,987	9%	83,206	75,533	(2,069)	6,556
Restructuring expenses				6,895	5,747		
Income from bargain purchase				10,420			
Activity acquisition expenses				1,456	809		
Total reported operating profit				85,275	68,977		

[1] The other adjustments to operating income largely include expenses not attributed to the areas of activity.

2.3.3. Analysis of Business Results by Operating Segment Before Impact of Non-Recurring Items

Area of activity Delta U.S.A

Sales in fourth quarter2016 increased by 3% and amounted to $126.5 million compared to $122.3 million in the corresponding quarter last year.

The increase in sales in the fourth quarter of 2016 compared to the corresponding period last year was largely due to increased sales in women's branded activity.

Sales decreased by 6% in 2016, and amounted to $461.5 million compared to $491.0 million in 2015.

The decrease in sales in 2016 compared to 2015 derived from a decrease in sales to a primary customer which was offset in part by the consolidation of P.J. Salvage operating results.

Operating income in the fourth quarter of 2016 amounted to $10.2 million compared to $6.8 million in the corresponding quarter last year.

The increase in operating income in the fourth quarter of 2016 compared to the corresponding quarter last year derives from the decrease in sales and a change in product mixture.

Operating income in 2016 amounted to $30.8 million compared to $30.0 million in 2015.

The increase in operating profits in 2016 compared to 2015 largely derived from the change in product mixture and from the consolidation of P.J. Salvage results over an entire year compared to a period of just five months last year.

Area of Activity Global Upper Market

Sales in fourth quarter 2016 amounted to $69.4 million compared to $74.6 million in the corresponding period last year, a 7% decrease.

Sales in 2016 amounted to $278.1 million compared to $288.0 million in the corresponding period last year, a 3% decrease.

The decrease in sales in the area of activity in the 2016 reporting periods compared to 2015 largely derived from a decrease in sales to U.S. customers.

Operating income in the fourth quarter of 2016 amounted to $8.8 million compared to $7.7 million in the corresponding quarter last year.

Operating income in 2016 amounted to $31.1 million compared to $25.8 million in 2015.

The increase in operating income in the 2016 reporting periods vs. 2015 largely derived from improvements in factory profitability.

The improvement in operating profits in 2016 compared to 2015 also derived from the consolidation of the results of the Turkish sock factory over the course of a full year in the current reporting period compared to 2015, in which the factory's results were consolidated starting from the fourth quarter of the year.

The results of the areas of activity in question do not include $2.5 million in restructuring expenses in 2016 compared to a total of $1.7 million in 2015, as detailed in 2.3.1 above.

Area of Activity Schiesser

Schiesser's sales increased in the fourth quarter of 2016 amounted to $56.3 million compared to $53.4 million in the fourth quarter of 2015.

Schiesser sales in the fourth quarter of 2016 rose by 6% and amounted to €52.4 million compared to €48.8 million in the corresponding quarter last year.

Schiesser sales in 2016 amounted to $195.9 million compared to $185.5 million in 2015, a 6% increase.

Schiesser sales in euro terms in 2016 amounted to €178.0 million compared to €168.4 million in 2015, a 6% increase.

The increase in Schiesser sales in the 2016 reporting periods compared to the 2015 reporting periods largely derived from the increase in sales in identical shops, from the expansion of the retail chain, consisting of 97 shops at the end of 2016 compared to 95 at the end of 2015, as well as from an increase in sales under the Marc O'Polo and Lacoste labels, for which they had a concession, which was achieved despite stagnation in the German market in the reported year.

The following is sales data for identical shops in the area of activity in the reported period:

		The Year Ending December 31			The Year Ending December 31	
		In Thousands of Euros			In Thousands of Euros	
	Growth Rate in Sales at Identical Stores	2016	2015	Growth Rate in Sales at Identical Stores	2015	2014
Sales [1]	2.8%	51,189	49,796	4.4%	47,311	45,300
Number of stores [2]		81			75	

[1] The proceeds data used for the calculation include total means of payment received at the store registers, less VAT, as well as deducting all discounts and sales listed in the registers.

(2) The stores used to calculate redemption are shops that acted in a continuous and regular manner during the years in question and whose are or the nature of their activity had not undergone any changes.

Operating income in the fourth quarter of 2016 amounted to $7.9 million compared to $4.0 million in the corresponding quarter last year. The increase in operating income in the fourth quarter of 2016 compared to the corresponding quarter last year derives from the increase in sales and an improvement in product mixture.

Operating income in 2016 amounted to $-13.6 million compared to $13.9 million in 2015.

The decrease in operating profit in 2016 derived from profits in currency transactions to the sum of $0.4 million in the reported year compared to $2.2 million in profits in 2015. The decrease in operating profits in 2016 compared to 2015 also derived as a result of an increase in sales and marketing expenses as a result of an increase in sales and the expansion of the store network.

Area of Activity Delta Israel

Sales in the fourth quarter 2016 amounted to $46.3 million compared to $39.8 million in the corresponding quarter last year, a 16% increase.

Sales in NIS in the fourth quarter increased by 15% and amounted to 177.4 million NIS compared to 154.6 million NIS in the corresponding quarter last year.

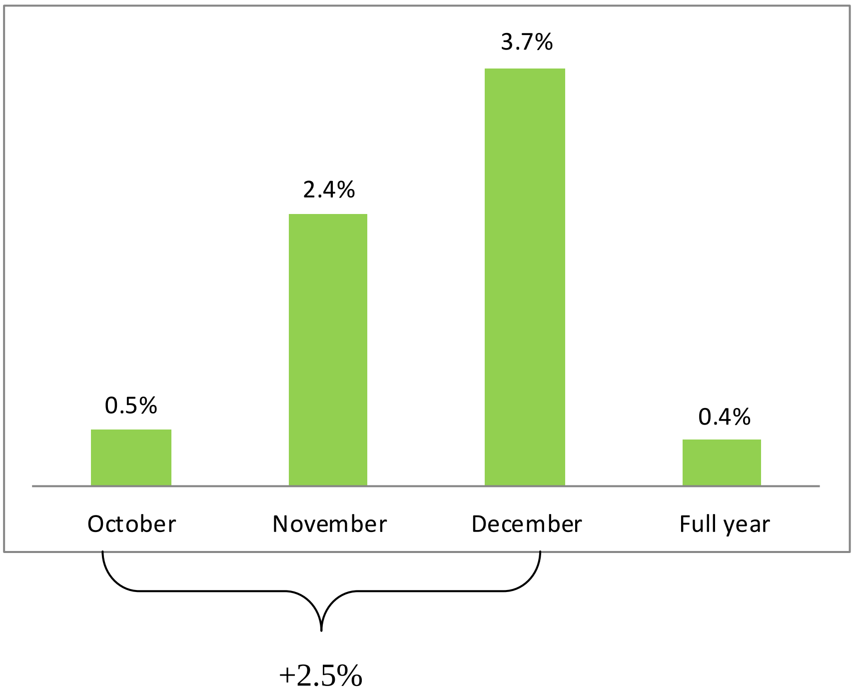
Sales in 2016 amounted to $148.1 million compared to $125.7 million in 2015, a 18% increase.

Sales in NIS in 2016 amounted to 568.6 million NIS compared to 488.9 million NIS in 2015, a 16% increase.

The increase in sales in the fourth quarter and in 2016 compared to corresponding reporting periods last year largely derived from an increase in sales in identical shops, an increase in online sales, as well as a result of launching the Puma label starting January 2016 and from the launch of an activewear collection over the course of the second quarter of 2016.

The data in the following graph presents the sales trend in identical shops in the Israeli market on a monthly basis in the fourth quarter of 2016 and throughout 2016 compared to corresponding periods last year, according to RIS (Retail Information Systems) data[1].

[1] The RIS Company deals in analyzing activity in the Israeli retail market and specializes in providing comparative business information for chains and malls.



According to this data, based on 1,750 stores , including retail chains in malls and large city centers and other stores , in the fourth quarter of 2016 the Israeli market saw a 2.5% increase in identical store sales compared to the corresponding quarter last year and on a yearly basis, sales in 2015 increased by 0.4% vs. 2015.

The following is sales data for identical shops in the area of activity in the reported period:

		The Year Ending December 31 In Thousands of NIS			The Year Ending December 31 In Thousands of NIS	
	Growth Rate in Sales at Identical Stores	2016	2015	Growth Rate in Sales at Identical Stores	2015	2014
Sales [1]	8.9%	362,360	332,714	5.7%	274,850	259,918
Number of stores [2]		120			111	

(1) The proceeds data used for the calculation include total means of payment received at the shop registers, less VAT, as well as deducting all discounts and sales listed in the registers (including exercising club points and coupon discounts).

(2) The stores used to calculate redemption are shops that acted in a continuous and regular manner during the years in question and whose are or the nature of their activity had not undergone any changes.

Operating income in the fourth quarter of 2016 amounted to $5.1 million compared to $5.4 million in the corresponding quarter last year.

Operating income in 2017 amounted to $6.8 million compared to $6.7 million in 2015.

The decrease in operating profit in the fourth quarter of 2016 compared to the corresponding quarter last year derived from an erosion in gross profit rates in light of an increased use of deals and discounts as well as due to an increase in sales and marketing expenses as a result of the launch of the Puma label and the launch of the activewear collection, in light of the increase in sales in the reported period.

The erosion in gross profit rates and the increase in sales and marketing expenses as noted above offset the positive impact deriving from the increase in sales in yearly terms as well, so that the operating profit in 2016 remained almost completely unchanged compared to the operating profit in 2015.

Delta Premium Brands Area of Activity

Delta Premium Brands area of activity sales were consolidated for the first time within the framework of the Company's report for the third quarter of 2016, starting from the completion of the transaction, as detailed in section 1.3.8 above, amounting to $108.7 million. In the fourth quarter of 2016 sales in this area of activity amounted to $79.8 million.

The operating profit of the area of activity in the fourth quarter and in 2016 as a whole, starting from the consolidation date, amounted to $1.1 and $3.1 million, respectively.

2.3.4. Forecast Regarding the Company's 2017 Results

For details regarding the Company's 2017 results forecast see Section 37.1 pf the Description of Corporate Business, Chapter A of this periodic report.

3. Liquidity and Financing Sources

Condensed cash flow statement, in millions of dollars:

	Fourth Quarter		Full Year	
	2016	2015	2016	2015
Net cash deriving from operating activities	**61.1**	**60.3**	**76.6**	**70.5**
Net cash used in investment activities	**(15.7)**	**(7.3)**	**(163.4)**	**(65.8)**
Net cash deriving from (used in) financing activity	**(10.1)**	**(13.3)**	**2.0**	**(2.8)**
Increase (decrease) in cash and cash equivalents	**35.3**	**39.7**	**(84.8)**	**1.9**

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

In the fourth quarter of 2016, the Company generated a positive cash flow from operating activities of $61.1 million compared to $60.3 million in the corresponding quarter last year.

In 2016 the Company cash flow from operating activities was positive and amounted to $76.6 million compared to a positive cash flow of $70.5 million in 2015. The increase in cash flow from operating activities in 2016 compared to 2015 largely derived from the increase in profits.

The cash flow used for investment activities in the fourth quarter and in 2016 amounted to $15.7 and $163.4 million, respectively, compared to $7.3 and $65.8 million in corresponding reporting periods last year. The increase in cash flow used for investment activities in 2016 largely derived from the purchase of CBC activity (see 1.3.8 above) amounted to approximately $119 million compared to the purchase of P.J. Salvage activity which amounted to $37 million in 2015. The increase in cash flow used for investment activities in the 2016 reporting periods compared to corresponding reporting periods last year, also derived as a result of the investment in the new factory in Vietnam and in the Company's offices in Israel and in the United States, in accordance with the Company's work plan.

The following are several financial indicators for the fourth quarter and for 2016, 2015 and 2014:

	2016	2015	2014
Current Ratio *	**1.85**	2.53	2.90
Quick Ratio *	**0.97**	1.53	1.83
Customer Credit Days	**37**	33	35
Supplier Credit Days	**39**	46	38
Inventory Days	**88**	89	85
Positive operating cash flow (in millions of dollars) – year	**76.6**	70.5	53.3
Positive operating cash flow (in millions of dollars) – fourth quarter	**61.1**	60.3	34.9
EBITDA (millions of dollars) – year	**107.0**	95.3	93.0
EBITDA (millions of dollars) – fourth quarter	**39.2**	29.5	28.0
Net financial debt (millions of dollars) ****	**181.2**	74.5	64.5
Net financial debt coverage ratio to standardized EBITDA (on the basis of the last 12 months) **	**1.6**	0.8	0.7
Equity/balance sheet total	**42.8%**	44.8%	45.4%
Equity (in millions of dollars)	**390.6**	357.5	332.6
Net financial debt to CAP ***	**27.5%**	12.4%	11.4%

* The decrease in the current ratio and in the fast ratio compared to previous reporting periods largely derives from the purchase of CBC activity, which was financed by bank deposits and short-term credit.

** Delta Premium Brands area of activity starting from September 2016. The ratio is calculated on a pro-forma basis, with the EBITDA of Delta Premium Brands for the previous 8 months added to September 206.

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

**** Net financial debt includes bank loans, debentures and financial lease less cash and cash equivalents, restricted cash as well as the value of the financial derivative referring to the debentures issued less a deposit in a banking corporation serving as collateral, as detailed below:

	2016	2015	2014
Debentures, bank debt and financial lease.	265.5	235.9	222.4
Less cash and cash equivalents and restricted cash	(83.7)	(168.1)	(167.3)
Total financial debt before financial derivative	**181.8**	**67.8**	**55.1**
Financial derivative	0.9	10.0	14.3
Deposit in banking corporation serving as collateral for financial derivative	(1.5)	(3.3)	(4.9)
Total net financial debt	**181.2**	**74.5**	**64.5**

Total net financial debt as of December 31 2016 amounted to $181.2 million compared to $74.5 million as of December 31 2015.

The increase in the net financial debt as of December 31 2016 compared to December 31 2015 largely derived from the purchase of CBC activity to the sum of $119 million.

Market Risk Exposure and Management

3.1. The person responsible for market risk management at the Company:

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

Mr. Isaac Dabah, Company CEO, is the person responsible for market risk management at the Company. For details regarding Mr. Dabah, see details in accordance with Regulation 26 in the Report on Other Details on by the Company, PaChapter D of this periodic report. Mr. Jacob Heen, Company CFO, is responsible for management of market risk associated with exchange rates and interest. For details regarding Mr. Heen, see details in accordance with Regulation 26a in the Report on Other Details on by the Company, Chapter D of this periodic report.

Decisions in the matter of market risk management in the field of exchange rates and interest are made jointly by the Company CEO and CFO.

3.2. Description of Market Risks

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

For details of risk factors to which the Company is exposed, see section 39 of Chapter I of the Description of the Corporation's Business, Chapter A of this Periodic Report.

3.3. Company Policy with Regard to Market Risk Management

Volatility of Exchange Rates of the Euro vs. the USD

The Company manages the market risk deriving from the volatility of the exchange rate of the euro vs. the USD in order to decrease existing economic exposure. Company policy is to protect the exposures estimated by it on the basis of orders in practice as well as on the basis of the approved yearly budget or the budget draft and for a period of up to the end of the consecutive year, but in any event for a period not exceeding 18 months from the transaction date.

In 2017 the Company’s receipts surplus in euros is expected to amount to $35 million.

As part of the Company's estimates for 2017, the Company performed a number of forward transactions with the euro. The following open positions as of December 31 2016 are not recognized as an accounting hedge against the euro, for the first, second, third and fourth quarters of 2017:

	Redemption Date	Exchange Rate for Transaction (USD per €1)	Sum in Thousands of Dollars	Average Rate of Exchange
	January	1.134	5,000	
	March	1.117	4,000	
Q1 2017			9,000	**1.127**
	June	1.122	4,000	
Q2 2017			4,000	**1.122**
	September	1.121	10,000	
Q3 2017			10,000	**1.121**
	December	1.12	2,000	
Q4 2017			2,000	**1.12**
(Total transactions) weighted average			**25,000**	**1.123**

After the report date, the Company performed additional hedging transactions for the first quarter of 2017, to the sum of $2 million at an average rate of exchange of $1.0828 per €1.

Volatility of Exchange Rates of the Czech Koruna vs. the USD

Schiesser purchase 54% of the products it sells from its Czech subsidiary, some of the expenses of which are denoted in local currency (koruna) In order to protect itself from the exposure in question, from time to time Schiesser performs hedging transactions by way of forward agreements.

Schiesser had not open positions of euro vs. the Czech koruna as of December 31 2016.

Volatility of Exchange Rates of the NIS vs. the USD

In light of the expansion of its activity in Israel, the Company expects a surplus of NIS receipts in 2017, to the sum of $40 million.

As part of the Company's estimates for 2017, the Company performed a number of forward transactions with the euro. The following open positions as of December 31 2016 are not recognized as an accounting hedge against the NIS, for the first, second, third and fourth quarters of 2017:

	Redemption Date	Exchange Rate for Transaction (USD per €1)	Sum in Thousands of Dollars	Average Rate of Exchange
	January	3.772	2,000	
	February	3.800	1,000	
	March	3.790	2,000	
Q1 2017			5,000	**3.785**
	May	3.757	2,000	
	June	3.780	2,000	
Q2 2017			**4,000**	**3.769**
	August	3.770	1,000	
	September	3.731	5,000	
Q3 2017			6,000	**3.737**
	December	3.720	2,000	
Q4 2017			2,000	**3.720**
(Total transactions) weighted average			**17,000**	**3.757**

After the report date, the Company performed additional hedging transactions for 2017, to the sum of $11 million at an average rate of exchange of 3.726 NIS per $€1.

The Company included under other net revenues (expenses) the results of the above hedging agreements and other hedging agreements made over the course of 2016 which amounted to a profit of $1.9 and $0.8 million in the fourth quarter of 2016 and in 2016, respectively.

3.4. Supervision of Market Risk Management Policy and its Realization

The Company Board of Directors discusses the subject of various currency exposures when approving the yearly budget. Furthermore, when approving the quarterly reports, the Company Board of Directors reviews the state of exposures at the end of each quarter.

3.5. Linkage Bases of Monetary Items and Sensitivity Tests

For details of linkage bases of monetary items in the Company's December 31 2016 and 2015 balance sheet and for details regarding sensitivity tests on the influence of changes in the exchange rates of the euro and the NIS vis the USD and regarding changes in interest rates on the Company's net profit and the value of swap agreements the Company has entered into, see Notes 4 and 11b in the Financial Statements in Chapter C of this Periodic Report.

Aspects of Corporate Governance

4. Charitable Donations

The Company believes in involvement in the community the environment in which it works and in assisting populations with potential for advancement. For many years, Delta has been assisting in educational and cultural activities in Israel and has made contributions to co-existence and community assistance activities. In addition, the Company transfers products to welfare organizations and to non-profit organizations.

The total donations the Company (including subsidiaries abroad) has donated to educational and cultural institutions amounted to $355,000 in 2016. Subject to the bodies supported by the Company complying with the agreements with them, the Company has an obligation to give donations amounting to $300,000 per year in 2017-2018.

5. Auditing Accountant’s Fee

The Company’s independent CPA is the firm of Kesselman and Kesselman - PWC.

The auditing accountant's’ fees for auditing services, auditing-related tax services and others at the Company and at Schiesser (Germany) amounted to $0.9 million in 2016 compared to $1.0 million in 2015, detailed as follows:

	2016	2015
	Thousands of Dollars	
Audit services	540	557
Tax services and Others	365	411
Total	905	968

The scope of audit work hours in 2016 amounted to 8,200 hours. The total scope of hours amounted to 8,400 in 2015.

The scope of employment and salary of the Company’s accountant for 2016 was examined by the Financial Statements Examination Committee, which received details regarding the scope of work and regarding its compatibility with the Company’s needs from Company management. The Committee recommended that the Company Board of Directors approve the scope of work and found that the fee is reasonable and acceptable regarding the Company’s nature and the scope of its activity, and these were approved by the Company Board of Directors.

6. <u>Disclosure Regarding the Company Internal Auditor</u>

<u>Details of internal auditor</u>:

Mr. Moshe Cohen of Chaykin, Cohen, Rubin & Co. serves as the Company's Internal Auditor.

To the best of the Company's knowledge, the internal auditor meets all the conditions set in Sections 3(a) and 8 of the Internal Audit Law, 1992 and Section 146(b) of the Companies Law.

To the best of the Company's knowledge, in accordance with an inquiry it conducted with the Internal Auditor, he does not hold securities of the Company or of any entity affiliated with the Company.

To the best of the Company's knowledge, in accordance with an inquiry it conducted with the Internal Auditor, the Internal Auditor has no material business relationships or other material relationships with the Company or with its affiliated entities.

The Internal Auditor is not an employee of the corporation. Internal audit services are provided by the auditor, as a personal appointment, via an accounting firm that employs a staff with various skills, including internal auditing skills.

<u>Method of appointment</u>:

The appointment of Mr. Moshe Cohen as Internal Auditor was approved by the Audit Committee and by the Board of Directors in January 2013. The Internal Auditor's appointment was approved after the Audit Committee checked a number of potential candidates and interviewed some of them. The Audit Committee received an opinion regarding the final candidates, who had passed the initial screening stage. The Audit Committee was impressed by Mr. Cohen's education and years of experience and after a meeting held with him at the Audit Committee meeting and after receiving a (direct) positive impression from Company management as well, Mr. Cohen was found fit to serve as the Company's Internal Auditor, noting among other things, the size of the Company, the scope and complexity of its activity, as well as the scope of activity required from the Internal Auditor and his experience.

<u>Identity of the internal auditor's supervisor</u>:

The supervisor of the internal auditor is the Company's CEO.

<u>Work Plan</u>:

The internal auditor's work plan is yearly and approved by The Audit Committee.

The yearly work plan followed by the internal auditor in 2016 was decided, inter alia, based on:

- Risk management conducted in the Company in 2012 and relevant adjustments made as needed.
- Proposals by members of the Audit Committee and the Company Board of Directors based, inter alia, on proposals of the internal auditor and of Company management.

- The scope of Company operations, its organizational structure and the nature of its business operations.

The yearly work plan contains no restrictions on deviating from said plan. The internal auditor may propose adding and/or replacing issues, subject to approval by the Audit Committee.

The 2016 yearly work plan included audits of the Company in Israel and of corporations fully-owned by the Company overseas.

Scope of employment:

In 2016, the Internal Auditor spent 683 hours in practice on internal auditing, divided as follows:

	Audits in the Company Itself	Audits in Subsidiaries
Activity in Israel	333	
Activity outside of Israel		350

In addition to the audit work performed by the Internal Auditor, the Company employs an Internal Audit Manager who performs control and auditing works on a regular and full-time basis. In 2016 the Internal Audit Manager performed 2,000 hours of internal auditing and control of which 1,300 was for activities in Israel and the balance of 700 hours was for the activity abroad.

Conducting the audit:

According to the internal auditor's notification, the internal audit is conducted in accordance with the Internal Audit Law 1992, and with standards published by the Israel Chamber of Internal Auditors.

Based on a self-assessment performed by the Internal Auditor, the Board of Directors is satisfied that the Internal Auditor meets all of the requirements set in the standards.

Access to information:

The internal auditor was granted free access to the Company’s documents and information systems, including its financial data, all provided for the purpose of carrying out his duties, as set forth in Section 9 of the Internal Audit Act, 1992.

Over the course of the Internal Auditors investigations abroad, he was given free access to the subsidiary sites. The audit conducted in the Egyptian subsidiary was performed by employees of the KPMG firm in the UAE, in order to ensure proper understanding of the audited body's documents, which are written in Arabic.

Internal auditor’s report:

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

The Audit Committee convened for 4 meetings during 2016, 2 of which involved the internal audit reports, on May 9 and June 29. The audit reports referring to the above meetings were submitted on May 5 and June 26, respectively.

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

The Board of Directors believes that the internal auditor's actual scope of work in 2016 as set forth above, as well as the nature and continuity of its activity and its work plan, are reasonable under the circumstances and achieve the Company's internal auditing objectives.

Compensation:

In exchange for his work during the reported period and as agreed with the internal auditor, his fee amounted to a total of 144,000 NIS ($38,000).

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

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

7. Directors with Accounting and Financial Capabilities

The Company Board of Directors has determined that the minimum appropriate number of directors with accounting and financial skills in the Company is two directors. This decision referred to the obligations, authorities and duties borne by the Board of Defectors in accordance with the law, taking into account, among other things, the Company's size, as well as the scope, type and complexity of its activity.

As of this report, the Board members determined by the Board of Directors to have accounting and financial capabilities (who are not Company employees) are Yechezkel Dovrat, Shaul Ben Ze'ev and Gideon Chitayat. For further details, see details in accordance with Regulation 26 in the Report on Other Details on by the Company, Chapter D of this periodic report.

8. Disclosure Regarding the Rate of Independent Directors

As of the report date, the company did not adopt the directive regarding the rate of independent directors (as this term is defined in the Companies Law) in its bylaws.

Special Disclosure for Debenture Holders

9. <u>Outstanding Obligatory Notes</u>

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

Series	E	A	B
Issue Date and Scope of Debentures Issued on the Issue Date (in NIS)	192,909,000 NIS NV debentures listed for trade on April 5 2012 pursuant to the shelf offering report published by the Company on April 4 2012 pursuant to the Company's shelf prospectus dated November 225 2010, as revised in the prospectus revision from April 14 2011 and as revised in the prospectus revision from April 2 2012.	178,543,000 NIS NV debentures listed for trade on August 12 2013 pursuant to the shelf offering report published by the Company on August 8 2013 pursuant to the Company's shelf prospectus dated May 27 2013, as revised in the prospectus revision from August 5 2013 (**"the Shelf Prospectus"**). 21,457,000 NIS NV debentures listed for trade on October 27 2013 pursuant to a private offering report. 161,734,000 NIS NV debentures listed for trade on May 15 2014 pursuant to the 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 pursuant to the shelf offering report published by the Company on June 1 2014 pursuant to the Company's shelf prospectus.	168,423,000 NIS NV debentures listed for trade on September 22 2014 pursuant to the 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 pursuant to a private offering report. 159,577,000 NIS NV debentures listed for trade on May 24 2015 pursuant to a shelf offering report published by the Company on May 21 2015.
Scope of debentures NV as of December 31 2016 in NIS.	[2]144,681,750	342,857,169	359,577,000

[2] Redemption of the yearly principal was postponed to January 1 2017, as December 31 2016 was a Saturday (not a business day). The debentures balance taking the redemption above into account is 120,568,125.

Series	E	A	B
Start Date of Principal Repayment and the Manner of its Repayment	Starting December 31 2014, in annual installments on December 31 of each year through December 31 2021.	Starting August 31 2015, in annual installments on August 31 of each year through August 31 2028.	In a single payment on October 1 2014.
Interest accrued as of December 31 2016	5.5 million NIS	5.7 million NIS	2.0 million NIS
Value as included in the December 31 2016 Financial Statements	144.0 million NIS	349.5 million NIS	354.4 million NIS
Market value on stock exchange on December 31 2016	169.6 million NIS	387.8 million NIS	364.6 million NIS
Interest type	Fixed - 7.6%	Fixed - 5.0%	Variable –2.1% above Telbor, 3 months
Interest Payment Dates	Semi-annual installments on June 30 and on December 31 of each of the years from 2012 through 2021, starting December 31 2012 and ending December 31 2021.	Semi-annual installments on February 28 and on August 31 of each of the years from 2014 through 2028.	Semi-annual installments on April 1 and on October 1 of each of the years from 2015 through 2024.
Linkage type	Unlinked.	Unlinked.	Unlinked.
Conversion right	The debentures are not convertible.	The debentures are not convertible.	The debentures are not convertible.
Right to early redemption or forced conversion	Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall not allow early redemption of debentures due to said de-listing. The Company shall be entitled (but not required) at its sole discretion to perform an early redemption, in full or in part, of the debentures (Series E) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 7 to Addendum 1 to the deed of trust of the debentures (Series E).	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 be entitled (but not required) at its sole discretion to perform an early redemption, in full or in part, of the debentures (Series A) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the deed of trust and Section 7 to Addendum 1 to the deed of trust of the debentures (Series A).	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 be entitled (but not required) at its sole discretion to perform an early redemption, in full or in part, of the debentures (Series B) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the combined wording of the deed of trust with Addendum 2.

Series	E	A	B
Liability guarantee and other securities	Not guaranteed	Not guaranteed	Not guaranteed
Rating Company	Midroog Ltd.	Midroog Ltd.	Midroog Ltd.
Rating upon series issue	A3 positive outlook	A2 stable outlook	A1 stable outlook
Rating as of December 31 2016 [see report from July 10 2016 (ref. no. 2016-01-078640)]	A1 stable outlook	A1 stable outlook	A1 stable outlook
Additional ratings	a. On May 18 2015: A1 stable outlook b. On September 2 2014: A1 stable outlook c. On March 30 2014: A1 stable outlook d. On December 24 2012: A2 stable outlook e. On May 7 2012: A3 positive outlook	a. On May 18 2015: A1 stable outlook b. On September 2 2014: A1 stable outlook c. On March 30 2014: A1 stable outlook	a. On May 18 2015: A1 stable outlook b. On September 2 2014: A1 stable outlook
Details and Contact Information of Trustee	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv (phone no.: 03-5544553 fax: 03-5271736). The contact at the trustee is Mr. Dan Avnon, email: Avnon@hermetic.co.il.	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv (phone no.: 03-5544553 fax: 03-5271736). The contact at the trustee is Mr. Dan Avnon, email: Avnon@hermetic.co.il.	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv (phone no.: 03-5544553 fax: 03-5271736). The contact at the trustee is Mr. Dan Avnon, email: Avnon@hermetic.co.il.
Material (over 5% of the Company's total liabilities)	Yes	Yes	Yes

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

The Board of Directors and management express their deep appreciation of Delta employees and managers.

Signed: February 22 2017

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

Delta Galil Industries Ltd.

2016 Yearly Report

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Report of the Auditing Accountant

To the Shareholders of

Delta Galil Industries Ltd.

On the Matter of Inspection of Components of Internal Controls of Financial Reporting

In Accordance with Section 9.b.(c) of the Securities Regulations

(Periodic and Immediate Reports), 1970

We have inspected components of the internal controls of the financial reporting of Delta Galil Industries Ltd. (hereinafter – “the Company”) and its subsidiaries (hereinafter together - “the Company”) as of December 31 2016. These control components have been determined as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of the internal controls over financial reporting which is included in the periodic report for the date in question. Our responsibility is to express our opinion on the internal control elements of the Company’s financial reporting, based on our audit.

Components of internal control of financial reporting inspected were determined according to Audit Standard 104 of the Institute of Certified Public Accountants in Israel “Inspection of Components of Internal Controls for Financial Reporting” (hereinafter “Audit Standard 104”). These components are: (1) organization-level controls, including controls of the process of preparing and closing financial reporting and general controls of information systems and including assessing the balance of goodwill; (2) controls for the inventory purchasing process, including inventory assessment and measurement, including provisions to impairment due to slow and/or dead inventory; (3) controls for the sales process (all of the above together are referred to as the “Audited Control Components”).

We have conducted our audit in accordance with Audit Standard 104. According to this standard, we were required to plan the audit and carry it out with the aim of identifying the inspected control components and achieve a reasonable level of assurance as to whether these control components were upheld effectively in all material aspects. Our audit included achieving an understanding of the internal controls over financial reporting, evaluation of the risk of the presence of any material weakness in the inspected control components, as well as testing and evaluating those control components based on the evaluated risk. Our audit, regarding those control components, also included additional procedures that we believed to be necessary under the circumstances. Our audit referred solely to the audited control components, unlike an internal audit on all processes material to financial reporting, and therefore our opinion refers to the audited control components only. Furthermore, our audit did not refer to mutual influences between audited and unaudited control components and therefore, our opinion does not bring such negative impacts into account. We believe that our audit provides a sufficient basis for our opinion in the context described above.

Due to their understandable limitations, internal controls over financial reporting in general, and components thereof in particular, may fail to prevent or discover a misrepresentation. Likewise, conclusions regarding the future on the basis of any present effectiveness assessment may be exposed to the risk that the controls become inappropriate due to changes in circumstances or that the application of the policy or the procedures changes to the worse. In our opinion, the Company has upheld in an effective manner, in all material aspects, its audited control components as of December 31 2016.

We have also conducted an audit, in accordance with generally accepted Israeli auditing standards, of the Company’s Consolidated Financial Statements for December 31 2016 and 2015 and for each of the three years of the period ending December 31 2016 and our report, published February 22 2017, includes our unreserved opinion of those Financial Statements based on our audit and on the reports of the other accountants.

Kesselman and Kesselman
Certified Public Accountants
A PricewaterhouseCoopers International Limited member firm

Tel Aviv,
February 22 2017

Auditors' Report

To the Shareholders of

Delta Galil Industries Ltd.

We have audited the accompanying consolidated Financial Statements of Delta Galil Industries Ltd. (hereinafter – "the Company") dated December 31 2016 and 2015, and the Consolidated Reports on Comprehensive Earnings, Changes in Equity and Cash Flow Reports for each of the three years in the period ending December 31 2016. These Financial Statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express our opinion on these financial statements based on our audits.

We did not audit the financial statements of consolidated subsidiaries, the assets of which included in the consolidation represent approximately 1.7% and 2.6% of total consolidated assets as of December 31 2016 and 2015, respectively, and whose revenues included in consolidation constitute 0%, 0.02% and 0.16% of total consolidated revenues for the years ending December 31 2016, 2015 and 2014, respectively. The financial statements of those companies have been audited by other accountants, whose reports have been submitted to us, and our opinion, to the extent that it relates to the sums consolidated in respect of such companies, is based on the reports of those other accountants.

We conducted our audit in accordance with generally accepted Israeli auditing standards, including standards set in the Accountants Regulations (The Accountant's Method of Operation), 1973. According to these standards, we are required to plan and execute the audit in order to achieve reasonable confidence that the financial statements do not include any material misrepresentation. The audit includes samplings of evidence supporting the sums and information in the Financial Statements. The audit also features an examination of the accounting rules implemented and of the material 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 as a whole. We believe that our audit and the reports of the other accountant provide adequate basis for our opinion.

In our opinion, based on our audits and the reports of other accountants as noted above, these Consolidated Financial Statements adequately reflect, in all material respects, the financial status of the Company and its subsidiaries as of December 31 2016 and 2015 and the results of their activities, changes to their equity and their cash flows for each of the three years in the period ending December 31 2016, in accordance with International Financial Reporting Standards ("IFRS") and with the provisions of the Securities Regulations (Yearly Financial Statements), 2010.

We have also audited, in accordance with 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 of the Company's financial reporting as of December 31 2016, and our February 22 2017 report includes an unreserved opinion regarding the effective existence of those components.

Kesselman and Kesselman
Certified Public Accountants
A PricewaterhouseCoopers International Limited member firm

Tel Aviv,
February 22 2017

Kesselman and Kesselman, Trade Tower, 25 Hamered Street, Tel Aviv 6812508, Israel, P.O. Box 50005 Tel Aviv 6150001
Telephone no: +972-3-7954555, Fax: +972-3-7954556, *www.pwc.com/il*

Delta Galil Industries Ltd.

Consolidated Balance Sheets

	Note	December 31 2016	December 31 2015
		Thousands of Dollars	
Assets			
Current assets:			
Cash and cash equivalents	2n, 18a	**81,947**	167,532
Restricted cash		**1,767**	532
Other accounts receivable:	18b		
Customers		**153,044**	105,630
Income tax receivable		**2,264**	8,963
Others		**16,980**	15,882
Financial derivative	11b	**286**	209
Inventory	18c	**233,114**	196,172
Assets classified as held for sale	8	**1,000**	1,000
Total current assets		**490,402**	495,920
Non-current assets:			
Investments handled using the book value method and other long-term debit balances	10	**11,341**	5,421
Investment property		**3,389**	3,573
Fixed assets, net of accumulated depreciation	7	**171,954**	122,129
Goodwill	9	**70,101**	70,101
Intangible assets, net of accumulated amortization	9	**147,990**	89,734
Deferred Tax Assets	14e	**14,269**	9,877
Financial derivative	11b	**4,096**	1,439
Total non-current assets		**423,140**	302,274
Total assets		**913,542**	798,194

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

______________________ **) Isaac Dabah,**
) CEO

______________________ **) Jacob Heen,**
) CFO

Date of approval of Financial Statements by Company Board of Directors: February 22, 2017

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

Delta Galil Industries Ltd.

Consolidated Balance Sheets

	Note	December 31 2016	December 31 2015
		Thousands of Dollars	
Liabilities and Equity			
Current liabilities:			
Short-term credit from banking corporations	18d	**44,988**	52
Current maturities of debentures	11a	**13,479**	23,365
Financial derivative	11b	**2,383**	3,049
Other accounts payable:			
Trade payables		**104,797**	100,956
Taxes on income - payable		**3,478**	2,690
Others	18e	**95,767**	65,807
Total current liabilities		**264,892**	195,919
Non-current liabilities:			
Severance pay liabilities, less plan assets		**3,213**	2,696
Other non-current liabilities	12	**42,040**	22,533
Debentures	11a	**207,024**	211,728
Deferred tax reserve	14e	**4,353**	2,528
Financial derivative	11b	**1,388**	5,311
Total non-current liabilities		**258,018**	244,796
Total liabilities		**522,910**	440,715
Engagements	16		
Equity:	13		
Equity attributable to parent company shareholders:			
Share capital		**23,696**	23,666
Share premium		**130,901**	130,421
Other capital reserves		**(15,824)**	(15,692)
Unassigned retained earnings		**268,217**	228,817
Treasury shares		**(17,474)**	(10,849)
		389,516	356,363
Non-controlling interest		**1,116**	1,116
Total equity		**390,632**	357,479
Total liabilities and equity		**913,542**	798,194

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

Delta Galil Industries Ltd.

Consolidated Statements of Operations and Other Comprehensive Earnings

	Note	2016	2015	2014
		For the Year Ending December 31		
		Thousands of Dollars		
Sales	5c-d	**1,179,167**	1,079,987	1,031,861
Cost of Sales	18h	**787,650**	763,261	713,798
Gross profit		**391,517**	316,726	318,063
Selling and Marketing Expenses	18i	**262,527**	208,283	211,507
General and Adminitrative Expenses	18i	**48,423**	36,637	35,780
Other Income, net	18k	**832**	2,208	2,674
Share of Income (losses) of associated companies treated according to equity method		**351**	710	(178)
Restructuring expenses, net	18f	**6,895**	5,747	182
Income from bargain purchase	6a	**10,420**	-	-
Operating income		**85,275**	68,977	73,090
Financing expenses, net	18l	**17,420**	16,594	15,806
Profit before taxes on income		**67,855**	52,383	57,284
Taxes on income	14	**15,953**	8,435	9,853
Net profit		**51,902**	43,948	47,431
Other comprehensive earnings:				
Items not reclassified to gain/loss:				
Re-measurements of severance pay liabilities		**(498)**	(378)	(1,054)
Impact of taxes on income (expense)		**80**	65	223
		(418)	(313)	(831)
Items that may be reclassified to gain or loss:				
Cash flow hedging		**4,271**	3,705	(2,967)
Differences from the translation of financial statements prepared in foreign currency		**(3,158)**	(11,816)	(20,841)
Impact of taxes on income		**(1,245)**	(983)	998
		(132)	(9,094)	(22,810)
Total comprehensive earnings for the year		**51,352**	34,541	23,790
Attribution of net income for the year:				
To the shareholders of the parent company		**51,782**	43,828	46,760
To non-controlling interests		**120**	120	671
Total net profit for the year:		**51,902**	43,948	47,431
Attribution of total comprehensive earnings for the year:				
To the shareholders of the parent company		**51,232**	34,421	23,119
To non-controlling interests		**120**	120	671
Total comprehensive earnings for the year		**51,352**	34,541	23,790
Profit per share attributed to parent company shareholders (in USD)	2w, 15			
Basic		**2.04**	1.73	1.88
Diluted		**2.03**	1.71	1.82

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

Delta Galil Industries Ltd.

Consolidated Statements of Changes to Equity

	Attributable to parent company shareholders:										
	Ordinary Share Capital										
	Number of Shares	Amount	Share Premium	Capital Reserve from Translation Differences	Capital Reserves in Respect of Cash Flow Hedging	Re-Measurement Components of Severance Pay Liabilities	Unassigned Retained Earnings	Treasury Shares	Total	Non-Controlling Interest	Total Equity
	1000s	Thousands of Dollars									
Balance as of January 1 2014	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	-	-	-	(20,841)	(1,969)	(831)	46,760	-	23,119	671	23,790
Exercise of options and restricted share units (including taxes)	293	80	1,250	-	-	-	-	63	1,393	-	1,393
Dividend distribution	-	-	-	-	-	-	(13,500)	-	(13,500)	-	(13,500)
Dividends to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(1,690)	(1,690)
Benefit component of options and restricted 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
Movement in 2015:											
Comprehensive earnings (loss)	-	-	-	(11,816)	2,722	(313)	43,828	-	34,421	120	34,541
Exercise of options and restricted share units (including taxes)	338	87	2,147	-	-	-	-	84	2,318	-	2,318
Dividend distribution	-	-	-	-	-	-	(14,073)	-	(14,073)	-	(14,073)
Dividends to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(146)	(146)
Benefit component of options and restricted share units granted	-	-	-	-	-	-	2,240	-	2,240	-	2,240
Balance as of December 31 2015	26,743	23,666	130,421	(20,333)	4,641	(2,381)	231,198	(10,849)	356,363	1,116	357,479
Movement in 2016:											
Comprehensive earnings (loss)	-	-	-	(3,158)	3,026	(418)	51,782	-	51,232	120	51,352
Exercise of options and restricted share units (including taxes)	116	30	480	-	-	-	-	270	780	-	780
Share Buyback	-	-	-	-	-	-	-	(6,895)	(6,895)	-	(6,895)
Dividend distribution	-	-	-	-	-	-	(14,094)	-	(14,094)	-	(14,094)
Dividends to holders of non-controlling interests	-	-	-	-	-	-		-	-	(120)	(120)
Benefit component of options and restricted share units granted	-	-	-	-	-	-	2,130	-	2,130	-	2,130
Balance as of December 31 2016	26,859	23,696	130,901	(23,491)	7,667	(2,799)	271,016	(17,474)	389,516	1,116	390,632

Delta Galil Industries Ltd.

(Continued) – 1

Consolidated Cash Flow Reports

	For the Year Ending December 31		
	2016	**2015**	**2014**
		Thousands of Dollars	
Cash flow from coperating activities:			
Net yearly profit	**51,902**	43,948	47,431
Adjustments required to reflect cash flows from Current Activities	**42,758**	49,811	28,352
Interest paid in cash	**(11,971)**	(13,573)	(11,693)
Interest received in cash	**1,284**	1,697	895
Taxes on income paid in cash, net	**(7,368)**	(11,421)	(11,652)
Net cash derived from operating activities	**76,605**	70,462	53,333
Cash flows from investment activities			
Acquisition of fixed assets and intangible assets	**(42,604)**	(38,077)	(26,913)
Release (deposit) of restricted cash	**(1,224)**	(184)	1,037
Purchase of subsidiary	**-**	(2,000)	(1,500)
Investments and advance payment on account of investment in associated	**-**	-	(5,000)
Purchase of activity (see Note 6a and 6b)	**(118,885)**	(37,368)	-
Acquisition of subsidiary less cash in purchased company (See Note 6c)	**-**	673	-
Proceeds from the sale of fixed assets	**258**	291	1,914
Proceeds from the realization of real estate asset (tax payment referring to sale)	**-**	10,879	(1,989)
Others	**(919)**	(8)	68
Net cash used for investment activities	**(163,374)**	(65,794)	(32,383)
Cash flows from financing activities:			
Dividends paid holders of rights not granting control of subsidiary	**(120)**	(146)	(1,690)
Payment of long-term supplier credit in connection with purchasing fixed assets	**(3,308)**	(2,347)	(2,459)
Share buyback	**(6,895)**	-	-
Repayment of debenture principals	**(19,379)**	(25,792)	(17,699)
Dividends paid	**(14,094)**	(14,073)	(13,500)
Repayment of loans and other long-term liabilities	**(755)**	(916)	(696)
Short-term credit from banking corporations, net	**44,165**	(3,212)	(25,173)
Proceeds from issuance of debentures, net of issuing costs	**-**	40,006	115,689
Release (deposit) of deposit in banking corporation as collateral for financial derivative	**1,745**	1,660	(4,950)
Proceeds from exercise of employee options	**618**	2,044	1,115
Net cash derivied from (used for) financing activities	**1,977**	(2,776)	50,637
Net increase (decrease) in cash and cash equivalents	**(84,792)**	1,892	71,587
Losses due to exchange rate differentials on cash and cash equivalents, net	**(793)**	(1,318)	(1,975)
Balance of cash and cash equivalents at the beginning of the year	**167,532**	166,958	97,346
Balance of cash and cash equivalents at the end of the year	**81,947**	167,532	166,958

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

	For the Year Ending December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
Adjustments required to reflect cash flows From current operations:			
Revenues and expenses not involving cash flow:			
Depreciation	**21,420**	17,091	15,851
Amortization	**3,029**	2,678	2,751
Cash erosion, net	**50**	443	652
Interest paid in cash	**11,971**	13,573	11,693
Interest received in cash	**(1,284)**	(1,697)	(895)
Income taxes paid in cash, net	**7,368**	11,421	11,652
Deferred taxes on income, net	**932**	1,075	(2,124)
Severance pay liability, net	**62**	86	124
Restructuring expenses and impairment of intangible assets	**3,984**	5,320	(77)
Capital loss (gain) from the sale of fixed assets and asset intended for sale, net	**(54)**	203	(1,257)
Benefit component of options and blocked share units granted To Employees	**2,130**	2,240	716
Income from bargain purchase	**(10,420)**	-	-
Share in losses (profits) of associated companies treated using the equity method	**(351)**	(710)	178
Others	**577**	(2,195)	2,906
	39,414	49,528	42,170
Changes to operating assets and liabilities:			
Decrease (increase) in trade receivables	**(26,054)**	3,518	(538)
Decrease (increase) in other receivables	**8,404**	(4,970)	(8,002)
Increase (decrease) in trade payables	**(6,339)**	19,092	11,816
Increase (decrease) in other payables	**5,757**	(1,326)	4,600
Decrease (increase) in inventory	**21,576**	(16,031)	(21,694)
	3,344	283	(13,818)
	42,758	49,811	28,352

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

	For the Year Ending December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
Trade and other payables for non-cash acquisition of fixed and other assets	2,556	2,165	3,361
Liability for minimal royalty payments	16,823	12,453	9,604
Conditional proceeds from the purchase of P.J. Salvage activity	-	(3,334)	-

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 that together with its subsidiaries (hereinafter: “the Group”) is primarily engaged in the manufacturing, marketing and sale of undergarments, socks, children’s clothing, leisurewear, activewear as well as labelled products from the denim, outerwear and women’s accessories category.
The Company is active in five business sectors – Delta U.S.A., Global Upper Market, Delta Israel, Schiesser and Delta Premium Brands. Information on Group's operating segments and principle markets is presented in Note 5.

The Company’s securities are listed for trade on the Tel Aviv Stock Exchange (“TASE”).

The Company’s official address is 45 Ha’eshel Street, Caesarea Industrial Zone.

Note 2 – Principal Accounting Policies

a. Basis of Preparation of the Financial Statements

The Group’s Financial Statements as of December 31 2016 and December 31 2015 and for each of the three years in the period ending December 31 2016, are in compliance with International Financial Reporting Standards, which are standards and interpretations published by the International Accounting Standards Board (hereinafter – IFRS Standards), and include the additional disclosure required in accordance with the Securities Regulations (Yearly Financial Statements), 2010.

The following shall be noted regarding the presentation of these Financial Statements:

1) The principal account policies, described below, have been applied consistently in relation to all years presented, unless noted otherwise.

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

3) The preparation of the Financial Statements in accordance with the IFRS requires the use of certain critical accounting estimates. It also requires that Group management exercise its judgment in the process of applying the group’s accounting policies. Note 3 discloses the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates have a material impact on the consolidated financial statements. Results in practice may be fundamentally different from the estimates and assumptions used by Company management.

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

5) The Group analyses the expenses acknowledged in the Statement of Operations according to a classification method based on the expenses’ activity characteristic.

Note 2 – Principal Accounting Policies (continued)

b. <u>Consolidated Financial Statements</u>:

Subsidiaries and Business Combinations

Subsidiaries are entitles controlled by the Group. The Group controls an entity when the Group has the power to influence the invested entity, exposure or rights to variable yields as a result of its involvement in the entity as well as the ability to use its power to influence the invested entity in order to influence the sum of the yields deriving from the entity. Subsidiaries are fully consolidated starting on the date when the Group achieves control over them. Their consolidation ceases starting on the date when control ends.

In the event that the operation of the purchased activity is carried out by a third party, but control remains, the Company will consolidate its business results starting from the date control was achieved (that being the purchase date) assuming that the conditions for IFRS 10 are met, as detailed below:

a. The Company has influence over the invested entity.
b. The Company has the ability to influence the invested entity in order to influence the investor's yield, including the right to make administrative decisions regarding activity.
c. The Company has exposure or rights to variable yields from its involvement in the invested entity.

As detailed in Note 6a below, regarding the purchase of activity in Europe, the Company has the power to influence and the ability to influence and the Company is entitled to a net cash flow deriving from European activity starting from the completion of the transaction (the purchase date). Accordingly, the Company consolidates its European operating results starting from this date, and before the transfer of operation of European activity in practice to the Company.

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) are 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 part of the business combination agreement. The proceeds transferred include the fair value of any asset or liability deriving as a result of a conditional yield arrangement. Costs pertaining to the purchase are recognized under gain or loss upon creation. Identified assets purchased as well as liabilities and pending liabilities the Group takes upon itself as part of business combinations (with the exception of certain cases detailed in IFRS 3 – Business Combinations (Revised) (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 denoted above, is recognized as goodwill (see also f. below).

In the event that the net sum, on the date of purchase, 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 is defined as profit from opportunistic purchases.

Note 2 – Principal Accounting Policies (continued):

In business condonations achieved in stages, the equity rights held at the purchased company by the Group prior to the business combination are measured at fair value as of the business combination date, and resulting gain or loss is charged to gain/loss.

Conditional proceeds created for the Group as part of a business combination are measured at fair value as of the business combination date. Consecutive changes in the fair value of the conditional proceeds, classified as liabilities, are recognized in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the Statement of Operations or Other Comprehensive Earnings. Conditional proceeds classified as equity is not re-measured, and its subsequent clearance will be treated.

Within the framework of entity transactions, balances and profits not yet realized in transactions between Group members have been written off.

Accounting policy implemented for subsidiaries was changed as required, in order to guarantee consistency with the accounting policy adopted by the Group.

Associates

An associated company is an entity in which the Company has material influence, but not control, which is mostly expressed in a 20% to 50% stake in voting rights. Investments in associates are treated according to the book value method.

In accordance with the book value method, investments are first recognized at cost, and the book value changes in such a manner that the Company recognizes its share of the associate's or the joint venture's gain or loss on the date of purchase.

The Company's share of the gain or loss of associates after the purchase date is charged to gain or loss, and its share of movements in other comprehensive earnings after the purchase date is charged to other comprehensive earnings against the book value of the investment.

The Company determines at each reporting date whether there are any signs that the investment in the associate or the joint transaction has been impaired. In the event that any such sign exists, the Company calculates the sum of the impairment as the difference between the recoverable sum of the investment (the value in use or the fair value less sales costs, whichever is higher) and their book value and recognizes the impairment sum in gain or loss under "share of profits (losses) of investees treated according to the book value method".

Profits or losses deriving from transactions between the Company and the affiliates and joint ventures are recognized in the Company's statements only at the level of their share in the associated company of investors not connected to the Company. The Company's share of the profits or losses of the associate due to these transactions is written off.

The affiliates' or joint ventures' accounting policy was changed as required, in order to guarantee consistency with the accounting policy implemented by the Company.

c. Segment-based reporting:

Operating segments report according to the same basis used for internal reporting purposes submitted to the Company's operational decision maker, who is responsible for allocating resources to the Company's operating areas and assessing their performance.

Note 2 – Principal Accounting Policies (continued):

d. Translation of functional currency to presentation currency and translation of balances and transactions in foreign currency:

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 in which that entity operates (hereinafter – the Functional Currency). The Consolidated Financial Statements are presented in USD, which is both the Company's functional and its presentation currency.

The following are the changes occurring during the reported periods in the exchange rate of the U.S. dollar (hereinafter – the USD) versus the NIS and the rate of the euro versus the USD:

	Exchange rate changes of the USD vs. the NIS	Change in Exchange Rate of Euro vs. the USD
	%	%
Year Ending December 31 2016	(1.5)	(3.4)
Year Ending December 31 2015	0.3	(10.5)
Year Ending December 31 2014	12.0	(12.0)

The exchange rate of the USD vs. the NIS on December 31 2016 is $1 = 3.845 NIS.

The exchange rate of the USD vs. the NIS on December 31 2015 is $1 = 3.902 NIS.

The exchange rate of the euro vs. the USD on December 31 2016 is €1 = $1.052

The exchange rate of the euro vs. the USD on December 31 2015 is €1 = $1.088

2) Transactions and Balances

Transactions in currency other than the functional currency (hereinafter – foreign currency) are translated into the functional currency using the exchange rates in effect on the transaction date. 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/loss, except when charged under other comprehensive earnings as cash flow hedging and as hedging of net investment in foreign activity.

Profit and loss from exchange rate differences pertaining to monetary assets or liabilities are presented in the Report on Comprehensive Earnings under “Financing Expenses, Net". All other profits and losses resulting from changes in exchange rates are presented in the Statement of Operations under “other losses (profits) – net”.

3) Translation of Financial Statements of Group Companies

The results and financial status of all group members (the functional currency of none of which is a currency from a hyper-inflationary economy) the functional

Note 2 – Principal Accounting Policies (continued):

currency of which differs from the presentation currency, are translated to the presentation currency in the following manner:

a. Assets and liabilities for each balance sheet presented are translated according to the closing rate n that balance sheet date;

b. Revenues and expenses for each Statement of Operations are translated according to the average exchange rates for the period (unless this average is not a near approximation of the accumulated impact of the exchange rates on the transaction dates. In this case, the revenues and expenses are translated according to the exchange rate on the transaction dates);

c. All exchange rate differences created are recognized under other comprehensive earnings.

e. Fixed Assets

Fixed assets are presented at cost net of accumulated depreciation, provision to impairment and deduction of referring investment grant sum. Historic cost includes expenses directly attributable to the acquisition of the items. Impairment of assets, other than owned land which is not depreciated, is calculated using 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 comes first.

All other repairs and maintenance works are charged to the Statement of Operations during the reported period in which they were created.

Leasehold improvements are amortized using the equal depreciation method over the term of the lease or the expected life span of these improvements, whichever is shorter.

f. Investment Property

Investment property includes an office building owned by Schiesser in Germany, and is not used by the Group for manufacturing or supplying goods or services or for administrative purposes, or for sale over the normal course of business.

Investment property is initially measured at fair value, within the framework of allocating the cost of purchases made by the Company.

After initial recognition, the Group measures its investment property at historic cost, less accumulated depreciation.

Note 2 – Principal Accounting Policies (continued):

g. Intangible Assets

1) Goodwill

Goodwill represents the surplus of proceeds transferred fie to the purchase of a subsidiary over the net sum on the date of purchase of identifiable assets purchased and liabilities. The Group reviews goodwill for impairment at the end of each year and whenever there is any sign of 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 revaluations.
Goodwill is charged to cash-generating units for the purpose of testing impairment. The allocation is carried out for each cash-generating unit or group of cash-generating units that are expected to benefit from the business combination from which the goodwill was derived, which is no greater than the operating segment.

Regarding the examination of impairment of goodwill, see Note 9b.

2) Contractual Customer Relations

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

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 (usually 3-4 years) or their estimated period of use, whichever is shorter; see also note 9c.

b. Certain trademarks acquired as part of a business combination are recognized at fair value on the date of purchase, and are amortized over the course of their usage period.

4) Brands

The brands were included at fair value on the purchase date. Owned brands have an undefined useful life span and are therefore not amortized.
Brand value is tested once per year or when indications exist that this test is necessary.
Regarding the examination of brand impairment, see Note 9d.

5) Computer Software

Acquired computer software licenses are capitalized on the basis of 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 associated with the maintenance of computer software are recognized as expenses upon creation. Costs directly associated with the development of unique and identified software products under Group control and for which a high probability exists that they will generate economic benefits in excess of direct costs related to employees, accumulated as a result of the software's development and an appropriate part of the relevant indirect expenses discounted as intangible assets.

Note 2 – Principal Accounting Policies (continued):

h. Impairment of Non-Financial Assets

Assets with an indefinite useful life span, such as goodwill and brands, are not subjected to amortization and are tested for impairment once per year and whenever there is any sign of impairment.
Assets with a defined useful life span are reviewed for impairment whenever events or changes in circumstances indicate that their book value may not be recoverable. The impairment loss recognized for impairment is equal to the sum by which the asset's book value exceeds its recoverable sum. The recoverable sum is the fair value of the asset, less sales costs, or its value in use, whichever is higher. For the purpose of assessing impairment, assets are distributed at the lowest levels for which there are separate identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment recognized for them at each financial status reporting date.

i Non-current assets held for sale

Non-current assets are classified in the balance sheet under current assets as assets held for sale when the Group is about to recover their book value, mainly through a sales transaction, and the assessment is that and a sale is estimated as being highly probable. These assets are recognized at their book value or their fair value less sales costs, whichever is lower.

j. Financial Assets

1) Classification

The Group classifies its financial assets into the following categories: "Financial Assets at Fair Value through Gain and Loss" and "Loans and Receivables". Classification is determined according to the goal for which the financial assets were purchased. Group management determines the classification of the financial assets upon first recognition.
The Company does not have financial assets held for maturity or financial assets available for sale.

a. Financial assets at fair value via gain/loss

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

b. Loans and accounts receivable

Loans and receivables are non-derivative financial assets with fixed or fixable payments which are not quoted on an active market. These assets are included under current assets, with the exception of cases in which the period until redemption exceeds one year from the balance sheet date, in which assets are classified as non-current.

Note 2 – Principal Accounting Policies (continued):

2) Recognition and Measurement

Regular purchases and sales of financial assets are listed in the Group's books on the date the transaction is cleared, which is the date on which the asset is delivered to the Group or delivered by the Group. Financial assets presented at fair value through gain/loss are first recognized at fair value, and the transaction expenses are charged to the Statement of Operations. Financial assets 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 values at fair value via gain/loss are presented in consecutive periods at fair value. Loans and receivables are first recognized at fair value plus transaction costs and are measured ion consecutive periods at amortized cost, on the basis of the effective interest method.

As for the method by which the fair value of the Group's financial assets is measured see Note 4.

3) Impairment of Loans and Accounts Receivable

On each balance sheet date, the Group assesses whether there is objective evidence that the financial asset or group of financial assets is has been impaired. A financial asset of 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 that occurred after the initial recognition of the asset ("Loss Event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be estimated reliably.

The group first assesses whether objective evidence of impairment exists.
In the event that evidence of impairment exists, 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 estimated future cash flows expected to derive from it (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (meaning the effective interest rate calculated for it upon the initial recognition in the Financial Statements).
If 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 in the referring section.

Impairment testing of trade receivables is described in m. below.

4) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net sums presented in the Balance Sheet when there is an immediate legal right (not stipulated on any future event) to offset the recognized sums, legally enforceable under all of the following circumstances: over the normal course of business, in the event of credit failure and in the event of insolvency or bankruptcy by the entity and of all opposing parties, and there is an intention to clear the financial assets and financial liabilities on a net basis, or realize the asset and clear the liability simultaneously.

Note 2 – Principal Accounting Policies (continued):

k. Derivative Financial Instruments and Hedging Activities

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

The method for recognizing gain or loss deriving from changes in fair value depends on the question whether the derived instrument is intended as a hedging instrument, and if so, on the nature of the protected item.
Changes to the fair value or derivative financial instruments not fit for hedging are charged to gain/loss under "other income (expenses), net."
The Group designates specific derivative instruments to hedge the cash flow:

The Group documents, as of the date of the hedging's creation, the link between protecting instruments and protected items, as well as the goals of risk management and strategy as they pertain to various hedging agreements. In addition, the Group documents its estimates, both on the date the hedging was created and on a continuing basis, as to whether the derivative instruments, used in hedging transactions, which are highly effective in achieving offsetting changes in cash flows of hedged items.

The fair value of derivative instruments used for hedging purposes is detailed in Note 11b. The change is charged to other comprehensive earnings and is presented as part of the Report on Changes in Capital. The full fair value of a hedging derivative is classified as a non-current asset or liability, when the time remaining until redemption is no longer than 12 months after the balance sheet date, or as a non-current asset or liability, when the time remaining until redemption is less than 12 months after the balance sheet date.

The gain or loss connected to the non-effective part is recognized in the Statement of Operations under "Other Income (Expenses) – Net". Sums accumulated in equity are reclassified to the Statement of Operations under financing expenses in periods in which the hedged item influences the profit or loss.

l. Inventory

The inventory of finished products purchased by the Company is measured at cost or net realization value, whichever is lower. Cost is determined using the moving average method. The cost of finished products and in-process inventory includes direct manufacturing costs, wages and loading indirect costs according to normal capacity. The cost of raw material and accessory material inventories is also determined according to the moving average method.
As a rule, inventory values are amortized in the various areas of activity, as explained below:
Delta U.S.A. area of activity includes finished product inventory only. The value of this inventory is amortized according to age, with the amortization rate determined while distinguishing between labelled inventory or private label inventory manufactured for customers' private labels.
The Global Upper Market area of activity includes finished product inventory, which is inventory intended for specific customers, for which no amortization exists. This area of activity also includes inventory of raw materials, accessory materials and in-process inventory manufactured at the Company's plants, which is amortized according to its age.
Delta Israel, Schiesser and Delta Premium Brands largely consists of branded finished products sold both through the retail chains and via wholesale sales to retail customers. The value of the finished products inventory is amortized in accordance with the distinction whether this is an inventory of finished products or an inventory of fashion products. The inventory of basic products that can be sold in subsequent seasons

is not amortized either. Regarding the inventory of fashion products intended for sale particularly in the coming season, amortization takes place after the season in accordance with the age of the inventory. In the event that the market price that can be received from its sale as surplus inventory is lower than the amortized cost, amortization takes place, taking into account its sales potential in the Company's surplus stores.
Schiesser area of activity also includes inventory of raw and accessory materials as well as in-process inventory manufactured at the Company's plants, amortized according to age.
In addition, designated amortizations are carried out in all of the areas of activity in question, in accordance with specific circumstances, if necessary.

m. Customers

Customers are initially recognized at fair value, and are subsequently measured at amortized cost less provision to doubtful debt. The provision to doubtful debt is created when objective evidence exists of the fact that the Group is unable to collect all sums owed it according to the original terns of the debit balances. Material customer difficulties, the probability they will go bankrupt or undergo economic reorganization and insolvency or material delays in payments are considered signs of the fact that the value of the debtor's balance has decreased. The debt's book value is reduced through the provision account, and the sum of the loss is recognized in the Report on Comprehensive Earnings under administrative and general expenses. When a customer debt cannot be collected, it is erased against the provision to doubtful debt. The Company largely performs a discount to the debit balance of a central customer and an additional customer. The discount takes place through banking corporations in the U.S. and UK, with no recourse. The results of the discount action are charged to financing expenses.

n. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and short-term bank deposits, with deposit periods not exceeding 3 months.

o. Treasury Shares

The cost of purchasing the Company's shares in its own possession (treasury shares) is deducted from equity attributed to the owners of the parent company until the shares are cancelled or re-issued.

p. Debentures

Debentures are initially recognized at fair value, less transaction costs. In subsequent periods, the debentures are presented at amortized cost with the difference between the sum of the loan initially recognized and the redemption value recognized in the Report on Comprehensive Earnings across the debenture period using the effective interest method.

q. Current and Deferred Taxes

Taxes on income include current and deferred taxes. Taxes on income are charged to gain/loss, with the exception of items charged to other comprehensive earnings (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 earnings (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 in which the Company and its subsidiaries are active, including tax payments referring to previous years.

From time to time, Group management studies tax aspects applicable to its taxable income, in accordance with relevant tax laws, and creates provisions as needed.

Deferred taxes are calculated in full, using the liability method for all temporary differences between the sums of assets and liabilities as reported in the Consolidated Financial Statements, and 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 the asset or liability with no impact on profit or loss on that date – whether for accounting purposes or that reported for tax purposes (unless the temporary difference arises from an initial recognition of a business combination transaction).
Recognition of deferred tax assets is conducted for all temporary differences deductible for tax purposes, within the sum of the differentials that may be expected to be used in the future in return for taxable revenues. Deferred tax assets are reviewed at each reporting date and are impaired if it is no longer probable that the related tax benefit will be realized.

Deferred tax balances are calculated using tax rates expected to apply upon realization of the deferred tax asset, or settlement of the deferred tax liability, in accordance with tax rates and tax laws that have been enacted, or effectively enacted, in the countries in which those companies are active, as of the balance sheet date.

In calculating deferred taxes, taxes that would have been created in the event of realization of investments in subsidiaries and companies handled using the book value method are not taken into account, as it is Company policy to hold these investments and not realize them.

The Group may be liable for additional taxes in the event of inter-company dividend distribution. This added tax has not been accounted for in light of Company policy not to have dividends involving additional tax distributed in the foreseeable future.

r. Employee Benefits

The Group operates a number of post-employment employee benefit plans, which include defined benefit plans and defined deposit plans.

1) Retirement/Pension Compensation Liability

A defined deposit plan is an employee post-employment benefits plan in which the Group companies make fixed deposits to a separate and independent entity in such a manner that the Group has no obligation, legal or implied, to make additional deposits, in situations in which the fund's assets are not sufficient to pay all employees the benefits for work services in the current period and during earlier periods.

A defined deposit plan is an employee post-employment benefits plan that is not a defined deposit plan.

The Group members operate a number of pension plans. The plans are financed by payments made to insurance companies or pension funds held in trust.
According to their terms, the pension plans in question meet the definition of a defined benefit plan as above.

Note 2 – Principal Accounting Policies (continued):

In accordance with labor law Israeli work agreements and in accordance with Company practices, the Company is required to pay severance pay to employees dismissed or departing work under certain circumstances. The Company

severance pay liability for some of the employees is treated as a defined benefit plan, and for the remaining employees it is treated as a defined deposit plan.
The obligation borne by the Company toward employees covered by a defined deposit plan is to make fixed deposits to a separate and independent entity, with the Company having no legal or implied obligations to make additional deposits, in situations in which the sums of the fund will be insufficient to pay all of the employees for all the benefits owed for work services in the current period and in earlier periods.

In accordance with the obligations borne by Group members to employees covered by a plan constituting a defined benefit plan, the sums of benefits received by the employee entitled to compensation upon retirement are based on their years of seniority and their last paycheck.

The total retirement compensation liability presented in the balance sheet is the current value of the defined benefit liabilities 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 by discounting expected future cash flows (after taking expected pay increase rates into account), on the basis of interest rates on government debentures or corporate debentures in accordance with the tradability of the debentures in countries in which the Group companies reside, denominated in the currency in which the benefits will be paid, the validity of which until redemption is near the period of the liabilities referring to retirement compensation.

In accordance with International Accounting Standard 19, Employee Benefits (hereinafter – IAS 19), the discount rate used to calculate actuary obligation shall be determined using market yields as of the balance sheet date of high-quality corporate debentures. At the same time, IAS 19 notes that in countries lacking a deep market for these debentures, market yields as of the balance sheet date of government debentures must be used.

Starting from the transition date for the implementation of International Financial Standards in Israel, on January 1 2008, a practice developed in Israel according to which Israel does not have a deep market in high-quality corporate debentures, and as such the rate used by the Company to discount defined benefit liabilities in the financial statements prepared by the third quarter of 2014 was based on the market yield on government debentures.

As of November 25 2014, the Securities Authority published a staff position according to which Israel has a deep market in high-quality CPI-linked corporate debentures, whose currency is the NIS. Therefore, in accordance with staff's opinion, when measuring commitments for employees defined as defined benefit plans, a transition must be made form use of a yield rate on government debentures to use of a yield rate on high--quality corporate debentures. In accordance with the staff's position, the manner of proper implementation for the transition in question is on a prospective basis, meaning as a change in estimate.

As a result, the interest rate used by the Company to capitalize expected future cash flows for the purpose of calculating obligations for defined benefit plans in the Financial Statements was established based on the interest rates of high-rated corporate NIS debentures. The influence of the change in the discount rate on the commitments in question was charted to other comprehensive earnings under "Re-measurements of net severance-pay liabilities".

The Group companies charge re-measurements of net liabilities in respect of defined benefit to other comprehensive earnings, in the period they were created. Such re-measurements are created as a result of changes in actuary assumptions, from differences between assumptions made in the past and results in practice and difference between yields on plan assets and sums included in the net interest on the net defined benefit liabilities (asset)

Costs for past services are charged to the Statement of Operations on a regular basis.

Compensation reserves are measured at fair value. The reserves in question due not constitute "plan assets" as defined in IAS 19, and therefore were not offset from the balance of the severance pay liability for the purpose of presentation in the balance sheet.

As noted above, the Group companies purchase insurance policies and make deposits in pension and compensation funds to finance its defined deposit plan liability. Upon making the deposits, it is not obligated to make additional payments. The deposits are recognized as expenses due to employee benefits concurrent with receiving service from employees for which they are entitled to deposits. Advance deposits are recognized as an asset, in the event that the Group is entitled to cash refunds or a reduction in future payments.

2) Vacation and Convalescence Pay

According to labor laws in Israel and in some of the other countries in which the Group is active, each employee is entitled to vacation days and convalescence days, both calculated on a yearly basis. This right is established throughout the employee's employment at the Company. The Group recognizes the liability and expense for vacation and convalescence pay based on the benefit created for each employee on a non-capitalized basis.

3) Executive Compensation

The Company recognizes its liability and expense for executive compensation based on various compensation components that vary according to the rank of the executive and may change from year to year based on the decision of Company management. The Company recognizes the provision in question when a contractual obligation exists or when practice in the past created an implies obligation

s. Share-Based Payment

The Company's Board of Directors approves a plan for the issue of options and/or blocked share units to Group employees from time to time, see Note 13 below. Some of the options and/or blocked share units granted from time to time are stipulated on achieving operational goals. The fair value upon issue is charged as a salary expense concurrent with an increase in undesignated retained earnings, across the period in which the employees become entitled to them and it upholds all of the defined conditions for the maturation of a share-based payment arrangement. The sum charged as an expense is adapted in order to reflect the number of options and/or blocked share units for shares expected to vest.

Note 2 – Principal Accounting Policies (continued):

When the options to purchase the shares are exercised, the resulting exercise bonus is charged to stock capital (according to their notational value) and stock premium.

t. Provisions

Provisions for re-structuring cost are recognized in the Financial Statements when the Group has a legal or implied liability as a result of past events; the Group is expected to bear the cash flows in order to redeem the liabilities and the sum can be reliably estimated. Provisions for restructuring expenses include employee compensation payments when the Group approves a formal and detailed restructuring plan, and when the restructuring begins in practice, or when it is announced (see Note 18e). The provisions do not include future operational costs.

The provisions are measured according to 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.

u. Sales

The Group's sales are from the sale of goods and the receipt of royalties for the use of brand names in its possession. The Group's sales are measured at fair value of proceeds received or proceeds the group is entitled to receive in respect of sales over the ordinary course of the Group's business. The sales are presented net of VAT, returns, credits and discounts and after writing off inter-group sales.
The Group recognizes sales from the sale of goods when all the following conditions are met: (a) the significant risks and rewards arising from ownership of the goods have been transferred to the buyer; (b) the Group no longer maintains effective control of goods or
ongoing managerial involvement at a level characteristic of ownership; (c) the revenue sum may be measured reliably; (d) the economic benefits associated with the transaction are expected to accrue to the Company; and (e) all costs incurred or to be incurred with regard to the transaction may be measured reliably.

Discounts given to customers at the point of sale or as a function of purchase volume, whether pursuant to an agreement with the customer or not, are deducted from revenues in the Financial Statements. The Company bases its estimates on past experience, taking into account the type of customer, type of transaction and the specific details of each arrangement.

v. Operational Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Report on Comprehensive Earnings on a straight-line basis for the duration of the lease.

w. Earnings per Share

Calculation of basic profit per share is based on the net profit (loss) distributable to regular shareholders, divided by the weighted average of the number of regular shares in circulation during the period, less treasury shares.

When calculating the diluted profit or loss per share, the weighted average of the number of shares issued is also added to the average of regular shares used in the basic calculation, assuming that all diluting potential shares are converted to shares. The

Note 2 – Principal Accounting Policies (continued) potential shares are only taken into account when their influence is diluting (reducing the profit or increasing the loss per share).

x. Dividend distribution

Dividends distributed to the Company's shareholders are recognized as liabilities in the Group’s balance sheet in the period the dividends were approved for distribution by the Company's Board of Directors.

y. New International Standards, Amendments to the Standards and New Interpretations

1) Standards and amendments to the existing standards coming into effect and binding for reporting periods starting January 1 2016:

a. Revision to International Accounting Standard 1 – “Presentation of Financial Statements” (Hereinafter – IAS 1R)

IAS 1R includes clarifications on the following subjects:

- Materiality and its implications on the disclosure provided in the Financial Statements – an entity must avoid collecting or separating information in a manner that will blur useful information. Furthermore, for material items, satisfactory information will be provided regarding its impact on the entity’s financial status and performance.
- Financial statement items – it may be appropriate to split items noted in IAS 1 into a number of sub-sections, with this relevant to understanding the entity’s financial situation and performances.
- Presenting secondary summaries – the revision clarifies that secondary summaries the presentation of which is not required shall be comprised of items sold and measured in accordance with the IDRS, shall be consistent from period to period and shall be presented in a clear and understandable manner and at a level of importance that does not exceed the binding secondary summaries.
- An entity’s share of other comprehensive earnings items of an entity handled using the Book Value Method shall be collected into two items – items that may be reclassified to gain or loss, and items that will not be reclassified to gain/loss.
- Order in which notes to the Financial Statements are presented – the standard clarifies that the Notes to the Financial Statements do not need to be presented in a certain order.

In accordance with the IAS 1R transition orders, an entity that implicates the revision does not need to present the disclosure required by IAS 8 “Accounting Policy, Changes in Accounting Estimates and Errors” in the matter of implementing a new standard/new accounting policy.

The Company implemented the revision to IAS 1 for the first time. The first-time implementation of the revision to IAS 1 had no material impact on the Company's Consolidated Statements.

2) Standards, revisions and interpretations of existing standards that have not yet come into effect and which the Company has elected not to implement early:

a) IFRS 9 "Financial Instruments" (hereinafter "IFRS 9" or "the Standard"):

IFRS 9 deals in the classification, measurement and recognition of financial assets and financial liabilities. The full version of IFRS 9 was published in July 2014. This standard replaces the instructions present in IAS 39 Financial Instruments: Recognition and Measurement on the matter of classifying and measuring financial instruments. IFRS 9 retains the mixed measurement model for measuring financial assets, but simplifies it and establishes three main categories: amortized cost, fair value via other comprehensive earnings and fair value via gain/loss. Classification is based on the entity's business model and on the characteristics of the financial asset's contractual cash flow. Investments in capital instruments shall be measured at fair value via gain/loss. At the same time, the entity's management can choose, upon first recognition, irrevocably, to present the changes in the fair value of a capital instrument under other comprehensive earnings, without reclassification to gain/loss (recycling).

The standard presents a new model for the impairment of financial assets, based on the expected credit losses ("Expected Credit Loss Model"). This model replaces the model present in IAS 39, which is based on losses that occurred (the incurred loss model). The model used to examine impairment based on expected credit losses includes an approach based on three stages, determined in accordance with changes in the credit risk of the financial asset. Each stage determines how to measure the credit losses and how to implement the effective interest method. Furthermore, for financial assets with no significant financing component, such as receivables, a simpler method may be implemented. Upon the initial recognition of the financial asset, the entity must recognize a loss to the level of the loss expected in the next 12 months, or a loss expected for the duration of the device's life span for the debit balance, unless the asset is considered to have a "faulty credit rating".

Regarding the classification and measurement of financial liabilities, no changes have taken place, with the exception of recognition of changes in liabilities intended for fair value via gain/loss, deriving from the entity's own credit risk, in other comprehensive earnings.

IFRS 9 eases requirements for testing hedging effectiveness by replacing the requirement to meet clear quantitative guidelines for testing hedging effectiveness. IFRS 9 requires that a financial exist ratio between the hedging instrument and the hedged item, and that the "hedging ratio" be identical to the hedging ration the entity management uses in practice to identify its risks. The standard preserves the documentation requirement for the entire hedging period, but the documentation is different than that required as per IAS 39.

The standard will be applied retroactively starting from yearly periods starting January 1 2018. In accordance with IFRS 9, its early implementation is possible.
The Company is studying the expected impact of IFRS 9 on its Financial Statements and it estimates that it does not expect to have a material impact on its financial statements.

b) IFRS 15, "Revenue from Contracts with Customers"

Upon first implementation, IFRS 15 shall replace instructions regarding recognition of revenue existing today in International Financial Reporting Standards.

The core principle of IFRS 15 is that revenue from contracts with customers need to be recognized in a manner reflecting the transfer of control of goods or services provided customers within the framework of the contracts, at sums replacing the proceeds the entity expects to be entitled to receive for these goods or services.

Note 2 – Principal Accounting Policies (continued):

IFRS 15 establishes a single model for recognizing income, according to which the entity will recognize the income in accordance with the core principle in question by implementing five stages:
(1) Identifying the contract with the customer.
(2) Identifying the implementation obligation in the contract.
(3) Establishing the transaction price.
(4) Allocating the transaction price to the implementation obligations.
(5) recognition of income when one of the performance obligations is carried out.
IFRS 15 refers to the accounting treatment of a broad variety of subjects connected to implementing the model in question, including recognizing income from variable proceeds set in contract, adjustment to the transaction price set in the contract in order to reflect the time value of the money and contractual achievement and existence costs.

The standard expands disclosure requirements regarding revenues, and among other things requires that quantitative and qualitative information be provided regarding management’s material considerations, which were taken into account in order to determine the income recognized.

On July 22 2015 the IASB published notice on its decision to postpone the standard’s first-time implementation dated by one year, so that the standard would be applied retroactively to yearly periods starting January 1 2018 or subsequently, taking into account the easements detailed in the IFRS 15 transition instructions. In accordance with the provisions of IFRS 15, its early implementation is possible.

The Company intends to implement IFRS 15 on the date it becomes binding, starting from the first quarter of 2018, in accordance with the transition order that allows recognition of the accumulated impact of the first-time application as adjusting the opening balance of the surpluses as of January 1 2018, in other words, without amending the comparison numbers to previous reporting periods.

The Group is studying the expected impact of IFRS 15 on its Financial Statements, which it estimates is not expected to be material.

c) IFRS 16 “Leases”

Upon first implementation, IFRS 16 shall replace instructions currently featured in IFRS 17 Leases. The standard deals in the recognition, measurement, presentation and disclosure of leases, and is expected to have a material impact primarily on the accounting treatment implemented by the leasing party in a lease agreement.

IFRS 16 alters the instructions appearing in IAS 17, and requires that lessors recognize a lease obligation that reflects future lease payments, and alternately an “asset for usage right”, referring to all lease agreements (with the exception of the following), with no distinction between a financial lease and an operational lease. IFRS 16 exempts lessors from implementing its provisions for short-term leases and for leases in which the asset being leased is of low value.

IFRS 16 also changes the definition of “lease” and the nature of the test whether a contract features a lease.

IFRS 16 shall be applied retroactively to yearly periods starting January 1 2019 or subsequently, taking into account the easements detailed in the IFRS 16 transition instructions. In accordance with the provisions of IFRS 16, its early implementation is only possible for entities who apply the provisions of IFRS 15 before or simultaneously with the early implementation of IFRS 16.
The Company has material operating leases and is studying the expected impact of IFRS 16 on its Financial Statements.

Note 2 – Principal Accounting Policies (continued):

d) Revision to IAS 7 "Cash Flow Report" (hereinafter – the Revision to IAS 7)

The revision to IAS 7 requires the disclosure of changes in liabilities, the cash flows for which are classified as financing activity within the framework of the cash flow report. This includes changes deriving from cash flows (such as a decrease in liability as a result of the repayment of a loan) as well as non-cash flow changes (such as purchases not in cash and accumulating interest on the liability balance). Changes in financial assets will also be presented as part of the disclosure in question, if the cash flow for them constitutes financing activity. In addition, entities may include additional items within the framework of disclosure, separate from the change in liabilities deriving from financing activity.

During the initial implementation of the revision to IAS 7, an entity is not required to provide comparison information for previous periods.

This amendment applies to yearly periods starting January 1 2017 or subsequently. In accordance with the amendment, early implementation is possible.

Note 3 – Material Accounting Estimates and Judgments

As 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 part of the disclosures provided in the Group's consolidated statements. By their nature, these estimates may be subjective and complex, and may therefore differ from actual results.

The accounting estimates and assumptions used in preparing 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 used in preparing 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, respectively, the relevant facts, past experience, the impact of external factors and assumptions reasonable under the circumstances.

a. Critical Accounting Estimates and Assumptions

1) Inventory

The Company makes monthly estimates for the purpose of amortization of slow or dead inventory, based on past experience, remaining inventory balances from previous seasons and sales forecasts, see Note 2l.

2) Goodwill

At least once a year, or if certain events take place, the Company reviews the need for recognizing the impairment of goodwill, based on management forecasts on the discounted amount of the cash flow expected from the cash generating unit to which goodwill refers, see Note 9b.

3) Fixed assets

Depreciation expenses due to fixed assets is calculated using the straight line method on the basis of the estimated period of time they will be used by the Company.
In addition, the Company reviews the need for additional depreciation whenever indications exist of the possibility of impairment.

Note 3 – Material Accounting Estimates and Judgments (continued)

1) Brands

The balance of brands includes the brand names “Schiesser”, purchased in 2012, “P.J. Salvage”, purchased in 2015 and “7 For All Mankind”, “Splendid” and “Ella Moss”, which were purchased in 2016. The book value of the brands is presented at fair value upon their date of purchase and was calculated as part of the allocation of purchasing costs made by external assessors.

In addition, the balance of brands also includes the brand names “Karen Neuberger”, “Little Miss Matched” and “FIX”, which were purchased in 2011, 2012 and 2014, respectively, and which are presented at historical cost, with an undefined life span and which are not amortized on a regular basis.
At least once per year, and in the case of certain events, the Company reviews the need for an impairment provision, see Note 9d.

2) Taxes on Income and Deferred Taxes

The Group is assessed for tax purposes in a large number of jurisdictions, and accordingly, Group management is required to apply considerable judgment in order to determine 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.

When 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 gain/loss in the period when the final assessment in question was made by the tax authorities.

Furthermore, the Group records deferred tax assets and deferred tax liabilities on the basis of differences between carrying amounts of assets and liabilities and their sums taken into account for tax purposes. The Group regularly reviews the recoverability of deferred tax assets included in its accounts, on the basis of historical taxable revenues, projected taxable revenues, the timing of the expected reversal of temporary differences and implementation of tax planning strategies. If the Company is unable to derive sufficient future taxable revenues, or in the event of a material change in effective tax rates in the period during which the temporary differences become taxable or deductible, the Group may be required to reverse part of its deferred tax assets or to increase its deferred tax liabilities, which may increase its effective tax rate and negatively impact its operating results

Note 4 – Financial Instruments and Financial Risk Management

a. Financial Risk Factors

The Group 's activities are exposed to a variety of financial risks: market risks (including exchange rate risk, cash flow interest rate risk), credit risks and liquidity risks. The Group's risk management program is focuses on the uncertainty of financial markets and seeks ways to minimize potential adverse effects on Group financial performance. The Group makes use from time to time of financial derivatives to hedge certain risk exposures.
The Group manages financial risks based on a policy approved by its Board of Directors and senior management. This policy refers to the management of exchange rate risk, credit risk and cash management.

1) Market risks:

a) Exchange Rate Risks

The Group operates on a global scale and is exposed to fluctuations in various exchange rate, primarily of the euro and NIS vs. the dollar. Exchange rate risks arise from commercial transactions, assets or liabilities or net investments in foreign activity denominated in a currency that is not the entity's functional currency.

The Group invests from time to time in foreign currency derivatives - forward contracts - in order to protect itself from the risk in which cash flows deriving from excess receipts in euros and NIS will be impacted by changes in exchange rates. In addition, the Group from time to time invests in foreign currency derivatives (EUR vs. Czech korunas), forward contracts or options, in order to protect itself from the cash flow risk deriving from production costs at the Company's plant in the Czech Republic, which is impacted by changes in exchange rates. The duration of these contracts usually less than one year. These transactions are primarily intended to protect against change in the exchange rates in question, but as of the balance sheet date, do not constitute accounting hedges.

As of December 31 2016 the Company has hedging agreements totaling $25,000,000 vs. the euro at an average exchange rate of $1.123 per €1 as well as $17,000,000 against the NIS at an average exchange rate of 3.757 NIS per $1.

Regarding hedging agreements for cash flows from the issue of NIS debentures, see Note 11b.

Exchange rate risk exists when future commercial transactions or assets and liabilities recognized in the Financial Statements are measured and denominated in a currency other than the entity's functional currency.

As of December 31 2016, if the group's functional currency had weakened/strengthened by 5% or 10% against the NIS with all other variables remained unchanged, the total profit for the year would have been higher/lower by $116,000 or $232,000, respectively (2015 – $108,000 and $216,000), mainly as a result of profits from changes in exchange rates due to the translation of net financial balances presented in the Company's balance sheet denominated in NIS.

As of December 31 2016, if the group's functional currency had weakened/strengthened by 5% or 10% against the euro with all other variables held constant, the total profit/loss for the year would have been higher/lower by $605,000 or $1,211,000, respectively (2015 – $480,000 and $960,000), mainly as a result of profits/losses from exchange rate differences due to the translation of net financial balances presented in the Company's balance sheet denominated in euro.

Note 4 – Financial Instruments and Financial Risk Management (continued):

b) Note on linking financial items:

	As of December 31 2016				
	In Dollars	**In EUR**	**In NIS**	**In Other Currencies**	**Total**
	Thousands of Dollars				
Assets:					
Current assets:					
Cash and cash equivalents	58,523	16,928	2,348	4,148	81,947
Restricted cash	1,552	215	-	-	1,767
Customers	106,120	18,352	25,276	3,296	153,044
Other accounts receivable	6,662	2,412	3,148	1,313	13,535
Financial derivative (*)	286	-	-	-	286
Long-term debit balances	3,243	1,009	135	-	4,387
Long-term financial derivative (*)	4,096	-	-	-	4,096
Total assets	**180,482**	**38,916**	**30,907**	**8,757**	**259,062**
Liabilities:					
Current liabilities:					
Short-term credit from banking corporations	44,823	-	-	165	44,988
Current maturities of debentures (*)	13,479	-	-	-	13,479
Financial derivative (*)	2,383	-	-	-	2,383
Trade payables	85,277	7,461	8,391	3,668	104,797
Other accounts payable	53,487	14,980	23,887	6,891	99,245
Debentures (*)	207,024	-	-	-	207,024
Severance pay liabilities	1,764	1,233	91	125	3,213
Long-term financial derivative (*)	1,388	-	-	-	1,388
Long-term loans and other liabilities	24,904	3,133	859	-	28,896
Total liabilities	**434,529**	**26,807**	**33,228**	**10,849**	**505,413**
Balance sheet total, net	**(254,047)**	**12,109**	**(2,321)**	**(2,092)**	**(246,351)**

(*) The debenture series issued are denominated in NIS and bear fixed NIS interest. The Company has entered into a swap agreement with banking corporations to swap NIS cash flows for a dollar cash flow, and vice versa, hence this liability is presented as linked to the USD. (See Note 11a and b).

Note 4 – Financial Instruments and Financial Risk Management (continued)

c. Sensitivity tests for changes in the discount rate of extra-balance sheet liabilities, in thousands of dollars:

1. Non-balance sheet liabilities in respect of rental and franchise agreements denominated in NIS:

	10% increase [1]	5% increase [2]	Discount rate of 12%	5% Decrease [3]	10% Decrease [4]
Change in Fair Value Before Tax	**342**	**172**	**27,012**	**(175)**	**(353)**

2. Non-balance sheet liabilities in respect of rental and franchise agreements denominated in euros:

	10% increase [1]	5% increase [2]	Discount rate of 12%	5% Decrease [3]	10% Decrease [4]
Change in Fair Value Before Tax	**1,069**	**546**	**38,790**	**(546)**	**(1,117)**

(1) For a 13.2% discount rate.
(2) For a 12.6% discount rate.
(3) For a 11.4% discount rate.
(4) For a 10.8% discount rate.

Note 4 – Financial Instruments and Financial Risk Management (continued):

Note on linking financial items:

	As of December 31 2015				
	In Dollars	**In EUR**	**In NIS**	**In Other Currencies**	**Total**
	Thousands of Dollars				
Assets:					
Current assets:					
Cash and cash equivalents	147,400	15,431	1,624	3,077	167,532
Restricted cash	292	53	-	187	532
Trade receivables	68,335	13,728	21,542	2,025	105,630
Other accounts receivable	3,968	2,347	9,140	3,539	18,994
Financial derivative (*)	209	-	-	-	209
Long-term debit balances	924	74	133	-	1,131
Long-term financial derivative (*)	1,439	-	-	-	1,439
Total assets	**222,567**	**31,633**	**32,439**	**8,828**	**295,467**
Liabilities:					
Current liabilities:					
Short-term loans and current maturities of long-term loans from banking corporatic	47	-	5	-	52
Current maturities of debentures (*)	23,365	-	-	-	23,365
Financial derivative (*)	3,049	-	-	-	3,049
Trade payables	80,729	7,973	8,200	4,054	100,956
Other accounts payable	29,129	10,867	21,419	7,083	68,498
Debentures (*)	211,728	-	-	-	211,728
Long-term financial derivative (*)	5,311	-	-	-	5,311
Long-term loans and other liabilities	18,692	3,182	659	-	22,533
Total liabilities	**372,050**	**22,022**	**30,283**	**11,137**	**435,492**
Balance sheet total, net	**(149,483)**	**9,611**	**2,156**	**(2,309)**	**(140,025)**

(*) The debenture series issued are denominated in NIS and bear fixed NIS interest. The Company has entered into a swap agreement with banking corporations to swap NIS cash flows for a dollar cash flow, and vice versa, hence this liability is presented as linked to the USD. (See Note 11a and b).

Note 4 – Financial Instruments and Financial Risk Management (continued):

c) Risk due to Change in Interest Rate

Risks related to interest rates derive from changes to interest rates which may have a negative impact on the Group's net profit or cash flow. The changes in interest rates lead to changes in the Group’s revenues and interest expenses due to interest-bearing assets and liabilities.

The Group has no material variable interest-bearing assets or liabilities with the exception of Series B debentures (see below), and therefore the Group’s revenues and operational cash flows are not directly affected by changes in market interest rates.

For the impact of the sensitivity to changes in interest rates on Series B debentures which is the only series of debentures issued at variable interest) issued by the Company over the course of 2014-2015, 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 credit exposure to customers. The Company assesses risk associated with the quality of customer credit by weighing the customer’s financial standing, past experience and other factors. Sales to Company customers are generally carried out under credit terms of up to 90 days. Sales to retail customers are made in cash or credit card, through the major credit card companies.

Most of the balance of the Group’s cash and cash equivalents as of December 31 2016 are deposited in Bank Leumi USA and in Commerzbank in Germany, whose S&P global credit rating is A- and BB+, respectively.

The Company estimates that credit risk with regard to balances in these banks is low.

Note 4 – Financial Instruments and Financial Risk Management (continued):

3) Liquidity Risks

Prudent liquidity risk management requires the maintenance of sufficient cash and available credit frameworks to finance activity in light of the dynamic nature of its business activity, the Group maintains financial flexibility by taking care to maintain available credit frameworks (see Note 18d).

The following table analyzes the Group's financial liabilities according to redemption dates based on the balance for the period as of the projected repayment date. The sums presented in the table represent a non-capitalized cash flow.

	Less Than One Year	Between One and Two Years	Between Three and Five Years	Over Five Years	Total
	Thousands of Dollars				
December 31 2016:					
Debentures	33,223	24,443	67,990	174,111	299,767
Financial derivative	2,096	1,859	3,165	(6,187)	933
Collateral due to financial derivative	-	-	-	(1,545)	(1,545)
Credit and loans from banking corporations	44,988	-	-	-	44,988
Trade and other payables and other liabilities	201,314	24,655	27,148	5,567	258,684
	281,621	50,957	98,303	171,946	602,827
December 31 2015:					
Debentures	36,861	24,086	67,563	192,811	321,321
Financial derivative	2,874	2,093	4,005	1,030	10,002
Collateral due to financial derivative	-	-	-	(3,290)	(3,290)
Credit and loans from banking corporations	52	-	-	-	52
Trade and other payables and other liabilities	168,726	13,800	12,293	1,029	195,848
	208,513	39,979	83,861	191,580	523,933

Note 4 – Financial Instruments and Financial Risk Management (continued):

Group management periodically reviews the ratio between future cash flows derived from maturities of its liabilities and future cash flows derived from maturities of its financial assets. If needed, the Group modifies its liability mix and their maturities.
In the opinion of Group management, the Group's liquidity risk is low.

b. Capital Risk Management

The Group's capital risk management goals are to preserved the Group's ability to continue functioning as a going concern in order to provide shareholders with returns on their investments, and benefits for other interested parties, and to maintain an optimal capital structure to reduce the costs of equity.

From time to time, as needed, the Company considers the need to raise outside capital.

For details regarding a plan for the buyback of Company shares see Note 13.a.(4).

Leverage:

The following is the calculation of the net financial debt to comprehensive equity (CAP) as of December 31 2016 and 2015:

	December 31	
	2016	2015
	Thousands of Dollars	
Net financial debt (1)	181,166	74,533
Total equity (CAP) (2)	659,865	602,604
Leverage ratio – net financial debt to CAP	27.5%	12.4%

(1) Net financial debt includes short and long-term bank credit, debentures, derivative financial instruments and deposits set as collateral for the derivatives in question, and financial lease, less cash and cash equivalents and restricted cash.

(2) The CAP refers to the gross financial debt plus a financial derivative and less a deposit deposited as collateral for the derivative in question, equity and a deferred tax reserve.

c. Fair Value Assessments

The following is an analysis of financial instruments measured at fair value, by assessment method. The various levels are defined as follows:

1. Quoted prices (unadjusted) in active markets in which identical assets or liabilities are traded (Level 1).
2. Data other than quoted prices included in level 1, which may be directly or indirectly observed regarding the asset or liability, whether directly (meaning as prices) or indirectly (meaning derived from the prices) (Level 2)
3. Data regarding the asset or liability not based on observable market information (unobservable input) (Level 3).

Forward contracts in which the Company invests to hedge its cash flow are included under Level 1.
Financial derivatives are included under Level 2 (see Note 11).
A conditional liability payable for the P.J. Salvage purchase agreement is included under Level 3 (see Note 6b).

Note 5–Segment-Based Reporting

a. Operating segments:

1) Overview

Group Management has determined the operational segments on the basis of the reports examined by the Company's CEO and Board of Directors on a regular basis. The CEO and Board of Directors were identified together as the strategic steering committee, which makes the Company's strategic decisions.

The following is a short description of each of the reported areas of activity:

(a) Delta U.S.A – this segment deals in designing, developing and marketing undergarments, socks and sportswear for private labels in the women, men and children categories as well as under labels for which it has received a concessions and labels in its possession; (b) Global Division Upper Market Segment – this segment deals in designing, developing, manufacturing and marketing undergarments, for men and women, socks and seamless items for women, for customers in upper market segments in the United States and in Europe;
(c) Delta Israel – this segment deals in designing, developing and marketing branded undergarments and children's clothing, mainly under the "Delta" label, to various customers in Israel through retail and wholesale activity;
(d) Schiesser – this segment deals in the design, development and marketing of labelled undergarments and children's clothing, mainly under the "Schiesser" label, to various customers in Europe via wholesale and retail activity.
(e) Delta Premium Labels – this segment deals in the development, design, marketing, distribution and sales of premium products under the labels "7 for All Mankind", "Splendid" and "Ella Moss", through the Company's retail chain in the United States and in Europe, through the website and in wholesale activity at retail marketing chains.

2) Information on sales, segment earnings (losses) and assets of reportable segments:

a) Measuring sales, segment earnings (losses) and segment assets:
Measuring sales, segment earnings (losses) and segment assets is based on the same accounting principles applied in the Consolidated Financial Statements.

Segment earnings (losses) reflect the profit (loss) from the segment's activities, and exclude net financing expenses and taxes on income, as these items are not attributed to segments and are not analyzed by the CODM by segment.

Sales prices between segments are based on negotiations between the segments, when possible, on market prices.

b) Segment assets mostly include fixed assets, intangible assets, investments in companies handled using the book value method, inventory, trade receivables and other accounts receivable. Assets not attributed to segments include mainly cash and cash equivalents, deferred taxes, financial derivatives and assets held for sale. In addition, the CODM does not test liabilities as part of the segment data.

Delta Galil Industries Ltd.

Notes to the Financial Statements (continued)

Note 5–Segment-Based Reporting (continued):

b. Data connected to operating segments:

For the year ending December 31 2016:	**Delta USA**	**Global Upper Market**	**Delta Israel**	**Schiesser**	**Delta Premium Labels**	**Adjustments (*)**	**Inter-Divisional Write-Offs**	**Total**
	Thousands of Dollars							
Sales to external customers	461,120	265,354	148,120	195,864	108,709	-		1,179,167
Inter-segment	350	12,725	-	-	-	280	(13,355)	-
Total sales, net	461,470	278,079	148,120	195,864	108,709	280	(13,355)	1,179,167
Segment earnings (losses), before non-recurring items	30,764	31,100	6,850	13,595	3,122	(2,225)		83,206
Income from bargain purchase	-	-	-	-	10,420	-		10,420
Restructuring Expenses	-	2,500	-	-	4,395	-		6,895
Activity acquisition expenses	-	-	-	-	1,456	-		1,456
Segment profits (loss)	30,764	28,600	6,850	13,595	7,691	(2,225)		85,275
Financing expenses, net								17,420
Profit before tax								67,855
Assets at the end of the year (**)	333,559	147,291	85,438	143,064	172,374	30,816	-	912,542
Assets classified as held for sale	-	-	-	-		1,000	-	1,000
Depreciation and amortization	3,912	7,225	3,873	6,721	1,023	1,695	-	24,449
Capital gains	-	18	-	36		-	-	54
Capital investments in fixed and intangible assets (***)	1,487	27,092	4,920	6,466	668	3,744	-	44,377

(*) Adjustment data includes expenses not attributed to the operating segments.
(**) Adjustment data largely consists of fixed assets, cash balances and deferred taxes.
(***) This data does not include minimum sums for franchise agreements to which the Company is a party and the purchase of assets.

Note 5–Segment-Based Reporting (continued):

b. Data connected to operating segments (continued):

For the year ending December 31 2015:	Delta USA	Global Upper Market	Delta Israel	Schiesser	Adjustments	Inter-Divisional Write-Offs	Total
	Thousands of Dollars						
Sales to external customers	491,013	277,797	125,719	185,458	-		1,079,987
Inter-segment	-	10,205	-	-	362	(10,567)	-
Total sales, net	491,013	288,002	125,719	185,458	362	(10,567)	1,079,987
Segment earnings (losses), before non-recurring items	29,961	25,838	6,673	13,880	(696)	(123)	75,533
Restructuring Expenses	(4,502)	(1,693)					(5,745)
Activity acquisition expenses	(809)						(809)
Segment profits (loss)	25,098	24,145	6,673	13,880	(696)	(123)	68,977
Financing expenses, net							16,594
Profit before tax							52,383
Assets at the end of the year (*)	292,637	123,636	80,880	138,023	163,018	-	798,194
Assets classified as held for sale	-	-	-	-	1,000	-	1,000
Depreciation and amortization	3,377	6,208	3,514	5,586	1,084	-	19,769
Capital profit (loss), net	12	141	8	42	-	-	203
Capital investments in fixed and intangible assets (**)	8,589	15,411	7,259	6,466	2,517	-	40,242

(*) This data does not include the balances of assets classified as held for sale. Adjustment data largely consists of the balance of cash to the sum of $127 million.
(**) This data does not include minimum sums for franchise agreements to which the Company is a party and the purchase of assets.

Delta Galil Industries Ltd.

Notes to the Financial Statements (continued)

Note 5–Segment-Based Reporting (continued):

b. Data connected to operating segments (continued):

For the year ending December 31 2014:	Delta USA	Global Upper Market	Delta Israel	Schiesser	Adjustments *	Inter-Divisional Write-Offs	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 profits (loss)	26,546	20,810	8,422	18,428	(1,050)	(66)	73,090
Financing expenses, net							15,806
Profit before tax							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 profit (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

(*) Adjustment data includes capital gains from the sale of real estate to the sum of $1,050,000 and expenses not attributed to the operating segments.
(**) This data does not include the balances of assets classified as held for sale. Adjustment data largely consists of the balance of cash to the sum of $144 million.
(***) This data does not include minimum sums for franchise agreements to which the Company is a party and the purchase of assets.

Note 5–Segment-Based Reporting (continued):

c. Additional information on a geographical basis:

1) Sales on a geographical basis (based on customer location):

	For the Year Ending December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
United States	641,582	621,363	550,853
Europe (Excluding Germany)	181,342	154,349	163,108
Germany	168,398	152,518	163,372
Israel	148,299	125,813	127,140
Others	39,546	25,944	27,388
	1,179,167	1,079,987	1,031,861

2) The balance of non-current assets (*) on a geographical basis is detailed below:

	December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
United States	144,809	95,919	97,058
Switzerland	86,813	38,845	-
Israel	67,548	65,651	48,786
Germany	37,326	38,946	48,483
Vietnam	21,239	-	-
Egypt	17,103	15,460	8,281
Czech Republic and Slovakia	14,857	15,399	13,996
Turkey	9,402	7,350	-
Bulgaria and Hungary	6,462	7,687	9,229
Far East	2,943	3,187	3,252
Jordan	339	250	162
Others (mainly Europe)	30	20	1,509
	408,871	292,401	230,756

(*) With the exception of deferred taxes and surplus of compensation reserve.

Note 5–Segment-Based Reporting (continued):

d. Sales information by product category:

	For the Year Ending December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
Ladies intimates, nightwear and other clothing	526,568	539,576	475,189
Men's underwear	225,057	223,499	241,858
Socks	189,776	180,725	180,638
Children's clothing	129,057	136,187	134,176
Branded women's denim and outerwear	108,709	-	-
	1,179,167	1,079,987	1,031,861

e. Sales to primary customer:

	For the Year Ending December 31		
	2016	**2015**	**2014**
	In Millions of Dollars		
Customer A – Belongs to Delta U.S.A. Segment	153.1	190.1	175.4

Note 6 – Business Combinations

a. On June 30 2016, the Company announced that on June 29 2016, the Company and some of its subsidiaries had signed an agreement with the V.F. Corporation, an American publicly-owned company, and with some of its subsidiaries, for the purchase of the activity of the V.F. Corporation Contemporary Brands Coalition division ("CBC") The purchased activity includes the development, design, marketing, distribution and sale of premium products under the labels "7 for All Mankind", "Splendid" and "Ella Moss", The "7 For All Mankind" brand is a leading global denim label and the brands "Splendid" and "Ella Moss" are leading U.S. clothing labels for outerwear and associated products.

The Company completed the transaction in late August 2016. Operation of the purchased activity in Europe shall be passed on when one year has passed from the completion of the transaction after the Company is prepared to operate this activity itself.
Despite the fact that operating the activity in question was not transferred to the Company upon completing the transaction, the Company shall be entitled to receive the net cash flow deriving from this activity (or pay the net cash flow it uses) from the transaction completion date. Furthermore, the Company has, from the purchase date, the ability to influence activity in Europe as well as rights that grant it the ability to outline the business activity, make administrative decisions regarding the activity, including appointing managers, entering into engagements with customer and suppliers, the decision to open and close shops, expand business activity and more. As a result, the conditions exist to consolidate the operating results, in accordance with IFRS 10 (see Note 2b).
As of December 31 2016 the proceeds for the transaction have been paid in full.

The Group has consolidated the results of the activity purchased in the United States and in Europe in its 2016 Statements and presents it under a new area of activity called Delta Premium Labels, see Note 5.

On July 10 2016, the Company announced that Midroog Ltd. had assessed the influence of purchasing the activity has having a neutral impact on the Company's rating.
The Company has engaged an external valuator in order to allocate the cost of purchase attached to the Q3 2016 Financial Statements. Pursuant to allocating the cost of the purchase, the assets and liabilities were measured and presented at fair value, including brand names as well as customer relations, which were included under intangible assets. As a result of allocating this purchase cost, the Company derived a Income from bargain purchase to the sum of $10.4 million, largely deriving from the assessment of the values of the brand names and customer relations. In accordance with IFRS 3, changes may exist in the allocation of the purchase cost in question in a period of up to one year from the purchase date.

The following are details of sums recognized due to identifiable assets purchased and obligations taken:

	As of August 26 2016 **Thousands of Dollars**
Inventory	60,410
Customers	20,879
Other receivables	2,438
Fixed assets	29,733
Brand names	44,600
Customer relations	5,400
Long-term debit balances	2,654
Financial liabilities from banks	(754)
Trade payables	(8,945)
Other payables	(19,601)
Deferred taxes	3,376
Long-term liabilities	(10,885)
Income from bargain purchase	(10,420)
Total payment for the acquisition of activity	118,885

Note 6 – Business Combinations (continued):

The following is data regarding sales and net profit of the group under the assumption that the transaction for purchasing the activity took place on January 1 2016:

1. The Group's sales in the year ending December 31 2016 would have amounted to $1,367 million compared to $1,179 million as reported.
2. The net profit for the years ending December 31 2016 would have amounted to $54.6 million compared to $51.9 million as reported.

The Company included in its monetary results for the year ending December 31 2016 expenses for the purchase of activity to the sum of $1.5 million; these expenses are included under administrative and general expenses.

b. On July 19 2015 the Company announced that on July 17 2015 an agreement had been signed between Loomwork Apparel Inc. (the Seller) and the Company, by itself or through its subsidiaries, to purchase the Seller's action. As part of the purchase, the Buyers shall take upon themselves the Seller's obligations discussed within the framework of working capital. The Seller is an American clothing company dealing in the design, import and marketing of labeled clothing products, including sleepwear, leisure wear, underwear and accessories. The purchased activity includes the P.J. Salvage brand and other brand names. The transaction was completed on July 31 2015 in return for $37.4 million.
In addition, the proceeds may include additional payment totaling up to $3.75 million, which will be paid subject to meeting profitability goals set in the agreement for 2016-2017.

In accordance with the terms set in the agreement, the share of the proceeds to the sum of $1,500,000 for 2016 are supposed to be paid in March 2017.

The following are details of the sums recognized due to identifiable assets purchased and liabilities taken:

	As of July 31 2015 **Thousands of Dollars**
Cash	37,368
Conditional proceeds in fair value	3,334
Total payment for the acquisition of activity	40,702
Sums recognized due to identifiable assets and liabilities taken:	
Customers	1,708
Inventory	1,472
Other assets	109
Suppliers	(78)
Financial institutions	(1,478)
Fixed Assets	6
Customer Relations	6,200
Trademark	14,000
Total identifiable assets and liabilities	21,939
Goodwill	18,763
Total payment for the acquisition of activity	40,702

Note 6 – Business Combinations (continued):

When determining the value of intangible assets included in the purchase agreement such as trademarks, customer relations and goodwill, attribute to the Delta USA areas of activity, as presented above, the Company shall rely on a valuation in performed, near the purchase date, by an external expert – MFA Cornerstone Consulting LLC.
The valuation of the intangible assets was based on a number of methods, as follows:
Customer relations – on the basis of the income approach (DCF).
Trademarks – on the basis of the royalty replacement value approach.

The primary assumptions used in calculating the value of intangible assets are as follows:
Gross profit rate 47.9%.
Nominal growth rate 3.0%.
Average discount rate 18.2%
Royalties rate for P.J. Salvage 10%

The following is data regarding sales and net profit of the group under the assumption that the transaction for purchasing the activity of Loomwork Apparel Inc. took place on January 1 2015:

The Group's sales in 2015 would have amounted to $1,089.9 million compared to a reported $1,080.0 million.

Net profit in 2015 would have amounted to $45.4 million compared to $43.9 million as reported.

c. On October 1 2015 the Company purchased 50% of the shares of Delta Alfa Corap Ve Textile San Tlc A.S., a Turkish sock-manufacturing plant, in which it held 50% of the shares, thus completing purchase of the entire company. The purchased plant supports the sock manufacturing activity in the Global Upper Market Segment.

The following are details of the sums recognized due to identifiable assets purchased and liabilities taken:

	As of October 1 2015
	Thousands of Dollars
Cash paid	500
Cash in purchased company	1,173
Total cash received from purchase of company.	673
Sums recognized due to identifiable assets and liabilities taken:	
Customers	28
Inventory	2,712
Fixed Assets	2,036
Suppliers	(2,178)
Payables	(4,754)
Short-term credit	(938)
Operating Lease	(610)
Customer Relations	4,844
Total identifiable assets and liabilities	1,140
Less:	
Balance of investment in purchased company	(1,273)
Incidental profit from purchase of company	540

Note 7 – Fixed Assets

a. The composition of the cost of fixed assets, depreciation and amortization accrued as a result, by main groups, and movement thereof in 2016, is as follows:

	Cost						
	Balance at the Beginning of the Year	Additions During the Year	Disposals During the Year	Writing off Fully Reduce assets and Assets not in use	Capital Reserve from Translation Differences	Entry into Consolidation	Balance at the End of the Year
	Thousands of Dollars						
Land and Buildings	37,781	16,388	(64)	-	(689)	25,000	78,416
Machinery and Equipment	90,755	7,779	(3,348)	(4,072)	(450)	348	91,012
Office furnishings and equipment, vehicles and leasehold improvements	107,213	17,940	(1,097)	(1,028)	(1,207)	4,385	126,206
	235,749	42,107	(4,509)	(5,100)	(2,346)	29,733	295,634

	Accumulated depreciation and amortization						
	Balance at the Beginning of the Year	Additions During the Year	Disposals During the Year	Writing off Fully Reduce assets and Assets not in use	Capital Reserve from Translation Differences	Entry into Consolidation	Balance at the End of the Year
	Thousands of Dollars						
Land and Buildings	10,233	1,330	(62)	-	(311)	-	11,190
Machinery and Equipment	59,077	5,308	(3,219)	(4,072)	(267)	-	56,827
Office furnishings and equipment, vehicles and leasehold improvements	44,310	14,782	(1,024)	(1,028)	(1,377)	-	55,663
	113,620	21,420	(4,305)	(5,100)	(1,955)	-	123,680

	Depreciated Balance	
	December 31	
	2016	2015
	Thousands of Dollars	
Land and Buildings	67,226	27,548
Machinery and Equipment	34,185	31,678
Office furnishings and equipment, vehicles and leasehold improvements	70,543	62,903
	171,954	122,129

Note 7 – Fixed Assets (continued):

a. The composition of the cost of fixed assets, depreciation and amortization accrued as a result, by main groups, and movement thereof in 2015, is as follows:

	Cost							
	Balance at the Beginning of the Year	**Additions During the Year**	**Disposals During the Year**	**Writing off Fully Reduce assets and Assets not in use**	**Capital Reserve from Translation Differences**	**Entry into Consolidation**	**Classifications**	**Balance at the End of the Year**
	Thousands of Dollars							
Land and Buildings	35,995	2,688	(29)	-	(3,080)	2,207	-	37,781
Machinery and Equipment	82,720	9,194	(1,555)	(1,543)	(1,203)	3,142	-	90,755
Office furnishings and equipment, vehicles and leasehold improvements	93,605	26,618	(7,666)	(1,027)	(4,633)	679	(363)	107,213
	212,320	38,500	(9,250)	(2,570)	(8,916)	6,028	(363)	235,749

	Accumulated depreciation and amortization							
	Balance at the Beginning of the Year	**Additions During the Year**	**Disposals During the Year**	**Writing off Fully Reduce assets and Assets not in use**	**Capital Reserve from Translation Differences**	**Entry into Consolidation**	**Classifications**	**Balance at the End of the Year**
	Thousands of Dollars							
Land and Buildings	10,364	1,173	(16)	-	(1,288)	-	-	10,233
Machinery and Equipment	58,200	4,760	(1,560)	(1,543)	(780)	-	-	59,077
Office furnishings and equipment, vehicles and leasehold improvements	44,895	11,329	(7,180)	(1,027)	(3,707)	-	-	44,310
	113,459	17,262	(8,756)	(2,570)	(5,775)	-	-	113,620

	Depreciated Balance	
	December 31	
	2015	**2014**
	Thousands of Dollars	
Land and Buildings	27,548	25,631
Machinery and Equipment	31,678	24,520
Office furnishings and equipment, vehicles and leasehold improvements	62,903	48,710
	122,129	98,861

Note 7 – Fixed Assets (continued):

b. Land and Buildings

The Group owns land and buildings used for its operations, which are located in Israel, the U.S., Vietnam, Bulgaria, Egypt, Thailand, Germany, the Czech Republic and Slovakia. For land and buildings classified by the Group as held for sale - see Note 8 below.

c. Encumbrances on Assets

The Company's liabilities to banks are fully secured by an unlimited floating lien on all Company assets and rights and on assets of some of its subsidiaries.

d. In 2015 the Company amortized fixed asset items to the sum of $235,000 for the Little Miss Matched brand. For further details, see Notes 9b and 18f.

e. For classification of depreciation expenses in Report on Comprehensive Earnings see Notes 18h, i and j.

Note 8 – Assets Classified as Held for Sale

As of December 31 2016, the Group has several assets in Israel held for sale, which are included in the Financial Statements at their net historical cost of $1.0 million.

The assets are classified as held for sale as-is, and the Company is committed and making efforts to locate a buyer.

The Company estimates that the realization value net of realization costs of these assets exceeds their cost in the Financial Statements.

Note 9 – Intangible Assets

a. Composition of intangible assets and amortization accumulated as a result, by main groups:

	Goodwill (b)	Customer Relations *	Trademarks (c) *	Patents	Brand Name (d)	Computer Software **	Total
	Thousands of Dollars						
Balance as of January 1 2014	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
Reclassification	-					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
In 2015							
Capital reserve from translation differences	-	(4)	(89)	-	(2,491)	(368)	(2,952)
Additions	-	-	12,453	-	-	1,742	14,195
Addition due to the purchase of activity and subsidiary	18,763	11,044	-	-	14,000	-	43,807
Reclassification	-	-	-	-	-	363	363
Amortization	(163)	(1,031)	(9,476)	(37)	(1,911)	(1,466)	(14,084)
Balance as of December 31 2015	70,101	18,890	25,187	533	41,596	3,528	159,835
In 2016							
Capital reserve from translation differences	-	(1)	(32)	-	(667)	(232)	(932)
Additions	-	-	17,263	-	790	1,893	19,946
Additions due to the acquisition of activity	-	6,600	-	-	44,600	-	51,200
Amortization	-	(1,524)	(8,929)	(36)	-	(1,469)	(11,958)
Balance as of December 31 2016	70,101	23,965	33,489	497	86,319	3,720	218,091
On December 31 2016							
Cost	77,656	34,552	97,942	650	88,230	16,650	315,680
Accumulated amortization	(7,555)	(10,587)	(64,453)	(153)	(1,911)	(12,930)	(97,589)
Balance as of December 31 2016	70,101	23,965	33,489	497	86,319	3,720	218,091

* Amortization of customer relations and trademarks is presented under sales and marketing expenses.

** The amortization of computer software is presented under cost of goods sold, sales and marketing expenses and administrative and general expenses in accordance with the type of software.

Note 9 – Intangible Assets (continued):

b. Goodwill

The balance of the goodwill is attributed to the Delta Israel area of activity

Goodwill Impairment Test – Delta USA

The Group reviews the need for goodwill impairment once a year or when signs exist that may indicate the need to impair.

As a result of the reviews conducted in 2016, 2015 and 2014, no need arose for such impairment.

The recoverable sum of a cash-generating unit is determined based on calculations of value in use. The cash flow forecast is based on the budget for the coming year, approved by management, and on other assumptions regarding growth rates of sales and expense in the following four years. The cash flow beyond the next five years is extrapolated using expected growth rates indicated below.

The following basic assumptions used in calculating the value in use in 2016, 2015 and 2014:

	2016	**2015**	**2014**
Gross profit rate (1)	20.6%	20.8%	20.2%
Nominal growth rate (2)	4.0%	4.0%	4.0%
Pre-tax capitalization rate (3)	18.6%	19.5%	19.2%

The Group uses the above assumptions to analyze the value of goodwill of cash generating units in the different segments:

1) Long-term representative gross profit. The gross profit rate is determined based on past experience and Group forecasts of market developments.
2) The weighted average growth rate used to estimate cash flows past the budget period.
3) Pre-tax capitalization rate applied to the cash flow forecast. Discount Rate Set according to segment risks

An impairment sensitivity text was performed as of December 31 2016, changing the pre-tax discount rate by 0.5% and leaving the other parameters unchanged.
An impairment sensitivity text was performed as of December 31 2016, changing the growth rate by 0.5% and leaving the other parameters unchanged.
The results of the sensitivity tests detailed above to not indicate that the required impairment exists.

Note 9 – Intangible Assets (continued):

c. Trademark Usage Rights

The Company has entered into agreements which confer on it the right to market products under brand names owned by other parties, usually for periods of 3-4 years. Royalties for these agreements are calculated as a percentage of sales. Royalty rates range from 5% and 12% of sales; pursuant to these agreements, the Company is liable for minimum royalty payments, as set forth in these agreements, and the discounted sums of which are included in the Financial Statements.

d. Brands

The Group reviews the need for recognizing the impairment of its brands once a year or when signs exist that may indicate the need to impair.

1) The balance of brands as of December 31 2016 includes the brand names "Schiesser", "P.J. Salvage", "Karen Neuburger", "Little Miss Matched”, "FIX”, “7 For All Mankind”, “Splendid” and “Ella Moss”.

2) Schiesser Brand Impairment Test

The Company considerers the Schiesser brand to have an unlimited shelf life, and therefore it is not amortized in its books. In making this determination, the Company relied on the following assumptions:

a. The brand has existed since 1875 and is famous and stable in Germany and in the Benelux countries (Western Europe).
b. The brand’s primary activity has been profitable over many years.
c. Purchase of the brand by the Company will ensure its continued expansion in the Benelux countries.

The Company conducted an impairment test for the Schiesser brand. The valuation is in accordance with the revenue approach and is based on the “relief from royalty method”. The following basic assumptions used in calculating the value are as follows:

a. The royalties rate is 3.0% and is calculated according to a weighted average between an average royalties rate in franchise agreements in the garment industry and a royalty rate calculated as part of a representative operating profit.

	Average Rate	Weighting
Average royalties rate in concession agreements in the garment industry	5.5%	25%
Royalties rate as share of profit representative operating profit * (average of between 25% and 33%)	2.2%	75%

* Representative operating profit of 7.5%.

Note 9 – Intangible Assets (continued):

b. Pre-tax discount rate of 18.6% (the discount rate is determined according to the segment risks).
c. 0% growth rate (the growth rate applied in the valuation was based on past experience and on the Company's market development forecast).
d. An impairment sensitivity text was performed as of December 31 2016, changing the pre-tax discount rate by 0.5% and leaving the other parameters unchanged.
An impairment sensitivity text was performed as of December 31 2016, changing the growth rate by 0.5% and leaving the other parameters unchanged.

The results of the sensitivity tests detailed above to not indicate that the required impairment exists.

3) 7 For All Mankind Impairment Test
The Company considerers the "7 For All Mankind" brand to have an unlimited shelf life, and therefore it is not amortized in its books. In making this determination, the Company relied on the following assumptions:
a. The brand has existed for over 15 years and is a leading label in the U.S. high-end denim category.
b. The label is a global brand and is familiar in the United States and in European and Asian countries.
c. The Company estimates that its purchase of the brand and the planned investment in it will lead to its global growth.

The Company performed a valuation of the impairment of the "7 For All Mankind" brand in accordance with the revenue approach and based on the "relief from royalty method".
The basic assumptions used in calculating the value of the brand are:

a. Royalties rate:	3.5% in retail activity and 7.7% in wholesale activity.
b. growth rate	2%.
c. pre-tax discount rate	35.7%.

The results of the examination detailed above to not indicate that the required impairment exists.

4) P.J. Salvage Brand Impairment Test
The Company conducted an impairment test for the P.J. Salvage brand in accordance with the revenue approach and based on the "relief from royalty method".

The following basic assumptions were used in calculating the value:

a. Royalties rate	10%
b. Growth rate	3%
c. Pre-tax capitalization rate	30.3%

The Company has a number of additional brand names for which it tested impairment as of December 31 2016. No needs for impairment arose as a result of this examination.

During the fourth quarter of 2015, the Company decided to close the retail activity of the Little Miss Matched brand in the United States. As a result of the above decision, and in accordance with the valuation it performed, the Company made a $1.9 million provision from the value of the brand, a result included under reorganization expenses in the 2015 Report on Comprehensive Earnings.
In January 2017 the Company signed an agreement to distribute "Little Miss Matched" brand products in return for royalties as a percentage of sales.

Note 10 – Investments Treated in Equity Method and Other Long-Term Balances

	As of December 31	
	2016	2015
	Thousands of Dollars	
Investments in Companies Treated in Equity Method	4,527	4,176
Advance investment in joint venture	2,416	-
Long-term deposits (1)	2,352	393
Other long-term balances	2,196	1,075
	11,491	5,644
Less current maturities	(150)	(223)
	11,341	5,421

(1) Mostly includes non-interest-bearing deposits for operational leases of buildings (see Note 16a).

The following is movement in the value of investments in companies treated using the book value method:

	As of December 31	
	2016	2015
Balance as of January 1	4,176	4,850
Exit from holdings in associate and shift to full consolidation	-	(1,384)
Share of earnings of investees using the book value method	351	710
Balance as of December 31	4,527	4,176

The fair value of long term debit balances is not materially different from their book value.

Note 11a – Debentures

1. For details regarding the Company's existing debenture series.

Series Name	Date of issue	Nominal value		Issuance cost	Proceeds from Issuance	Duration (1)	Fixed NIS interest	Fixed USD interest (2)	Principal Payments	Interest Payments
		Millions								
		NIS	USD (2)	USD	USD					
E	April 8 2012	192.9	51.5	0.6	51.5	2.73	7.6%	6.18%	8 equal annual installments 2014-2021	Semiannual in July and December
A (4)	August 13 2013	178.5	49.7	0.6	49.7	5.24	5%	4.075%	14 equal annual installments 2015-2028	Semiannual In February and August
A Expansion (3)	October 27 2013	21.5	6.0	-	6.0	5.24	5%	4.41%	14 equal annual installments 2015-2028	Semiannual In February and August
A second expansion (3)	May 14 2014	161.7	47.2	0.4	50.5	5.24	5%	5.45%	14 equal annual installments 2015-2028	Semiannual In February and August
A third expansion (3)	June 1 2014	38.3	11.7	-	11.8	5.24	5%	5.45%	14 equal annual installments 2015-2028	Semiannual In February and August
B (4)	September 18 2014	168.4	46.2	0.6	46.2	7.07	- (6)	-	Single repayment 2024	Semiannual In April and October
B expansion (3)	November 20 2014	31.6	8.2	-	8.4	7.07	- (7)	-	Single repayment 2024	Semiannual In April and October
B Second Expansion	May 24 2015	159.6	41.2	0.4	40.4	7.07	- (8)	-	Single repayment 2024	Semiannual In April and October

Note 11a – Debentures (continued):

2. Details regarding the Company's existing debenture series as of December 31 2016:

Series Name	Book Value	Interest Payable	Market Value (5)	Fair Value of Financial Derivative
		Thousands of Dollars		
E	37,444	1,442	44,097	2,225
A (4)	39,456	665	45,016	2,942
A Expansion (3)	4,676	80	5,410	68
A second expansion (3)	37,844	603	40,778	(3,195)(8)
A third expansion (3)	8,919	143	9,648	(757)(8)
B (4)	43,403	241	44,412	(2,812)(9)
B expansion (3)	8,364	45	8,327	207
B Second Expansion	40,397	228	42,079	389
Total	220,503	3,447	239,767	(933)

Note 11a – Debentures (continued):

(1) Average gross estimated life span as of the end of 2016.

(2) The Company has decided to enter agreements to replace cash flows with those identical to the repayment date of the above debentures to hedge cash flows for the payment of debentures against exchange rate risk and interest risk. For Series A and E, this hedging creates fixed cash flows for the Company in dollar terms, in which the Company undertakes to transfer a dollar payment according to a fixed USD interest rate as noted in the table, and receive NIS payment from the banking corporation according to the denoted interest rate.
For Series B – see Notes 6, 7 and 8 below.

(3) The maximum exposure level the banking corporation set for this transaction is $5 million. The Company will be asked to provide collateral in the event that the exposure exceeds the sum in question, as the banking corporation demands.

(4) The maximum exposure limit the banking corporations set for this transaction is $3 million. The Company will be asked to provide collateral in the event that the exposure exceeds the sum in question, as the banking corporation demands.

(5) According to the value on the Tel Aviv Stock Exchange as of December 31 2016.

(6) Variable NIS interest rate: 3-month Telbor + 2.10%. Variable USD interest rate: 3-month Libor + 2.8715%.

(7) Variable NIS interest rate: 3-month Telbor + 2.10%. Variable USD interest rate: 3-month Libor + 2.55%.

(8) Variable NIS interest rate: 3-month Telbor + 2.10%. Variable USD interest rate: 3-month Libor + 2.81%.

(9) In the balance sheet, a derivative financial instrument is presented less a deposit deposited in a banking corporation and serving as collateral against the financial derivative to the sum of $1.5 million.

Note 11a – Debentures (continued):

3. The following are details of non-discounted contractual cash flows for the debentures, by years:

	December 31 2016	December 31 2015
	Thousands of Dollars	
2016	-	36,861
2017	33,223	24,086
2018	24,443	23,302
2019	23,551	22,518
2020	22,672	21,744
2021	21,767	20,950
2022	14,462	13,753
2023	14,057	13,365
2024	109,175	108,496
2025	9,711	9,643
2026	9,307	9,256
2027	8,902	8,867
2028	8,497	8,480
	299,767	321,321

4. The following a details of the financial covenants included in the deeds of trust of Series E, A and C, violation of which would be grounds for immediate repayment, subject to the healing period set:

Series E

- If the Company's equity, as published in the Financial Statements, amounts to under three hundred and fifty (350) million NIS, and inasmuch as the equity was not increased past the sum in question within 30 days.
- If the Company's net financial debt to CAP ratio as published in the Financial Statements exceeds a rate of 60% for two consecutive quarters after the increase in question in financial debt leverage ratio.

In this regard, "equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term debts and loans, plus current maturities of long-term loans, plus long-term loans, plus liabilities due to operating leases, with the exception of cash and cash equivalents and with the exception of short-term investments; "CAP" (capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights) plus long-term deferred taxes in the balance sheet.

Note 11a – Debentures (continued):

<u>Series A:</u>

- If the Company's equity, as published in the Financial Statements, amounts to under one hundred and fifty (150) million dollars, and inasmuch as the equity was not increased past the sum in question within 30 days after the publication date of the relevant financial statements.
- If the Company's net financial debt to CAP ratio as published in the Financial Statements exceeds a rate of 60%, and inasmuch as the leverage rate of net financial debt to CAP does not drop by 60% as of the publication date of the second consecutive financial statement after the publication date of the financial statements that first reported the increase in question in the above leverage rate.

  In this regard, "equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debt, plus debentures, plus balance sheet liabilities due to operating leases and plus balance sheet liabilities due to financing leases, less cash and cash equivalents and less short-term investments; "CAP" (capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights) plus long-term deferred taxes in the balance sheet.

<u>Series B</u>

- If the Company's equity, as published in the Financial Statements, amounts to under one hundred and fifty (150) million dollars, and inasmuch as the equity was not increased past the sum in question within 30 days after the publication date of the relevant financial statements.
- If the Company's net financial debt to CAP ratio as published in the Financial Statements exceeds a rate of 60%, and inasmuch as the leverage rate of net financial debt to CAP does not drop by 60% as of the publication date of the second consecutive financial statement after the publication date of the financial statements that first reported the increase in question in the above leverage rate.

  In this regard, "equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debt, plus debentures, plus balance sheet liabilities due to operating leases and plus balance sheet liabilities due to financing leases, less cash and cash equivalents and less short-term investments; "CAP" (capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights) plus long-term deferred taxes in the balance sheet.

  As of December 31 2016 the Company was in compliance with the above financial covenants.

Note 11a – Debentures (continued):

5. The following are details of restrictions on the distribution of dividends included in the deeds of trust of Debenture Series E, A and B.

Restriction Type	Debentures Series E	Debentures Series A	Debentures Series C
Maximum Distribution Amount	50% of the sum of the profits in the relevant quarter (or accumulated on a quarterly basis), but in any event no more than 50% of profits.	50% of the sum of distributable profits, calculating just surpluses accumulated starting June 30 2013.	50% of the sum of distributable profits, calculating just surpluses accumulated above profits of one hundred (100) million dollars.
Impact on equity	No dividend shall be distributed following which the Company's equity drops below four hundred and fifty (450) million NIS.	No dividend shall be distributed following which the Company's equity drops below one hundred and seventy-five (175) million dollars.	No dividend shall be distributed following which the Company's equity drops below two hundred (200) million dollars.
Impact of financial net debt to EBITDA ratio		The distribution is not expected to increase the Company's net financial debt to EBITDA ratio over 3.5	No dividends shall be distributed following which the Company's net financial debt to EBITDA ratio increases to over 3.5.
Distribution from Revaluations	No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments.	No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments.	No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments.
Additional Restrictions			Dividends shall not be distributed: - When a "warning sign" exists - The Company has not upheld all of its material obligations in accordance with the deed of trust or is in a material violation of the deed of trust in question and the terms of the debentures - The Company's equity, including following the distribution of dividends, does not exceed a total of one hundred and fifty (150) million dollars. If the Company's net financial debt to CAP ratio, including following the distribution of dividends, exceeds a rate of 60%.

As of December 31 2016, the Company is in compliance with all of the dividend distribution restrictions.

Note 11b – Derivative Financial Instruments

The Group studies the value of the financial derivative on each cross-section date and employs and outside expert to test its value.
The value of the financial derivative was tested on the basis of the exchange rate difference between the cash flow the Company will receive in the future (in NIS) and the cash flow it is expected to pay (in USD). The future value of these values is based on the fixed interest rates, the basis of days for calculating interest and the risk that one of the parties will not be able to meet their obligations. The following basic assumptions were used in calculating the value of the financial derivative as of December 31 2016:

1. Market interest rates

	Market Interest Rates	
Series	**NIS**	**USD**
E	0.35% - (0.19%)	1.0%-1.99%
A	1.53% - (0.19%)	1.0%-2.44%
B	0.94% - (0.19%)	1.0%-2.23%

2. Credit Risk Rate

Series	**The Company**	**Bank Leumi**	**Bank Mizrahi**	**Deutsch Bank**	**Berkley's**	**Hapoalim**
E	1.06%		0.90%			
A	1.53%			1.69%	0.86%	
B	1.71%	1.48%		1.70%		1.12%

3. Analyses of the sensitivity of the value of the swap contracts to changes in the exchange rate (NIS/USD) as of December 31 2016:

Series E

Rate of change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected exchange rate	$1 = 3.461 NIS	$1 = 3.653 NIS	**$1 = 3.845 NIS**	$1 = 4.037 NIS	$1 = 4.230 NIS
Forward contract value	7,245	4,603	**2,225**	74	(1,876)
Difference	5,020	2,378		(2,151)	(4,101)

Series A

Rate of change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected exchange rate	$1 = 3.461 NIS	$1 = 3.653 NIS	**$1 = 3.845 NIS**	$1 = 4.037 NIS	$1 = 4.230 NIS
Forward contract value	10,703	4,553	**(942)**	(5,876)	(10,368)
Difference	11,645	5,495		(4,934)	(9,426)

Series B

Rate of change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected exchange rate	$1 = 3.461 NIS	$1 = 3.653 NIS	**$1 = 3.845 NIS**	$1 = 4.037 NIS	$1 = 4.230 NIS
Forward contract value	9,232	3,206	**(2,216)**	(7,119)	(11,575)
Difference	11,448	5,442		(4,903)	(9,359)

Note 11a – Debentures (continued)

4. Analyses of the sensitivity of the value of the swap contracts to changes in NIS interest rates:

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	2,234	2,230	**2,225**	2,220	2,216
Difference	9	5		(5)	(9)

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	(483)	(714)	**(942)**	(1,169)	(1,393)
Difference	459	228		(227)	(451)

Series B

Rate of change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	1.98%	2.09%	**2.2%**	2.31%	2.42%
Forward contract value	(2,646)	(2,431)	**(2,216)**	(2,000)	(1,784)
Difference	(430)	(215)		216	432

5. Analyses of the sensitivity of the value of the swap contracts to changes in USD interest rates:

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	2,053	2,139	**2,225**	2,310	2,395
Difference	(172)	(86)		85	170

Series A

Rate of change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	3.668%	3.871%	**4.075%**	4.28%	4.483%
Forward contract value	2,458	2,701	**2,942**	3,181	3,417
Difference	(484)	(241)		239	475

Note 11a – Debentures (continued):

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	3	36	**68**	100	132
Difference	(65)	(32)		32	64

Series A Second and Third Expansions

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	(4,565)	(4,257)	**(3,952)**	(3,649)	(3,344)
Difference	(613)	(305)		303	608

Series B

Rate of change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	3.36%	3.55%	**3.73%**	3.92%	4.11%
Forward contract value	(2,860)	(2,836)	**(2,812)**	(2,788)	(2,765)
Difference	(48)	(24)		24	47

Series B Expansion

Rate of change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	3.07%	3.24%	**3.41%**	3.58%	3.75%
Forward contract value	198	203	**207**	211	216
Difference	(9)	(4)		4	9

Series B Second Expansion

Rate of change	10% Decrease	5% Decrease	**Fair Value**	5% Increase	10% Increase
Expected interest rate	3.3%	3.48%	**3.67%**	3.85%	4.03%
Forward contract value	326	358	**389**	420	452
Difference	(63)	(31)		31	63

Note 12 – Other Liabilities

	December 31	
	2016	2015
	Thousands of Dollars	
Liability for minimum royalty payments (see Note 9c)	31,615	24,692
Onerous contract liability	18,965	-
Conditional liability from the purchase of activity (see Note 6b)	3,571	3,334
Office rental liability	3,016	5,421
Machinery purchase liability	1,802	1,322
Minimum financial lease payments liability (1)	-	740
Vehicle purchase liability	-	1,614
Other liabilities	3,063	1,544
Total liabilities (2)	62,032	38,667
Less current portion	19,992	16,134
Total long-term liabilities	42,040	22,533

The fair value of non-current liabilities is not materially different from their book value.

1. Schiesser constitute a party to a financing lease agreement in Germany for a building and a land. The Company repaid its entire obligation in the agreement in 2016. The German subsidiary leases the real estate and it is included as investment property.
2. The following are details of other liabilities, discounted, payable by year:

	December 31	
	2016	2015
	Thousands of Dollars	
2016	-	16,832
2017	20,710	13,800
2018	24,655	6,246
2019	13,730	2,312
2020	8,316	4,764
2021 onward	10,670	2,039
Less interest component	(16,049)	(5,287)
	62,032	38,667

Note 13 – Equity

a. Equity, funds and surpluses:

1) Composed of ordinary shares worth 1 NIS NV, as follows:

	Number of Shares As of December 31	
	2016	**2015**
Listed Capital	45,000,000	36,000,000
Issued and paid up capital (after neutralizing treasury shares)	25,323,445	25,436,707
Treasury Shares	1,535,726	1,306,342

As of December 31 2016, Company shares are traded on the Tel Aviv Stock Exchange at $29.05 (111.70 NIS).

2) The following are dividend sums distributed in the past three years:

Year	**Amount Distributed (Thousands of Dollars)**	**Dividends per Share (Dollar)**
2014	13,500	0.54
2015	14,073	0.56
2016	14,094	0.56

3) Unassigned Retained Earnings

In determining the sums available for distribution as dividends, according to the Companies Law, the total number of Company shares bought back (presented under a separate item in equity) should be deducted from retained earnings presented under Company equity.

The shares held by the Company (“treasury shares”) do not grant voting rights and do not grant dividends.

4) Share buyback

On February 23 2016, the Company Board of Directors approved a plan for the buyback of Company shares. The buybacks took place within the framework of trading on the stock exchange from unrelated parties who are not the Company’s controlling shareholder or officer, through an external stock market member who is not related to the Company. The accumulated total cost of the shares purchased by the end of the purchase plan amount to $6.9 million US.

Note 13 – Equity (continued):

b. Share-based payment

1. 2006 plans:

In May 2006, the Company 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 in conjunction with the plan for Israeli and other non-US employees, and 300,000 options may be issued in conjunction with the plan for US-based employees. Each option is exercisable into one ordinary Company share worth 1 NIS NV.

As of December 31 2016, the balance of the options that can be allocated in these plans amount to 244,541.

On January 24 2017 the Company Board of Directors decided to erase the balance of options not yet allocated to employees under this plan.

2009 plans:

On August 20 2009 the Company's Board of Directors decided to adopt an additional options plan for the compensation of employees, executives, directors, consultants and other services suppliers of the Company or its subsidiaries and related companies (hereinafter – “the Recipients”). The options shall be granted free of charge. Pursuant to the plan, the Company shall be entitled to allocate up to 800,000 non-tradable options, exercisable as up to 800,000 regular Company shares worth 1 NIS NV each. The exercise price of each option will be determined by the company's Board of Directors at its sole discretion in accordance with the law.
In addition, the Board of Directors decided to adopt an option plan for the compensation of American employees of the Company and its subsidiaries. Pursuant to the plan, the Company shall be entitled to allocate up to 300,000 options, exercisable as up to 300,000 regular Company shares worth 1 NIS NV each.

On October 27 2011 the Company Board of Directors decided to increase the number of regular Company shares saved for the purpose of the plan to repay select employees, officers, directors, consultants and senior service providers for the Company or of Company subsidiaries and related companies, approved by the Company Board of Directors on August 20 2009, by 300,000 shares, so that the total number of shares saved for the purpose of the plan will amount to 1,100,000.
On the same date, the Company Board of Directors decided to increase the number of regular Company shares reserved for the purpose of remunerating American employees of the Company and its subsidiaries including directors and other officers, approved by the Company Board of Directors on August 20 2009, by 300,000 shares, so that the total number of shares saved for the purpose of the plan will amount to 600,000.

On December 15 2013 the Company Board of Directors decided to increase the number of regular Company shares reserved for the purpose of remunerating selected employees, officers, consultants and other senior service providers of the Company or Company subsidiaries and related companies by 500,000 shares, so that the total number of shares saved for the purpose of the 2009 plan for Israeli recipients would amount to 1,600,000. Furthermore, regarding the expansion of the plan for the above 500,000 options, the Company Board of Directors decided to revise the 2009 plan for Israeli recipients, according to which the formula for calculating the issue of options via mechanism for exercising options as shares on the basis of the benefit component would be amended so that the recipients would not be required to pay the notational value of

Note 13 – Equity (continued):

the exercise shares. The Company undertook so long as the 2009 plan for Israeli recipients was still in effect, to save in the balance of profits worthy of distribution, a sum sufficient to turn it into stock capital in accordance with Section 304 of the Companies Law, 1999.

The remaining provision of the 2009 plan for Israeli recipients will remain unchanged. As of December 31 2016, the balance of the options that can be allocated in these plans amount to 607,941.

In accordance with the path selected by the Company, the Company is not entitled to claim sums attributed to employees as a bonus as expenses for tax purposes, including sums listed as salary benefits in the Company's accounts due to options the employees received as part of the plan, with the exception of a fruit bonus component, if any, set upon allocation.

2014 plan:

On July 28 2014 the Company Board of Directors decided to adopt a plan to allocate 300,000 blocked share units. The units shall be awarded recipients for no return at the Board of Directors' discretion and at the recommendation of the Company CEO.
The balance of share units that can be allocated from this plan as of December 31 2016 is 237,151.

2. The fair value of the options granted (with the exception of options contingent on implementation goals) during 2016 and 2015 (no options were granted in 2014) as of their date of issue amounted to $344,000 and $1,527,000, respectively.

The fair value of each option granted (with the exception of options contingent on achieving objectives) is estimated on date of grant using the Black-Scholes option pricing model using the following assumptions:

	2016	**2015**
Dividend yield	0%	0%
Expected standard deviation (*)	27.1%	22.7%
Risk-free interest rate	1.0% - 0.3%	1.0% - 0.4%
Expected life span - in years	4.1	4.1

(*) Based on historical volatility of Company shares over periods similar to the expected life of the option through its exercise date.

The theoretical economic value to the options subject to the achievement of goals granted in 2016 and 2015 (no performance-based options were granted in 2014) was estimated on the date of issue using the Black & Scholes option pricing model, using the following average assumptions:

	2016	**2015**
Dividend yield	0%	0%
Expected standard deviation (*)	24.5%	22.7%
Risk-free interest rate	0.7% - 0.4%	1.0% - 0.4%
Expected life span - in years	4.0	4.1

(*) Based on historical volatility of Company shares over periods similar to the expected life of the option through its exercise date.

Note 13 – Equity (continued):

3. The sums of the expenses attached to the options included in the Financial Statements for 2016, 2015, and 2014 are $939,000, $482,000 and $350,000, respectively.
   The sums of the expenses attached to granted blocked share units included in the Financial Statements for 2016, 2015, and 2014 are $1,191,000, $1,758,000 and $366,000, respectively.

4. The balance of benefits not yet recognized for all of the option plans, as of December 31 2016, assuming the achievement of all goals set, amounts to a total of $1,472,000. Its recognition is expected to take place over the course of the next 4 years.
   The balance of benefits not yet recognized for the issue of blocked shares as of December 31 2016, amounts to a total of $1,933,000, and its recognition is expected over the course of the coming 4 years.

5. The movements in the number of options not yet exercised and the relevant weighted averages of the exercise prices (original price before adaptation due to the distribution of dividends) are as follows:

a. Options not contingent on meeting performance goals:

	2016		**2015**		**2014**	
	Quantity	**Average Weighted Exercise price in USD**	**Quantity**	**Average Weighted Exercise price in USD**	**Quantity**	**Average Weighted Exercise price in USD**
Outstanding at the beginning of the year	188,022	8.81	479,846	7.34	754,435	6.27
Granted	66,058	26.85	30,000	31.6	-	-
Forfeited	(17,000)	28.05	(8,500)	14.08	(1,750)	9.75
Expired	-	-	-	-	(1,750)	3.02
Exercised	(102,772)	7.31	(313,324) (*)	6.7	(271,089) (*)	4.39
Outstanding at end of the year	134,308	20.82	188,022	11.98	479,846	7.34
Of these exercisable at end of the year	43,250	9.36	142,022	8.81	340,471	6.54

* For these options, 2,125 and 9,142 rights were exercised in 2015 and 2015 and 2014, respectively (see D below).

Note 13 – Equity (continued):

b. Stock options subject to meeting performance goals:

	2016		2015		2014	
	Quantity	**Average Weighted Exercise price in USD**	**Quantity**	**Average Weighted Exercise price in USD**	**Quantity**	**Average Weighted Exercise price in USD**
Outstanding at the beginning of the year	230,034	30.17	55,000	6.67	67,500	6.43
Granted	132,551	27.98	210,034	32.3	-	-
Forfeited	-	-	(12,500)	5.36	-	-
Exercised	(12,500)	7.76	(22,500)	6.43	(12,500)	5.36
Outstanding at end of the year	350,085	30.14	230,034	30.17	55,000	6.67
Of these exercisable at end of the year	7,500	7.76	10,000	7.76	10,000	7.76

c. On July 2009 the 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.
Regarding the 2009 plan, this adjustment was approved in the original plan.

d. According to the shelf offering report published by the Company on October 27 2009, according to which the Company made an offering by way of rights to the Company's ordinary shareholders, the Company adjusted the options which were granted as part of the 2006 plans and which have not yet vested according to terms of the original plan. According to the option plans in question (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 from the issue of the rights set at 17 NIS ($4.53) before dividend adjustment.
No such rights remain since December 2016.

Note 13 – Equity (continued):

6. Details of option balance as of December 31 2016 and December 31 2015 and movement in 2016 according to the plan*:

			December 31 2015	Movement in 2016:			December 31 2016	
Plan date	Granting date	Exercise Price ($) (**)	Balance of options granted and not yet exercised	Granting	Exercise	Forfeiture	Balance of options granted and not yet exercised	Weighted average of the balance of the projected lifespan (years)
May 2006	July 2009	3.02	4,647	-	4,647	-	-	-
May 2006	September 2011	5.36	20,000	-	10,000	-	10,000	1.83
October 2009	August 2011	6.69	3,750	-	3,750	-	-	-
October 2009	November 2011	5.65	45,125	-	29,000	-	16,125	1.49
October 2009	May 2012	8.05	10,000	-	10,000	-	-	-
October 2009	July 2012	7.76	35,000	-	35,000	-	-	-
October 2009	July 2012 contingent on performance	7.76	20,000	-	12,500	-	7,500	1.92
October 2009	September 2012	9.18	2,500	-	2,500	-	-	-
October 2009	July 2013	15.22	39,000	-	7,785	3,000	28,125	2.64
October 2009	July 2015	30.2	10,000	-	-	10,000	-	-
October 2009	August 2015	32.3	18,000	-	-	4,000	14,000	4.42
October 2009	August 2015 contingent on performance	32.3	210,034	-	-	-	210,034	4.42
October 2009	January 2016	26.58	-	15,684	-	-	15,684	4.83
October 2009	January 2016 contingent on performance	26.58	-	3,000	-	-	3,000	4.83
October 2009	February 2016	24.88	-	20,000	-	-	20,000	4.08
October 2009	September 2016.	28.25	-	30,374	-	-	30,374	5.50
October 2009	September 2016 contingent on performance	28.25	-	72,343	-	-	72,343	5.50
October 2009	November 2016 contingent on performance	27.72	-	57,208	-	-	57,208	5.50
	Total		418,056	198,609	115,272	17,000	484,393	4.44

* See also b. above.

** The exercise price in the above table is the original price before adaptation due to the distribution of dividends.

Note 13 – Equity (continued):

7. The movements and the balances in the number of restricted share units are as follows:

a. Restricted share units not contingent on performance goals:

	For the Year Ending December 31	
	2016	**2015**
Balance as at beginning of the year	30,592	39,322
Granted	13,213	4,500
Exercised	(10,815)	(10,377)
Forfeited	(1,569)	(2,853)
Balance at the end of the year	31,421	30,592

b. Restricted share units contingent on performance goals:

	For the Year Ending December 31	
	2016	**2015**
Balance as at beginning of the year	133,805	27,705
Granted	15,856	106,100
Exercised	(18,614)	-
Forfeited	(15,896)	-
Balance at the end of the year	115,151	133,805

Note 13 – Equity (continued):

c. Details of balance of restricted share units as of December 31 2016 and December 31 2015 and movement in 2016 according to the plan:

		Dec. 31 2015	Movement in 2016:			Dec. 31 2016
Plan date	**Granting Date**	**Balance of restricted share units granted and not yet exercised:**	**Granting**	**Exercise**	**Forfeiture**	**Balance of restricted share units granted and not yet exercised:**
October 2009	July 2013	14,102	-	6,265	1,569	6,268
October 2009	July 2014	9,990		3,300	-	6,690
July 2014	October 2014 contingent on performance	12,275	-	-	12,275	-
July 2014	October 2014	2,500	-	1,250	-	1,250
July 2014	November 2014 contingent on performance	15,430	-	4,339	3,621	7,470
October 2009	January 2015 contingent on performance	51,100	-	12,775	-	38,325
October 2009	August 2015 contingent on performance	12,000	-	1,500	-	10,500
July 2014	August 2015 contingent on performance	33,000	-	-	-	33,000
October 2009	August 2015	3,500	-	-	-	3,500
July 2014	August 2015	500	-	-	-	500
July 2014	October 2015 contingent on performance	10,000	-	-	-	10,000
July 2014	February 2016 contingent on performance	-	1,500	-	-	1,500
October 2009	September 2016 contingent on performance	-	13,213	-	-	13,213
July 2014	September 2016.	-	3,540	-	-	3,540
October 2009	November 2016	-	10,816	-	-	10,816
	Total	164,397	29,069	29,429	17,465	146,572

Note 14 – Taxes on Income

a. The Company's taxation in Israel

1) Measurement of Results for Tax Purposes
   Starting from tax year 2008 onward, the results of the Company and its subsidiaries in Israel are measured, for tax purposes, in Israeli sums.

2) In January 2017 the Company approached the Israeli tax authorities and announced its intent to submit tax reports for 2017 onward according to dollar regulations.

3) Tax Rates

   The revenues of the Company (with the exception of revenues benefiting from reduced tax rates in accordance with Israeli encouragement laws, see c. below), are liable for corporate taxes and the usual rate.

   On August 5 2013 the National Priorities Alteration Law (Legislative Amendments for the Achievement of Budgetary Goals for 2013 and 2014), 2013 was published, establishing, among other things, an increase in the corporate tax rate to 26.5% starting from the 2014 tax year onward. (Regarding the increase in tax rates on preferred factory revenues, as per the Capital Investments Encouragement Law, 1959 – see C below).

   In December 2016 the Economic Streamlining Law (Legislative Amendments for Achieving Budgetary Goals for the 2017 and 2018 Budget Years), 2016 were passed, establishing an additional decrease of the corporate tax from 25% to 23%. At the same time, the law in question established a temporary ordinance according to which the corporate tax rate in 2017 would be 24%. As a result, the corporate tax rate that will apply in 2017 will be 24% and the corporate tax rate that will apply from 2018 onward will be 23%.

   As a result of the decrease in tax rates as noted above (including the drop in tax rates on revenues from a preferred enterprise, as per c. below), a $635,000 decrease took place in 2016 in the Company's deferred tax assets, of which a total of $579,000 was charged as an expense to gain/loss and a total of $56,000 was charged as a loss to other comprehensive earnings.

   Capital gains held by the Company in Israel are taxable according to the regular corporate tax rate applicable in the tax year.

b. Taxation of Subsidiaries Outside of Israel

The subsidiaries incorporated outside of Israel are assessed according to the tax laws in their countries of residence, with the exception of companies defined as a "controlled foreign company" as per the Income Tax Ordinance, the revenues of which may be taxable in Israel in addition to taxation in accordance with the tax laws in their countries of residence. The primary tax rates applicable to key subsidiaries incorporated outside of Israel are:

Company incorporated in the United States - 38% average tax rate (including federal tax and state tax).
Companies incorporated in Germany - 30% tax rate.
Companies incorporated in the UK - 20% tax rate.

Note 14 – Taxes on Income (continued):

Subsidiaries incorporated outside of Israel, in free trade zones, are registered for tax purposes according to the laws in the countries of their residence. As a rule, inter-company transactions between the company and the foreign subsidiaries are subject to the provisions of the Income Tax Regulations (Determination of Market Terms), 2006.

c. Israeli Encouragement Laws

Amendment to the Encouragement of Capital Investments Law, 1959

Pursuant to the 2011 and 2012 Economic Policy Law (Legislative Amendments), 2011, which was approved by the Knesset on December 29 2010, the Capital Investment Encouragement Law, 1959 was also amended (hereinafter – the Amendment). The Amendment comes into effect January 1 2011.

Pursuant to the Amendment benefit plans were established, in lieu of the plans currently existing in the Capital Investment Encouragement Law, 1959 (hereinafter – the Law), as follows: a grants plan for factories in Development Area A and two tax benefit plans (preferred factory and special preferred factory), dealing with the incidence of a uniform tax rate on all of the Company's preferred revenues, as defined in the Amendment.

The preferred enterprise benefits will be given with no time limits, compared to benefits given a special preferred enterprise, which are given for a period of 10 years. The benefits will be given companies that meet the terms set in the amendment which are largely similar to the benefits set in law before its amendment. Pursuant to the amendment's transition orders, it was decided that a company may continue to receive the tax benefits within the framework of the law until its amendment, up to the end of the benefits period as defined in the law.

In 2011 the Company informed the Income Tax authorities of its request that the Preferred Factory Law be applied. In 2011-2015 the Company claimed part of its revenues in Israel as a Preferred Factory and it intends to do so in 2016-2017 as well.

Key benefits deriving from preferred factory:

Decreased tax rate – in accordance with the outline set in the amendment a gradual decrease shall occur in tax rates applicable to the preferred revenues of companies whose factories are in development Area A, according to which the tax rate applicable to the companies preferred revenues shall be as follows: in 2011 and 2012 – 10%, in 2013 and 2014 7% and in 2015 onward – 7.5%.
The National Priorities Alteration Law (Legislative Amendments for the Achievement of Budgetary Goals for 2013 and 2014), 2013, published on August 5 2013 (see a(2) above), established, among other things, an increase in the tax rate applicable to preferred income, so that starting from 2014 onward, the rate of tax on income of companies whose factories are in Development Area A shall be 9%.
Accelerated depreciation – a preferred company is entitled to accelerated depreciation for productive assets serving the preferred factory, so long as the total depreciation deducted does not exceed the asset's original price. The factory shall be entitled to an accelerated depreciation claim over the course of the first 5 tax years for the activation of the assets (in the remaining years, depreciation shall be claimed according to the regular depreciation rate). Regarding machinery and equipment, the accelerated depreciation shall be at a rate of 200% of the rate set in the regulations passed by virtue of Section 21 of the ordinance, while regarding buildings the accelerated depreciation shall be at a rate of 400% of the depreciation rate set in these regulations, but no more than 20% per year, multiplied by the adjustment rate.
Dividend distribution – dividends paid originating from preferred income is taxable at a rate of 15% until the 2013 tax year and 20% starting 2014.

Note 14 – Taxes on Income (continued):

d. Losses for Tax Purposes Carried On to Subsequent Years

Deferred tax assets for losses for tax purposes carried on to subsequent years are recognized in the event that realization of the tax benefit in question through the existence of future taxable income is expected.

Losses for tax purposes transferrable to subsequent years deriving from the parent company, as of December 31, 2016 and 2015, amounted to $21 million and $30 million, respectively.

Losses for tax purposes carried over to subsequent years derive from the Group subsidiaries, as of December 31 2016 and 2015 amount to $13 million and $16 million, respectively.

The tax asset recognized in Israel as of December 31 2016 and December 31 2015 amounts to $6 million and $8 million, respectively.

Losses carried over for tax purposes accumulated in Israel may be offset over an unlimited period of time.

The tax asset recognized for income tax losses in subsidiaries as of December 31 2016 and December 31 2015 amounts to $1 million and $2 million, respectively.

Note 14 – Taxes on Income (continued):

e. Deferred income taxes:

1) Composition of deferred taxes as of the balance sheet dates and transactions in said years are as follows:

	For Balance Sheet Items						
	Fixed Assets	**Intangible Assets**	**Inventory**	**Provision to Employee Benefits**	**Others**	**With Respect to Carry Forward Losses**	**Total**
	Thousands of Dollars						
Balance as of January 1 2014	(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 created in purchase of company	-	-	-	-	-	148	148
Sums charged to other comprehensive earnings (loss)	-	-	-	224	-	-	224
Charging to capital reserve from translation differences	151	27	(94)	-	(42)	(92)	(50)
Exchange rate differences	36	-	-	(3)	(15)	-	18
Balance as of December 31 2014	(3,472)	(3,796)	1,979	1,365	1,176	11,142	8,394
Changes in 2015:							
Charged to Statement of Operations	(1,357)	(404)	(55)	896	673	(843)	(1,090)
Sums charged to other comprehensive earnings (loss)	-	-	-	67	-	-	67
Charging to capital reserve from translation differences	172	(4)	(70)	(8)	(40)	(67)	(17)
Exchange rate differences	(13)	-	9	(3)	2	-	(5)
Balance on December 31, 2015	(4,670)	(4,204)	1,863	2,317	1,811	10,232	7,349
Changes in 2016:							
Charged to Statement of Operations	599	(1,781)	218	810	2,087	(2,865)	(932)
Deferred taxes created in purchase of company	-	(2,622)	-	-	5,998	-	3,376
Sums charged to other comprehensive earnings (loss)	-	-	-	81	-	-	81
Charging to capital reserve from translation differences and exchange rate differences	4	1	24	6	9	(2)	42
Balance on December 31, 2016	(4,067)	(8,606)	2,105	3,214	9,905	7,365	9,916

Note 14 – Taxes on Income (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 income taxes assets and liabilities relate to income taxes levied by the same taxation authority The offset sums are as follows:

	December 31	
	2016	**2015**
	Thousands of Dollars	
Deferred tax assets:		
The repayment of which is expected within 12 months of the balance sheet date.	7,716	8,183
The repayment of which is expected over 12 months after the balance sheet date.	10,350	10,177
	18,066	18,360
Deferred tax liabilities:		
The repayment of which is expected within 12 months of the balance sheet date.	(465)	(198)
The repayment of which is expected over 12 months after the balance sheet date.	(7,685)	(10,813)
	(8,150)	(11,011)
Deferred tax assets, net	9,916	7,349

	December 31	
	2016	**2015**
	Thousands of Dollars	
Presented in the balance sheet:		
Under deferred tax assets	14,269	9,877
Under deferred tax reserve	(4,353)	(2,528)
	9,916	7,349

Most deferred taxes are calculated according to tax rates of 23%-38%.

f. Profit before taxes on income is comprised as follows:

	For the Year Ending December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
Israeli companies	14,845	13,745	12,534
Non-Israeli subsidiaries	53,010	38,638	44,750
	67,855	52,383	57,284

Note 14 – Taxes on Income (continued):

g. Composition of taxes on income in the Report on Comprehensive Earnings:

	For the Year Ending December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
Current:			
Israeli companies	4,336	2,262	668
Non-Israeli subsidiaries	10,779	8,532	11,179
	15,115	10,794	11,847
Deferred:			
The Company in Israel	1,891	1,790	(1,944)
Non-Israeli subsidiaries	(959)	(700)	(180)
	932	1,090	(2,124)
Current for previous years:			
The Company in Israel	-	(1,963)	238
Non-Israeli subsidiaries	(94)	(1,486)	(108)
	(94)	(3,449)	130
	15,953	8,435	9,853

h. The following is a reconciliation of the "theoretical" tax amount which would have applied if all revenues had been taxed at the regular tax rate applicable to companies in Israel (see a2 above), to the tax sum charged in the Reports on Comprehensive Earnings (loss) for the reported year:

	For the Year Ending December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
Profit before taxes on income as presented in reports on comprehensive earnings	67,855	52,383	57,284
Theoretical tax expenses	16,964	13,881	15,151
Increase (decrease) in tax due to different tax rates applicable to non-Israeli subsidiaries	23	(457)	1,314
	16,987	13,424	16,465
Increase (decrease) in tax due to fixed differences:			
Non-deductible expenses less exempt revenues, net	(1,863)	(139)	196
Tax expenses (revenues) for prior years, net	(94)	(1,230)	130
Decrease in taxes deriving from preferred factory revenues	(766)	(2,890)	-
Increase in taxes deriving from losses for tax purposes created in the reported year and for which no deferred taxes were credited.	-	362	199
Decrease in taxes from the utilization of losses for tax purposes	(476)	(1,261)	(2,287)
Use of carried-over losses for which no deferred taxes were credited in the past.	(194)	(455)	(1,065)
Exchange rate differences and differences in the measurement base.	958	166	(2,594)
Changes to deferred taxes as a result of changes in tax rates	635	-	-
Other, net	766	458	1,191
Taxes on income - in Statements of Operations	15,953	8,435	9,853

Note 14 – Taxes on Income (continued):

i. Tax Assessments

In January 2016 the Company reached an agreement with the Israeli Tax Authority regarding the assessment it received for 2010. The influences of the sum in question were included as the Company's tax expenses in 2015.

In December 2015 the Company received an assessment to the best of its judgment, for 2011. In accordance with the assessment items, an additional tax has been imposed that includes interest of 5.1 million NIS. The Company disputes the position of the assessment clerk, and it estimates that it has adequate defensive arguments for the assessment items, and the probability its position is accepted is higher than the probability it is rejected. Accordingly, no provision was included in the Financial Statements.
This assessment has not yet been closed as of the end of 2016.
On November 19 2015 the Knesset passed its second and third vote on the Economic Streamlining Bill (Legislative Amendments for Achieving Budget Goals for the 2015 and 2016 Budget Years), 2015, which included an amendment to the Income Tax Ordinance that expended the statute of limitation for self-assessments submitted by assesses, regarding self-assessments for the 2013 tax year onward, for a period of 4 years from the end of the tax year on which the assessment was filed. Until of the approval of this amendment, the statute of limitations for self-assessments was 3 years from the end of the tax year in which the assessment was filed.

A self-assessment by a U.S. subsidiary up to the end of 2013 is considered final.

A tax assessment by a German subsidiary up to the end of 2010 is considered final.

j. The Influence of the Adoption of IFRS in Israel on Tax Liability

The Company has prepared its Financial Statements in accordance with the IFRS as of January 1, 2008.

IFRS standards differ from generally accepted Israeli accounting rules, and accordingly, preparation of financial statements as per IFRS standards may reflect a financial situation, operating results and cash flows materially different from those presented according to generally accepted Israeli accounting rules.

In accordance with laws issued in 2010, 2012 and 2014 (hereinafter – the Temporary Orders), in determining taxable income for tax years 2007-2013, Accounting Standard 29 of the Israeli Accounting Standards Board shall not apply, even if implemented in the Financial Statements for the tax years in question. The significance of the Temporary Orders is that the IFRS standards will not apply when calculating the income reported for tax purposes for the tax years in question.

Over the course of 2014 a Law Memorandum was published for an amendment to the Income Tax Ordinance (hereinafter - the Law Memorandum) deriving from the implementation of IFRS standards in the Financial Statements. The Law Memorandum, as a rule, adopts the IFRS standards. At the same ever, the Law Memorandum proposes a number of amendments to the Income Tax Ordnance, which will clarify the mode of calculation of taxable income in cases where a lack of clarity exists, and the IFRS standards are not compatible with Israeli tax principles. Legislation regarding the Law Memorandum has yet to be completed and is doubtful that it will be completed in the foreseeable future.

Due to the failure to complete legislation on the matter of the Law Memorandum, Company management estimates that the Temporary Order set for 2007 to 2013 will be extended to 2014-2016 as well. As a result, Company management predicts at this stage that the new legislation will not apply to tax years prior to 2017.

Note 14 – Taxes on Income (continued):

Taking into account the Temporary Orders applicable to tax years 2007 to 2013 and the Company's estimate regarding the likelihood of their extension to 2014-2016, as noted above, the Company calculated its taxable income for tax years 2007 to 2016 based on Israeli accounting standards in effect prior to the adoption of IFRS standards in Israel, subject to certain adjustments.

Note 15 – Earnings per Share

a. Basic

The basic profit per share calculated by dividing the profit charged to parent company shareholders by the weighted average of the number of ordinary shares issued, with the exception of ordinary shares purchased by the Company and held as treasury shares.

	Year		
	2016	**2015**	**2014**
Net earnings attributed to Company shareholders (in thousands of dollars)	51,782	43,828	46,760
Weighted average of the number of ordinary shares issued (in thousands)	26,867	26,625	26,217
Less treasury shares (in thousands)	1,536	1,306	1,321
Number of shares for calculating basic earnings per share	25,331	25,319	24,896
Basic earnings per share (in dollars per share)	2.04	1.73	1.88

b. Diluted

The diluted profit per share in calculated by adapting the weighted average of the number of ordinary shares in circulation less treasure shares while including potential ordinary shares with a diluting effect.

	Year		
	2016	**2015**	**2014**
Net income used for calculating diluted earnings per share (in thousands of dollars)	51,782	43,828	46,760
Weighted average of the number of ordinary shares issued (in thousands)			
Used for the calculation of profit per share	26,867	26,625	26,217
Less treasury shares (in thousands)	1,536	1,306	1,321
Adjustment due to incremental shares from the exercise of options and restricted share units (in thousands)	189	349	745
Weighted average of the number of ordinary shares for calculating diluted earnings per share (in thousands)	25,520	25,668	25,641
Net diluted earnings per share (dollars per share)	2.03	1.71	1.82
In calculating profit per share, adaptations due to non-diluted options (in thousands) were not taken into account	284	96	-

Note 16 – Engagements

a) The Company and its subsidiaries lease a number of buildings via operating lease, and shops rented by the Delta Israel, Schiesser in Europe, Delta Premium Labels in the United States and Europe, and the LMM brand in the United States areas of activity. Lease of these assets will expire on various dates between 2017 and 2033.
Minimum future annual lease payments (accounting for optional extensions likely to be exercised) for each year from 2017 to 2021 will amount to $46.4 million, $41.1 million, $36.7 million, $30.7 million and $26.2 million, respectively.
In the period between 2022 and the end of the lease term, accumulated lease payments would amount to $66.6 million.
Lease expenses for 2016, 2015 and 2014 amounted to $34.1, $26.7 and $27.4 million, respectively.

b) Regarding liability for minimum royalty payments, see Notes 12 and 9c.

c) The Company and some of its subsidiaries provided bank collateral as of December 31 2016 mainly for rental agreements and royalties agreements they are a party to, to the sum of $17.1 million.

Note 17 – Transactions and Balances with Interested and Related Parties

The Group is under the control of Mr. Isaac Dabah, who holds, via the GMM Capital LLC Fund and directly, some 48.8% of the Company's shares. Sterling Macro, a fund managed by Mr. Dabah, also holds 5.3% of the Company's shares as of the reported date.

“Interested parties" - according to the definitions of “interested parties” in the Securities Regulations (Yearly Financial Statements), 2010.

"Related Parties" – As defined in IAS 24, Related Party Disclosures.
Key Company management personnel included together under the definition of “related parties” as per AS 24, include the members of the Board of Directors and the Company's CEO.

a. Transactions with interested parties and related parties:

Benefits were given interested parties and related parties as follows:

	For the Year Ending December 31		
	2016	**2015**	**2014**
Salary and benefit component of options and blocked share units granted interested and related parties employed by the Company or a subsidiary:			
Sum - in thousands of dollars, see (1) and (3) below	2,370	2,725	2,515
Number of people to whom benefits refer	3	3	3
Pay, consulting expenses, expense refunds paid and the benefit component for options granted directors:			
Sum - in thousands of dollars, see (2) below	291	244	228
Number of people to whom benefits refer	6	6	6
Purchases from related parties – companies handled according to the equity method	19,132	32,623	26,074

Note 17 – Transactions and Balances with Interested and Related Parties (continued):

Approval of Terms of Employment of Interested Party

Ratification of the terms of employment of the daughter of the Company's controlling shareholder, acting as Vice President Kids Division DG Premium Brands.
On January 2 2017 the general meeting of Company shareholders approved the new terms of the employment of Ms. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company's CEO and controlling shareholder, as Vice President Kids Division DG Premium Brand, which came into effect on January 1 2017, all in accordance with the recommendations of the Company Remuneration Committee and Board of Directors, which examined among other things, Ms. Dabah's new position – which constitutes a significant change and advancement from her previous position, taking into account her authorities, the responsibility shall will bear and the operating turnover of the department she will lead and manage – and in the end they confirmed that the new terms of employment were acceptable, reasonable and fair under the circumstances. The review of the terms Ms. Dabah's employment, actions and contribution to the Company in her previous position, and of the adjustment of her yearly remuneration to the scope of her work, was carried out on November 15 2016 by the Remuneration Committee and the Board of Directors, and since then neither the Committee members nor the Board of Directors have been informed of any changes to terms and circumstances that would justify additional discussion of these terms.

b. Balances with Interested and Related Parties

	December 31	
	2016	2015
	Thousands of Dollars	
Current credit balance due to salary expenses for directors:		
Balance as of the balance sheet date	69	63
Current debit balance due to salaries and bonuses for interested and related parties employed at the Company:		
Balance as of the balance sheet date	824	2,492
Current credit balances for purchases from related parties as of the balance sheet date – companies treated according to the equity method	2,784	3,252

c. Director Compensation and Insurance

The Company has a remuneration and insurance arrangement for directors and senior executives, including senior executives in subsidiaries in which the Company holds at least 25% of its stock capital. The indemnification sum is limited to 25% of the Company's equity according to its latest Financial Statements prior to the payment of the indemnification in practice. Out of the indemnification sum in question, $10 million is covered by an insurance policy with yearly premium of $31,000.

Note 17 – Transactions and Balances with Interested and Related Parties (continued):

d. Negligible Transactions with Interested Parties

The Company's Board of Directors decided to adopt guidelines and rules for the classification of a transaction as a "negligible transaction" as defined in Regulation 41.(a).(3) of the Securities Regulations (Financial Statements), 2010. These rules and guidelines are also used to determine the extent of disclosure as regards transactions on behalf of a company with a controlling shareholders or in which controlling shareholders have personal interest as defined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 and Regulation 54 of the Securities Regulations (Prospectus Details and Prospectus Draft – Structure and Form), 1969, as well as to determine the need to submit an immediate report for such a Company transaction, as set in Regulation 37.(a).(6) of the Securities Regulations (Immediate and Periodic Reports), 1970.

The Company Board of Directors decided that a transaction between a company with a controlling shareholder or where the controlling shareholder has a personal interest in it shall be considered a "negligible transaction" if all of the following conditions are met:

1) It is not an exceptional transaction as defined in Section 1 of the Companies Law, 1999;
2) The transaction is not expected to have a material or strategic impact on the Company, from the qualitative point of view of the transaction.
3) Its impact on the relevant parameter (as noted below) is at a rate of up to 1%. In this regard, the parameter relevant to the transaction shall be examined as the relevant of the following parameters: (a) sales ratio - meaning, total sales covered by the transaction divided by the Company's total yearly sales; (b) cost of sales ratio - meaning the cost of the transaction divide by the Company's total yearly sales; (c) profits ratio – meaning the projected operating profit or loss attributed to the transaction divided by the yearly profit or loss; (d) asset ratio - meaning, the scope of assets covered by the transaction divided by the sum of the Company's assets; (e) liabilities ratio – meaning liabilities covered by the transaction divided by the Company's total liabilities ;(f) operational expenses ratio – meaning the scope of expenses covered by the transaction divided by the Company's total operating expenses.
   The impact of the transaction shall be examined at the yearly level, on the basis of the Company's yearly audited (consolidated) Financial Statements.
   In cases in which, according to the Company's judgment, all of the aforementioned quantitative criteria are irrelevant for the determination of the negligibility of the transaction, the transaction shall be considered negligible, in accordance with a different relevant quantitative criterion, determined by the Company, so long as the relevant criterion calculated for this transaction shall be at a rate that does not exceed 1% of the relevant parameter.
4) In examining the negligibility of a transaction that is supposed to occur in the future, examination must be carried out, among other things, of the likelihood of its realization and the realization of its influences.
5) Separate transactions with a dependent relationship, in such a manner that they are in practice part of the same engagement – shall be examined as a single transaction.

   The negligibility of the transaction shall be examined by the Company' CFO, who will report to the Chair of the Audit Committee on the transaction and the result of the test they conducted as early as possible.

   Despite the above, the Company may report controlling shareholder transactions in cases in which it has no obligation to do so in accordance with the above.

Note 18 – Additional Information on Financial Statements

a. Cash and Cash Equivalents

	December 31	
	2016	2015
	Thousands of Dollars	
Cash in the bank	81,947	67,532
Short-term bank deposits	-	100,000
Cash and cash equivalents	81,947	167,532

b. Receivables

1. Customers

	December 31	
	2016	2015
	Thousands of Dollars	
Outstanding debt	150,564	103,440
Checks collectible	2,480	2,190
	153,044	105,630
The item is presented net of a provision for doubtful debt to the amount of	1,175	655

a. As of December 31, 2016, a trade receivables balance of $3.3 million ($1.7 million – December 31 2015) is a balance exceeding the contractual payment date for which no provision has been made to doubtful debts and which has yet to be repaid by the approval of these Financial Statements. This concerns a number of customers independent of each other who have no insolvency events in their past. The increase in trade receivable balance exceeding the contractual payment date largely derived from the consolidation of the results of the Delta Premium Labels area of activity.

The Company periodically reviews the aging of its customer debts and makes a provision to doubtful debt for customers which the Company believes are insolent.

Movements in Company provisions to doubtful debts in the customers item are as follows:

	December 31	
	2016	2015
	Thousands of Dollars	
Balance at the beginning of the period	655	2,020
Entry into consolidation	915	-
Decrease in provision to doubtful debts	(360)	(1,231)
Exchange rate differences	(35)	(134)
Balance at the end of the period	1,175	655

b. Doubtful and bad debt expenses (revenues)

	Year Ended December 31	
	2016	2015
	Thousands of Dollars	
For customers:		
Doubtful debts	(71)	(417)
Bad debts	-	147
	(71)	(270)

Note 18 – Additional Information on Financial Statements (continued):

The creation and release of provisions to doubtful debts due to trade receivables balances were included under "administrative and general expenses" in the Statement of Operations. Trade receivable balances charged to doubtful debt are written off when their collection is not expected.

2. Other receivables and debit balances

	December 31	
	2016	2015
	Thousands of Dollars	
Government institutions	1,707	891
Advance payments to suppliers and subcontractors	1,365	1,901
Prepaid expenses	5,710	5,852
Receivables due to hedging agreements	1,618	2,216
Revenues receivable	2,303	1,774
Miscellaneous	4,277	3,248
	16,980	15,882

The fair value of the financial items from the balance of other receivables is close to the value presented in the books. The balances included in other receivables 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 the whole group less non-financial balances (from advanced expenses) for these receivables.

c. Inventory

Composition of inventory:

	December 31	
	2016	2015
	Thousands of Dollars	
Finished Goods	195,376	168,003
Goods in process	19,196	11,264
Raw Materials	16,453	13,907
Packaging and other materials	2,089	2,998
	233,114	196,172

As of December 31 2016, the inventory balance that has undergone depreciation is presented less the depreciation provision in the amount of $30.2 million (as of December 31 2015 - $14.4 million). The increase in the provision as of December 31 2016 largely derived as a result of the purchase of the Delta Premium Brands area of activity. The inventory balance is presented as cost or realization value, whichever is lower, less sales costs. The change in the depreciation provision is included under "sales costs" in the Report on Comprehensive Earnings.

Note 18 – Additional Information on Financial Statements (continued):

d. Short-term bank loans

1. Total credit lines including extra-balance sheet credit provided the Company by the banks for short and long terms as of December 31 2016 amounted to a total of $225 million ($199 million in 2015), $162 million of which was unused ($190 million in 2015). In addition to these lines of credit, as of December 31 2016, the Company has cash to the amount of $82 million, so that the sum of the Company's unused credit resources amounted to $244 million as of December 31 2016 ($347 million in 2015). The sum of the above credit sources includes $25 million in non-binding lines. The Company signed binding credit frameworks with Israeli banks to the sum of $75 million over the course of the third quarter of 2016.As of this report date, the interest rate of these short-term loans is Libor + 2%-2.25% per year.

2. On December 1 2016, Delta USA signed a credit agreement with Bank Leumi IDB, Bank Leumi U.S.A. and Bank Hapoalim Ltd. for a two-year period. The total short-term revolving loan is $80 million. This credit agreement is guaranteed by an unlimited floating lien on the assets and rights of Delta U.S.A. and on some of the assets of its subsidiaries. As of December 31 2016 the credit facility has undergone a partial utilization of $26 million. As of this report, the credit rate for short-term loans is LIBOR + 2.25% per year. In certain cases, the revision to the agreement allows loans at Prime interest rates.

   The credit agreement depends upon the following financial stipulations:
   Delta USA's net yearly profit shall not be below $1.
   Tangible equity defined as equity less intangible assets (mainly goodwill) shall not drop below $28 million.
   The ratio between tangible equity and total assets less intangible assets did not drop below 20%.

   As part pf the credit agreement, the Subsidiary, Delta USA, was given the option of redeeming the loans granted it by the Parent Company under the condition that it complies with the above financial stipulations.

   The current agreement shall remain in effect until December 1, 2018.

   As of the balance sheet date and as of this report, the Company has complied with the financial stipulations in question.

3. The fair value of the short-term loans is equal to its value in the books as the influence of capitalization is not material.

Note 18 – Additional Information on Financial Statements (continued):

e. Other Accounts Payable

	December 31	
	2016	2015
	Thousands of Dollars	
Employees and institutions in respect of salary	25,577	20,602
Accured payable	27,275	14,987
Liability for minimum royalty payments	11,691	10,560
Institutions	6,149	4,980
Provision for onerous contract	6,478	3,174
Provision for vacation and convalescence pay	5,342	4,874
Restructuring expenses payable, see Note 18f.	3,913	-
Interest payable with respect to debentures, see Note 11	3,446	2,392
Others	5,896	4,238
	95,767	65,807

The book value of the payables and other credit balances constitutes a close approximation of their fair value, as the impact of the capitalization is not material.

Note 18 – Additional Information on Financial Statements (continued):

f. Restructuring Expenses

2016 Plan

During the third quarter of 2016, the Company included restructuring expenses in its Financial Statements totaling $6.9 million in the Delta Premium Brands and Global Upper Market areas of activity.

Restructuring Expenses in Delta Premium Brands Area of Activity

As part of the activity purchase plan, the Company decided upon streamlining steps that include, among other things, consolidating the 7 For All Mankind and Splendid Ella Moss headquarters, transferring showrooms and merging them into the Company's New York showrooms and closing losing shops, which amounted to a total of $4.4 million; of these $2.5 million in cash for compensation and additional severance pay costs, and $1.9 million not in cash and attributed to the costs involved in closing a New York show room.

Restructuring Expenses in the Global Upper Market Area of Activity

As part of a strategy to lower production costs and in light of a drop in production orders in its Israeli plant, the Company has decided to continue to reduce seamless weaving activity in Israel. The sum of reorganization expenses involved in this decision amount to $2.5 million, of which $0.6 million is not in cash for the amortization of the value of fixed assets, and the balance is for severance pay costs.

2015 plan

Over the course of the fourth quarter of 2015, the Company included reorganization expenses in its Financial Statements totaling $1.7 million for streamlining steps at the Company's plant in Egypt as well as as a result of the transfer of its offices in Israel to Caesarea. These expenses refer to severance pay.

As part of the Company's risk management policy, and in order to decrease the complexity of the activity of the Delta USA area of activity, the Company decided in the fourth quarter of the year to close the retail chain it operates for the Little Miss Matched label activity. Regarding this decision, costs arose for the Company to the sum of $4.0 million, including a $1.9 impairment of the brand, $0.2 million in impairment of fixed asset items in shops and a $1.9 million influence of an encumbering contract due to rental agreements in shops closed.

2014 Plan

As part of the Company's risk management policy and following the Company's strategy of maintaining operational flexibility, in the third quarter of 2014 the Company decided on streamlining steps that include transferring part of the development and manufacturing functions operating at the Company's London and Israeli sites to sites in East Asia, among other things in order to reduce production and development complexity while improving customer service.

These streamlining steps include a decrease in the scope of production and a decrease in overhead and concluded over the course of the third quarter of 2015. Restructuring expenses for these steps included $0.9 million in severance pay expenses.

2013 Plan

As part of the Company's risk management policy and following the Company's strategy of maintaining operational flexibility and improving service for its customers, in the third quarter of 2013 the Company decided on streamlining steps that include transferring manufacturing functions to sites in East Asia and decrease the activity of the Egyptian plant, among other things in order to reduce production

Note 18 – Additional Information on Financial Statements (continued):

complexity at the plant and improve customer service. These streamlining steps include a decrease in the scope of production (consolidating 6 production sites into 4 sites) and a decrease in overhead and concluded over the course of the third quarter of 2014.

Restructuring expenses for these steps amounted to $3.5 million and include $1.1 million in cash for severance pay costs and $2.4 million for the impairment of fixed assets.

The Company completed the plan in question over the course of the third quarter of 2014. Restructuring costs in practice were $0.7 million lower than the assessment included in the 2013 Financial Statements. This decrease in restructuring expenses was included as revenue in 2014.

1. **Movement in provision due to employee expenses included in the restructuring expenses over the course of 2016 and 2015:**

	2016	2015	2014
	Thousands of Dollars		
Opening balance	1,257	628	949
Additional provisions during the year	4,398	1,693	887
Utilization during the year	(3,639)	(1,064)	(503)
Cancellation of a provision to 2013 plan	-	-	(705)
Closing balance	2,016	1,257	628

2. **The principal components of the net expenses for the restructuring plan are as follows:**

	For the Year Ending December 31		
	2016	2015	2014
	Thousands of Dollars		
Costs associated with workforce reduction, see above	4,398	1,693	182
Impairment of fixed assets and intangible assets	600	2,146	-
Other expenses (revenues)	1,897	1,908	-
	6,895	5,747	182

g. Sales

On the matter of sales to a primary customer see Note 5e.

h. Cost of Sales

	For the Year Ending December 31		
	2016	2015	2014
	Thousands of Dollars		
Purchases from subcontractors	521,178	500,015	489,292
Materials consumed	81,210	95,220	93,235
Salaries and associated expenses	76,004	64,748	63,951
Shipping and customs	55,560	62,781	58,946
Royalties	21,529	18,412	14,802
Other manufacturing expenses	15,970	31,400	13,464
Depreciation and amortization	8,314	9,323	7,566
Decrease (increase) in inventory of finished goods and in-process inventory	7,885	(18,638)	(27,458)
	787,650	763,261	713,798

Note 18 – Additional Information on Financial Statements (continued):

i. Selling, Marketing, General and Administrative expenses

	For the Year Ending December 31		
	2016	2015	2014
	Thousands of Dollars		
Sellingand marketing:			
Salaries and associated expenses	128,028	105,123	106,209
Rent and maintenance	50,928	40,314	41,977
Advertising	20,505	14,859	13,098
Shipping, packaging, storage and customs	12,120	9,583	9,402
Concessionaire and agent commissions	12,557	9,160	8,793
Depreciation and amortization	12,390	8,582	9,370
Amortization of intangible assets, with the exception of software	1,532	1,284	1,033
Other expenses	24,467	19,378	21,625
Total sales and marketing expenses	262,527	208,283	211,507
General and administrative :			
Salaries and associated expenses	27,142	23,641	23,032
Professional fees	7,877	4,913	5,155
Rent and office maintenance	2,378	1,721	1,534
Travel, hospitality and entertainment	1,898	1,680	1,453
Office expenses	840	795	768
Doubtful debt and bad debt	(71)	(270)	(553)
Depreciation and amortization	1,559	580	562
Telephone and postage	621	530	480
Other expenses	6,179	3,047	3,349
Total administrative and general expenses	48,423	36,637	35,780
Total sales, marketing, general and administrative expenses	310,950	244,920	247,287

j. Expenses by Type

	For the Year Ending December 31		
	2016	2015	2014
	In Thousands of Dollars		
Purchases from subcontractors	521,178	500,015	489,292
Wages and payroll	231,174	193,512	193,192
Materials consumed	125,957	95,220	93,235
Shipping, packaging, storage and customs	67,680	72,364	68,348
Depreciation and amortization	23,795	19,769	18,602
Royalties expenses, net	21,529	18,412	14,802
Advertising expenses	20,505	14,859	13,098
Other expenses	123,641	112,668	98,045
Change in finished goods inventory and in-process inventory	(36,859)	(18,638)	(27,529)
Total cost of goods sold, selling and marketing expenses, general and administrative and impairment of fixed assets	1,098,600	1,008,181	961,085

Note 18 – Additional Information on Financial Statements (continued):

k. Other Income, net

	For the Year Ending December 31		
	2016	**2015**	**2014**
	Thousands of Dollars		
Capital gain (loss) from the sale of fixed assets	54	(203)	1,257
Capital gains from the purchase of subsidiary, net	-	233	-
Profit from financial instruments not intended for accounting hedging	778	2,178	1,417
Total other revenues, net	832	2,208	2,674

l. Financing expenses, net

	For the Year Ending December 31		
	2016	**2015**	**2014**
	In Thousands of Dollars		
Interest expenses due to on credit and loans from banking corporations	2,103	1,879	2,427
Interest expenses from debentures, see Note 11	11,093	11,707	9,718
Other interest expenses	295	758	628
Capitalization component of long-term assets and liabilities	1,803	1,422	1,908
Interest expenses and commissions due to discount arrangement with customers, see Note 2l	725	712	488
Total financing expenses	16,019	16,478	15,169
Interest income from banking corporations and others	(552)	(626)	(1,940)
Exchange rate expenses, net	1,953	742	2,577
Total financial expenses, net	17,420	16,594	15,806

Note 19 – Details on Companies Held Directly and Through Subsidiaries as of December 31 2016

Holding Company	Company Name	Ownership and Control Rate	
Delta Galil Industries Ltd.	Delta Galil USA. Inc.	100%	Subsidiary
	Delta Galil Holland B.V.	100%	Subsidiary
	Delta Textiles (London) Ltd	100%	Subsidiary
	Delta Galil Vietnam Co. Ltd	100%	Subsidiary
	Delta Galil UK Limited	100%	Subsidiary
	Delta Galil Properties (1988) Ltd.	100%	Subsidiary
	Delta Alfa Corap Ve Tekstil San Tlc A.S.	100%	Subsidiary
Delta Galil Properties (1988) Ltd.	Zhejiang Guangtai Delta Socks CO LTD	50%	Associate
Delta Galil USA. Inc.	Wundies Bangladesh Limited	100%	Subsidiary
	Delta Galil Premium Brand LLC	100%	Subsidiary
	Seven for All Mankind LLC	100%	Subsidiary
	Mo Industries LLC	100%	Subsidiary
	SFAM/440 E/ 26TH STREET LLC	100%	Subsidiary
Delta Galil Holland B.V.	Delta Textile Egypt - Free Zone S.A.E.	100%	Subsidiary
	Century Wear Corporation (WLL)	50%	Subsidiary
	Delta Textile Upper Egypt	100%	Subsidiary
	Thai Progress Garment Co. Ltd	100%	Subsidiary
	Delta Textile Bulgaria Ltd.	100%	Subsidiary
	Delta Galil Hong Kong Ltd.	100%	Subsidiary
	Dominion Hosiery mills Inc.	100%	Subsidiary
	Delta Galil Hungary Kft	100%	Subsidiary
Delta Galil Hong Kong Ltd.	Delta Galil Limited Apparel (Guangzhou) Co. Ltd.	100%	Subsidiary
Delta Textiles (London) Ltd	Delta Galil Textile Germany GmbH & Co. KG	100%	Subsidiary
	Sport Socks company (Belgium) Ltd	100%	Subsidiary
	Delta Galil Germany GMBH	100%	Subsidiary
	Seven for All Mankind International SAGL	100%	Subsidiary

Note 19 – Details on Companies Held Directly and Through Subsidiaries as of December 31 2016 (continued)**:**

Holding Company	**Company Name**	**Ownership and Control Rate**	
Delta Galil Textile Germany GmbH & Co. KG	Schiesser AG	100%	Subsidiary
Schiesser AG	Schiesser Marken GmbH	100%	Subsidiary
	Schiesser International B.V Nederland	100%	Subsidiary
	Schiesser International A/S Denmark	100%	Subsidiary
	Schiesser Schweiz AG Switzerland	100%	Subsidiary
	Schiesser Ges m.b.H. Austria	100%	Subsidiary
	Pleas a.s.	100%	Subsidiary
	Gemtex a.s	100%	Subsidiary
	Reliable Global Sourcing Ltd, Hong Kong	100%	Subsidiary

Note 20 – Events Subsequent to the Balance Sheet Date

Dividend distribution

On February 22 2017 the Company decided to distribute dividends to the amount of $3.5 million, at 13.9 cents per share, to be distributed on March 14 2017 according to the dollar’s representative rate of exchange as published the day prior to the payment date.
The determining date and X date for this distribution shall be March 2, 2017.

Delta Galil Industries Ltd.

Chapter D

Additional Information Regarding the Corporation

As of December 31 2016

Chapter D – Additional Information Regarding the Corporation

Regulation 10a – Concise Quarterly Statements of Comprehensive Earnings

See Paragraph 2.2 of the Report of the Board of Directors.

Regulation 11 – List of Investments in Material Subsidiaries, Direct and Indirect, as of December 31 2016

Fully-controlled and fully-held subsidiaries (100%)	Number of Shares Held by the Company, of Any Type	Notation Value of the Shares Foreign Currency	Cost of Investment in Thousands of Dollars	Balance Sheet Value In Thousands of Dollars	Loans and Capital Notes in Thousand s of Dollars
Delta Galil USA Inc.	100	$10	39,126	125,008	114,000
Delta (Textile) London Ltd.	10,002	GBP10,000	12,941	115,464	
Delta Galil Holland B.V.	250	$21,000	21	66,830	
Delta Galil UK Ltd.	1	€1	53,821	45,981	
Delta Galil Vietnam CO.LTD	28,126,000,000	VND 28,126,000,000	1,300	(363)	15,700

Regulation 13 – Revenues of Material Subsidiaries and the Corporation's Revenues from Them as of the Report

	2016 In Thousands of Dollars				
Name of Subsidiary (3)	**Profit (Loss) Before Tax**	**Net Profit (Loss) (After Tax)**	**Total Comprehensive Earnings**	**Interest Revenues Received from Subsidiary (1)**	**Dividends Received from Subsidiary (2)**
Delta Galil USA Inc.	13,065	8,206	7,227	3,897	-
Delta (Textile) London Ltd.	19,781	17,428	12,991	603	-
Delta Galil Holland B.V.	9,133	8,080	8,100	-	120
Delta Galil UK Ltd.	(893)	(893)	(893)	-	-

(1) Data is on a cumulative basis and refers to interest income received from subsidiaries for 2016. Total interest received in cash in December 2016 is $3,219,000.

(2) Total dividends received in cash in 2016 are $120,000. This sum was received on the following dates: $60,000 in May, $30,000 in August and $30,000 in November 2016.

(3) The information includes the profits (loss) of secondary subsidiaries as included in the profits of the subsidiaries.

Regulation 20 – Stock Market Trade – Securities Listed for Trade – Dates and Reasons for Trade Discontinuation

Except for the exercise of (non-tradable) options by Company employees over the course of 2016, the Company issued no shares.

During the reported period, trade of the Company's securities listed for trade on the stock exchange did not stop.

Regulation 21 – Remuneration of Interested Parties and Senior Officers

a. The following are details of cost of the Company for remuneration (remuneration given in the reported year, including the Company's remuneration obligations for the reported year) for the five most highly compensated of the Group's senior officers, including the three senior officers with the highest remuneration in the Company who were remunerated in connection to their service in the Company itself, in USD and in NIS:

Remuneration Received by					Remuneration for Services [1]						
Name	Job Title	Scope of Employment	Gender	Holdings in the Corporation's Equity [3]	Salary, Social Benefits and Associated Costs	Current Bonus	Long-Term Bonus [4]	Total Bonus	Share-Based Payment [2]	Total	Total in NIS (According to Average Exchange Rate)
					In US dollars						
Isaac Dabah	CEO and Director	100%	M	54.07%	796,975		625,000	625,000		1,421,975	5,458,445
Maurice Reznik	President of Delta U.S.A. and CEO of Ladies Operating Activity in Delta U.S.A	100%	M	0.10%	736,755	111,230		111,230	379,167	1,227,152	4,710,592
Yossi Hajaj	Deputy CEO and Chief of Operations	100%	M	0.32%	467,484	302,092		302,092	208,234	977,810	3,753,456
Yitzhak Weinstock	COO of Delta U.S.A and Company director	100%	M	0.39%	485,408	151,823		151,823	113,069	750,300	2,880,128
Jacob Heen	Chief Financial Officer	100%	M	-	398,660	124,627		124,627	173,296	696,583	2,673,928

(1) In terms of yearly cost to the Company

(2) Share-based payment includes the benefit component for options and blocked share units granted executives as part of the Company's 2009 and 2014 plans, calculated according to the B&S Model, and as included as an expense in the Company's reported in the reported year. Note that this component was not paid in cash. For further information regarding the exercise price and the value of the options see Note 13 to the Financial Statements, in Chapter C of this periodic report. For details regarding the officers' holdings in Company shares and convertible securities see the Company's immediate report from January 5 2017 (ref. no. 2017-01-001804), included by way of referral.

(3) Mr. Dabah's stake noted in the above table includes holdings of Sterling Macro (a fund managed by Mr. Dabah) and U/A/D Trust holdings (held by Mr. Dabah and his wife, Ms. Yvette Dabah).

(4) The long-term bonus was not paid in practice and refers to meeting the Company's performance in 2016-2018, if achieved. Company management estimates that it is highly likely that the terms for paying the bonus will be met, and therefore the long-term bonus is expected to be paid in full.

b. The following are details of remuneration to interested parties and to directors (except for Mr. Yitzhak Weinstock and Mr. Isaac Dabah, who are include in the table detailed in Section A above), in USD and in NIS:

Name	Job Title	Scope of Employment	Holdings in the Corporation's Equity	Remuneration for Services [1] Salary, Social Benefits and Associated Costs	Bonus	Total	Total in NIS
				In US dollars			
Directors	6 in number		* 10.29%	291,660	-	291,660	1,117,058
Gloria Dabah [2]	Vice President Kids Division DG Premium Brands	100%	-	160,330	37,508	197,838	759,425

* Refers to the 10.03% stake of Mr. Noam Lautman, 0.20% stake of Mr. Gideon Chitayat 0.04% stake of Mr. Israel Baum, 0.01% stake of Mr. Yechezkel Dovrat and a 0.01% stake of Mr. Shaul Ben Ze'ev; the remaining directors do not hold Company shares, with the exception of Mr. Yitzhak Weinstock as detailed in a. above.

(1) In terms of yearly cost to the Company

(2) For further information regarding the terms of employment of Ms. Gloria Dabah, see Note 17 to the Financial Statements, in Chapter C of this periodic report as well as regulation 21 below.

Remuneration sums for directors Shaul Ben Ze'ev, Yechezkel Dovrat, Gideon Chitayat and Tzipporah Carmon are each paid to companies under their full control: "Meishar Omer Ltd.", "Yechezkel Dovrat Consulting and Investments Ltd.", "M.B.S. Ltd." and "Tzippah Carmon Exports Ltd.", respectively.

Mr. Isaac Dabah, Company CEO and Director

Regarding the terms of his employment as Company CEO in 2016, as approved by the Company's Remuneration Committee, Board of Directors and general meeting, see Section 3.1 of the meeting convening report issued by the Company on December 16 2015 (ref: 2015-01-181197) and the immediate report on the results of the January 20 2016 general meeting (ref: 2016-01-014926), included by way of referral.

In accordance with the Company's 2016 business results and in light of the threshold conditions of Mr. Dabah's employment agreement, for net profit after neutralizing non-recurring items in 2016 to the sum of $50 million, Mr. Dabah is not entitled to a current bonus for 2016. As noted in Note 4 of in a. above, the long-term benefit component refers to the Company's performance in 2016-2018. Company management estimates that it is highly likely that the terms for paying the bonus will be met, and therefore it is expected to be paid in full.

Mr. Maurice Reznik , President of Delta USA and Ladies operating Activity at Delta USA

Mr. Maurice Reznik began working at the Company on January 5 2015; the following are the key terms of his employment:

Mr. Reznick's gross yearly salary is $700,000.

According to his employment agreement, Mr. Reznick is entitled to an annual bonus based on Company policy and on goals set. The yearly bonus shall not exceed 12 monthly salaries. In light of the above and in accordance with the goals set for Mr. Reznick, Mr. Reznick is entitled to a total bonus of $111,230 for 2016. This bonus is equivalents to fewer than 3 of Mr. Reznik's salaries.

By virtue of the agreement, Mr. Reznick is entitled to various social benefits, such as 4 weeks' vacation each year, to medical insurance as accepted at Delta U.S.A, reimbursements and a vehicle stipend of $700 per month.

Mr. Reznick's employment contract was set for a period of one year, at the conclusion of which it will be renewed for periods of one year for three further years, unless Delta U.S.A. or Mr. Resnick gave 90 days' written notice of their desire to conclude the agreement.

Mr. Reznick shall be entitled to an adaptation bonus equal to 6 monthly salaries, including social benefits.

In early 2015 Mr. Reznick was granted 51,100 restricted share units, which are expected to vest in 4 equal batches. The first two batches have vested as of this report.

Mr. Reznick's terms of service and employment include a 6-month occupational restriction and a non-compete clause for a period of 12 months from the end of his employment at Delta U.S.A.

Mr. Yossi Hajaj, Deputy CEO and Chief Operations Officer – the following are key terms of Mr. Hajaj's employment at the Company:

Mr. Hajaj's gross monthly salary is 110,000 NIS.

Mr. Hajaj is entitled to social benefits such as 23 days of vacation, various expense reimbursements such as telephone expenses, an education fund, executive insurance, vehicle and mobile phone.

Mr. Hajaj is entitled to a yearly bonus based on Company policy and goals set. Meeting the Company's operating profit goal (EBIT) (50% of the bonus) and meeting measurable personal goals (50% of the bonus) the yearly bonus shall not exceed 12 of Mr. Hajaj's monthly salaries. In light of the above and in accordance with the goals set for Mr. Hajaj, Mr. Hajaj is entitled to a bonus of $302,092 for 2016.

Mr. Hajaj's employment agreement is not limited in time and either of the parties may bring it to conclusion by providing advance written notice to the other party. The Company may discontinue Mr. Hajaj's employment with 180 days' written notice, while according to the parties' written agreement made after the contract was signed, Mr. Hajaj may end work at the Company with 90 days' written notice.

<u>Yitzhak Weinstock, Delta USA Chief Operating Officer and Company Director</u> – the following are the key points of the terms of Mr. Weinstock's employment at the Company:

On October 21 2015 the general meeting of Company shareholders approved the new terms of employment of Mr. Yitzhak Weinstock starting August 1 2015, according to which Mr. Weinstock's total gross salary was $460,000.

The terms of Mr. Weinstock's employment include associated benefits as accepted at the subsidiary Delta USA, including health insurance, executive insurance (401k), and reimbursement of expenses made pursuant to his work according to the rules and guidelines applicable to Delta USA employees, as they may be from time to time.

Mr. Weinstock's employment is not limited in time and either of the parties may conclude the employment by providing three months' advance notice to the other party, with the exception of predefined cases in which the Company may terminate the agreement immediately.

Mr. Weinstock is entitled to an annual bonus based on Company policy and goals set – meeting the Company's operating profit goal (EBIT) (30% of the bonus) and that of subsidiary Delta USA (50% of the bonus) and meeting measurable personal goals (20% of the bonus) The yearly bonus in question shall not exceed 50% of Mr. Weinstock's yearly salary. In light of Mr. Weinstock's compliance with the goals set of him, he is entitled to a bonus of $151,823 for 2016.

<u>Mr. Jacob Heen, Chief Financial Officer – the following are key terms of Mr. Heen's employment at the Company:</u>

Mr. Heen's monthly salary is 90,000 NIS. Starting January 2017, his monthly salary was revised in accordance with his agreement to 100,000 NIS.

Mr. Heen is entitled to social benefits such as 23 days of vacation, various expense reimbursements such as telephone expenses, an education fund, executive insurance, vehicle and mobile phone.

Mr. Heen is entitled to an annual bonus based on Company policy and goals set – meeting the Company's operating profit goal (EBIT) (80% of the bonus) and meeting measurable personal goals (20% of the bonus) the yearly bonus shall not exceed 6 of Mr. Heen's monthly salaries. In light of the above and in accordance with the goals set for Mr. Heen, Mr. Heen is entitled to a total bonus of $124,627 for 2016. This bonus includes $20,678 for Mr. Chen's work (some two months) in 2015.

Mr. Heen's employment agreement is not limited in time and either of the parties may bring it to conclusion by providing 3 months advance written notice to the other party.

Company Board of Directors – as of this report, the Company's directors[1] are entitled to yearly remuneration and participation remuneration to the maximum sums as per the Companies Regulations (Rules Regarding Remunerations and Expenses for External Directors), 2000 ("**the Remuneration Regulations"**) according to the Company's grade. The directors are entitled to yearly remuneration of 111,000 NIS and to participation remuneration of 4,285 NIS per meeting. The sums in question are linked to the CPI.

Gloria Dabah, daughter of the Company's controlling shareholder, Vice President Kids Division DG Premium Brands at a subsidiary – on January 2 2017 the general meeting of Company shareholders approved the new terms of the employment of Mrs. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company's CEO and controlling shareholder, as Vice President Kids Division DG Premium Brands. Mrs. Dabah's new terms came into effect starting January 1 2017, in accordance with the recommendations of the Company Remuneration Committee and Board of Directors. For further information on the terms of her employment see Section 3.1 of the complementary report published by the Company on December 28 2016 (reference no.: 2016-01-092952) and the immediate report on the results of the January 2 2017 meeting (reference no.: 2017-01-000970), presented by way of referral.

Mrs. Dabah is entitled to an annual bonus based on Company policy and goals set – meeting the Company's operating profit goal (EBIT) (10% of the bonus) and that of the Delta Israel area of activity (70% of the bonus) and meeting measurable personal goals (20% of the bonus)

In light of Mrs. Dabah's compliance with the goals set for her, she is entitled to a bonus of $37,508 for 2016.

Regulation 21 – Control of Corporation

The Company' controlling shareholder is Mr. Isaac Dabah, by himself and through holdings under his control.

Regulation 22 – Transactions with the Controlling Shareholder

Transactions Listed in Section 270(4) of the Companies Law, 1999

Identity of Parties	Description of Transaction	Identity of Organ Approving the Transaction and Approval Date
Delta USA and Mrs. Gloria Dabah, daughter of the Company's controlling shareholder	Approval of the terms of employment of Mrs. Dabah, in her position as Vice President Kids Division DG Premium Brands at a subsidiary, for a three-year period starting January 1 2017 (for further details see 21 above).	The general meeting – January 2 2017; the Company Board of Directors – November 15 2016; the Remuneration Committee – November 15 2016.
The Company and Company officers and	Re-issue of letters of undertaking to compensate Company officers and directors	The general meeting – January 2 2017; the Company Board of Directors –

[1] With the exception of Mr. Isaac Dabah, so long as he serves as Company CEO and Mr. Yitzhak Weinstock, so long as he serves as a COO in a subsidiary – regarding each of whom different terms of service were set, detailed in this section above.

directors who are controlling shareholder or their relative	who are the controlling shareholder or their relative (for further details see Regulation 29a below).	November 15 2016; the Remuneration Committee – November 15 2016.
The Company and Mr. Isaac Dabah, Company controlling shareholder, director and CEO.	Approval of the terms of employment of Mr. Dabah as Company CEO for three years from January 1 2016 (for further details see Regulation 21 above).	The general meeting – January 1 2015; the Company Board of Directors – December 15 2015; the Remuneration Committee – December 13 2015.
Delta USA and Mr. Morris Dwick, nephew of Mr. Isaac Dabah, Company controlling shareholder, director and CEO.	Approval of the terms of employment of Mr. Morris Dwick as sales assistant in the Kids/Ladies Sale Department at Delta USA. The terms of Mr. Dwick's employment include a yearly salary of $45,000, associated benefits and social benefits as practiced at Delta USA. This agreement is not in effect as of the report date.	Audit committee (that the transaction is not exceptional) – February 21 2016 Board of Directors – February 23 2016

Regulation 24 Holdings of Interested Parties and Senior Executives

For details regarding shares and securities held by interested parties and by senior officers at the Company, see immediate report from January 5 2017 (ref. no. 2017-01-001804), presented by way of referral. For details regarding the dormant shares held by the Company, see immediate report from January 8 2017 (2017-01-002710)

Regulation 24a – Registered Capital, Issued Capital and Convertible Securities

For details regarding registered capital, issued capital and convertible securities, including options and blocked shares granted Company employees; see Note 13 to the Financial Statements in Cahpter C of this periodic report.

Regulation 24b – Outline of the Corporation's Shareholders

For details regarding the outline of the corporation's shareholders see immediate report from January 31 2017 (ref. no. 2017-01-009565), presented by way of referral.

Regulation 25a – Listed Corporate Address

Address: 45 Ha'eshel, Caesarea Industrial Park, 3088900 Israel
Telephone no: 076-8177009; Fax: 076-8177280
Email: jacob.heen@deltagalil.com
Website: www.deltagalil.com

Regulation 26 – Corporate Directors on the Report Date

a. Members of the Board of Directors

Director Name		ID No.	Address			Appointment Date		
Last Name	First Name		Town	Street	House no.	Year	Month	Day
Lautman	Noam	24407280	Tel-Aviv, Israel	Eliyahu Miferrera	17	01	11	30
Dabah	Isaac	054907852	New York, NY, USA	Park Avenue	2	05	11	15
Chitayat	Gideon	72644339	Tel-Aviv, Israel	Shlomo Ben Yosef	32	05	11	15
Ben Ze'ev	Shaul	006347702	Givatayim	Shimon Ben Zvi	14	09	10	[2]20
Dovrat	Yechezkel	007627649	Ramat Hasharon, Israel	Nachshon	1	09	12	[3]16
Baum	Israel	005172796	Rishon Letzion, Israel	In Hakoreh	22	05	12	26
Weinstock	Yitzhak	6139265	New Jersey, USA	Harmon Plaza	1	07	10	21
Carmon	Tzipporah	51528933	Savion, Israel	Hatichon	9	09	10	20

b. Additional Information Regarding Board Members

Name of Director – Chairman of the Board of Directors	**Noam Lautman**
ID no.	24407280
Citizenship	Israeli
Date of birth	April 16 1969
Address for legal correspondence	17 Eliyahu Miferrera, Tel-Aviv, Israel
Start of service	November 30 2001
Membership of Board committee/committees	Chairman of the Board of Directors
External or independent director?	No
Established as having accounting and financial competency or professional qualifications?	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education**: 2000 – M.B.A. – New York University 1995 – B.Sc. – Mathematics and Computer Sciences – Tel-Aviv University **Employment:** 2006-now – 2gether Capital Ltd– CEO
Other corporations served in as director	Babcom Centers Ltd**,** Adinoam Properties Ltd, N.D.R.L Investments 1998 Ltd, Shefa Media
Family member of other interested party in the corporation	No

[2] Date of appointment to original term. The general meeting approved the appointment of Shaul Ben Ze'ev to a new term on office on October 21 2015.
[3] Date of appointment to original term. The general meeting approved the appointment of Shaul Ben Ze'ev to a new term on office on December 3 2015.

Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Director Name	Gideon Chitayat
ID no.	72644339
Citizenship	Israeli
Date of Birth	August 29 1939
Address for legal correspondence	32 Shlomo Ben Yosef, Tel Aviv, Israel
Start of service	November 15 2005
Membership of Board committee/committees	Member of the Financial Statements Approval Committee, Audit Committee, Remuneration Committee
External or independent director?	No
Established as having accounting and financial competency or professional qualifications?	Yes, has accounting and financial expertise
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education:** MA PhD – Business Administration – Wharton School MBA – Finance – the Hebrew University in Jerusalem BA – Economics – Hebrew University in Jerusalem **Employment:** Chairman and President of GMBS Consultants Ltd. Director at a number of companies
Other corporations served in as director	BATM – traded in London – Chairman of the Board of Directors Melissaron – external director The Tel Aviv Museum – director
Family member of other interested party in the Company?	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	Yes

Name of Director – CEO and Director Party responsible for market risk management in the Company.	**Isaac Dabah**
ID no.	054907852
Citizenship	Israeli; U.S.A.

Date of Birth	August 11 1957
Address for legal correspondence	2 Park Avenue, New York, NY, USA
Start of service	November 15 2005
Membership of Board committee/committees	None
External or independent director?	No
Established as having accounting and financial competency or professional qualifications?	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	Yes – Company CEO; and the person responsible for market risk management at the Company:
Education and occupation in past five years	**<u>Education</u>:** Attended Baruch College of the City University of NY **<u>Employment:</u>** 2008-now – Company CEO 2005-2011 CEO of GMM Capital LLC
Other corporations served in as director	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 ,, FIX Label Marketing Ltd.
Family member of other interested party in the Company?	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Name of Director – External Director	**Shaul Ben Ze'ev**
ID no.	006347702
Citizenship	Israeli
Date of Birth	September 3 1946
Address for legal correspondence	14 Shimon Ben Zvi, Givatayim, Israel
Start of service	October 20 2009
Membership of Board committee/committees	Chairman of the Audit Committee, Financial Statement Examination Committee, Chairman of the Remuneration Committee
External or independent director?	External director
Established as having accounting and financial competency or professional qualifications?	Yes, has accounting and financial expertise
Expert external director?	No

Employee of the Company, a Subsidiary, a Related Company or of an Interested Party	No
Education and occupation in past five years	**<u>Education</u>:** M.B.A – New York University B.A. – Economics and Statistics –Hebrew University, Jerusalem **<u>Employment:</u>** 2001-2013 – Chief Business Manager, Avraham Livnat Ltd. Director at private and public companies.
Other corporations served in as director	Chairman of the Board of Directors, Misher Omer Ltd. Director at Shlomo A. Angel Ltd.
Family member of other interested party in the Company?	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	Yes

Name of Director – External Director	Yechezkel Dovrat
ID no.	007627649
Citizenship	Israeli
Date of Birth	February 13 1946
Address for legal correspondence	1 Nachshon Street, Ramat Hasharon, Israel
Start of service	December 16 2009
Membership of Board committee/committees	Chairman of Financial Statement Examination Committee, Audit Committee, Remuneration Committee
External or independent director?	External director
Established as having accounting and financial competency or professional qualifications?	Yes, has accounting and financial expertise
Expert external director?	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No

Education and occupation in past five years	**<u>Education</u>:** Certified Public Accountant B.A. – Economics and Accounting – Tel-Aviv University **<u>Employment:</u>** Director at private and public companies: - Chairman of Ta'avura Holdings Ltd. – until September 2016. - Chairman of Equipment and Construction Infrastructure Ltd. (of the Ta'avura Group) – until December 2011 - Acting Chairman of Tamig Tire Marketing Ltd. (of the Ta'avura Group). - Clal Industries and Investments Ltd. – until July 2012. - Y.O.E.L Jerusalem Oil Exploration Ltd. – until July 2013 - H&O Fashion Ltd. – until January 2016. - ESM Electronics Ltd. – until March 2016
Other corporations served in as director	Mivtach Shamir Holdings Ltd. – Chairman Afkon Industries Ltd.
Family member of other interested party in the Company?	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	Yes

Name of Director – COO of Delta USA and Company director	**Yitzhak Weinstock**
ID no.	6139265
Citizenship	Israeli; U.S.A.
Date of Birth	November 25 1946
Address for legal correspondence	1 Harmon Plaza, NJ, USA
Start of service	October 21 2007
Membership of Board committee/committees	No
External or independent director?	No
Established as having accounting and financial competency or professional qualifications?	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	Chie of Operations at subsidiary (Delta Galil USA) starting January 1 2011.
Education	CPA – Certified Public Accountant M.B.A. – Columbia University
Other corporations served in as director	No
Family member of other interested party in the Company?	No

Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Director Name	**Tzipporah Carmon**
ID no.	51528933
Citizenship	Israeli
Date of Birth	December 7 1952
Address for legal correspondence	9 Hatichon, Savion, Israel
Start of service	October 20 2009
Membership of Board committee/committees	No
External or independent director?	No
Accounting and financial competency or professional qualifications	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education:** M.B.A. –International Marketing and Trade – UCLA, California B.A. – Sociology and Education– Hebrew University, Jerusalem **Employment:** 1993-now – Manager and owner of T.C. Export
Other corporations served in as director	Azrieli Group Ltd.
Family member of other interested party in the Company?	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Director Name	**Israel Baum**
ID no.	005172796
Citizenship	Israeli
Date of Birth	January 24 1938
Address for legal correspondence	22 In Hakoreh, Rishon Letzion, Israel
Start of service	December 26 2005
Membership in Board of Directors Committees	No
External or independent director?	No

Established as having accounting and financial competency or professional qualifications?	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education:** B.SC – Manufacturing Engineer - Temple University, Philadelphia **Employment:** Provided consulting services to the Company until 2012
Other corporations served in as director	No
Family member of other interested party in the Company?	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Regulation 26a – Senior Company Officers[4]

Name of Senior Officer	Yossi Resnick, C.P.A.
ID Number	Passport number 505831916
Date of Birth	January 21 1954
Start of service	January 5 2015
Position in the company, in a subsidiary or in an interested party therein	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 later CEO of Maidenform
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	Yossi Hajaj
ID Number	023543572
Date of Birth	June 15 1968
Start of service	October 28 2015
Position in the company, in a subsidiary or in an interested party therein	Deputy CEO and COO, director in a number of subsidiaries
Education and Occupation in Past Five Years	**Education:**

[4] With the exception of officers who have departed the Company before the report date.

	Certified Public Accountant B.A. in Accounting and Economics – Tel-Aviv University **<u>Employment:</u>** 2004 to 2015 – Company CFO
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	**Jacob Heen**
ID Number	024558744
Date of Birth	September 23 1969
Start of service	October 28 2015
Position in the company, in a subsidiary or in an interested party therein	Chief Financial Officer Responsible for management of market risk associated with exchange rates and interest.
Education and occupation in past five years	**<u>Education:</u>** Business Administration certification – Bar Illan University. B.A. in Economics and Business Administration – Bar Illan University **<u>Employment:</u>** 2013 to 2015 – Chief Financial Officer, Tnuva 2013 to 2015 – Chief Financial Officer, Cellcom
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	**Esti Maoz**
ID Number	61019840
Date of Birth	June 26 1947
Start of service	March 1 2003
Position in the company, in a subsidiary or in an interested party therein	VP of Marketing and Strategic Development
Education	Marketing – Certificate Studies – Haifa University
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	**Inbar Schwartz**

ID Number	025086612
Date of Birth	November 25 1972
Start of service	August 24 2014
Position in the company, in a subsidiary or in an interested party therein	VP of Business Development
Education and Occupation in Past Five Years	**Education:** Law degree – Harvard Law School BA in History – Columbia College **Employment:** 2009 to 2014 – Director – Fishman Thermal Technologies
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	Miki Laxer
ID Number	024557480
Date of Birth	October 24 1969
Start of service	October 20 2015
Position in the company, in a subsidiary or in an interested party therein	VP of Finance and Company secretary, director at a number of subsidiaries
Education and Occupation in Past Five Years	**Education:** Certified Public Accountant M.B.A. – Tel-Aviv College of Management B.A. – Accounting and Business Education – Tel-Aviv College of Management **Employment:** 2004 to 2015 – Company Accountant and Secretary
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	Yaniv Bendek
ID Number	43056407
Date of Birth	April 18 1981
Start of service	October 20 2015
Position in the company, in a subsidiary or in an interested party therein	Company comptroller
Education and Occupation in Past Five Years	**Education:** Certified Public Accountant

	Certification in Business Administration – Tel-Aviv University BA in Accounting and Economics – Hebrew University in Jerusalem **Employment:** Starting October 2015 – Company Comptroller 2011 to 2015 Deputy Company comptroller
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	Zvika Shwimmer
ID Number	34385401
Date of Birth	July 7 1978
Start of service	November 1 2011
Position in the company, in a subsidiary or in an interested party therein	Head of Operating Segment, Delta Israel
Education and Occupation in Past Five Years	**Education:** Graduate – Business Administration – Peres Academic Center **Employment:** 2008 to 2011 – CEO – Lalin Candles and Soap Ltd.
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	Einat Menachem Amitay
ID Number	028666857
Date of Birth	July 27 1971
Start of service	April 7 2014
Position in the company, in a subsidiary or in an interested party therein	VP of Human Resources
Education and Occupation in Past Five Years	**Education:** M.B.A – Ben Gurion University BA – Education and Literature – Tel-Aviv University **Employment:** 2012 to 2014 – Senior VP of Human Resources – Ness Technologies
Interested party in the Company or family member	No

of interested party or other senior officer in the Company	

Name of Senior Officer	**Avi Avital**
ID Number	55090567
Date of Birth	January 26 1958
Start of service	July 3 2008
Position in the company, in a subsidiary or in an interested party therein	VP of Information Systems
Education	Graduate, School of Computer Engineering – Technion
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	**Gil Shimon**
ID Number	022459655
Date of Birth	July 3 1966
Start of service	February 7 2017
Position in the company, in a subsidiary or in an interested party therein	President of Global Upper Market Division
Education	B.A. in Economics and Business Administration – Haifa University
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of Senior Officer	**Moshe Cohen**
ID Number	51209971
Date of Birth	April 3 1952
Start of service	January 27 2013
Position in the company, in a subsidiary or in an interested party therein	Auditor
Education and Occupation in Past Five Years	**Education:** Certified Public Accountant B.A. in Economics and Accounting – Tel Aviv University. **Employment:** 2003-now – senior partner at Chaykin Cohen Rubin & Co.
Interested party in the Company or family member of interested party or other senior officer in the	No

Company	

Regulation 26b – Independent Authorized Signatory

The Company has no independent authorized signatories except in the case of signing confidentiality papers.

Regulation 27 – The Company's CPAs

Name of Accountant: Kesselman and Kesselman

Office Address: 25 Hamered, Tel Aviv, Israel

Regulation 28 – Changes to Bylaws or Articles of Association

On January 2 2017 the general meeting of Company shareholders ratified changes to the Company's Articles of Association in the matter of increasing the Company's registered capital, in connection with the insurance and indemnification items, and in connection with additional issues. In addition, the general meeting approved the amendment of the Company's memorandum of Association. For further details, see the immediate report on summoning the meeting from December 28 2016 (ref. no. 2016-01-092952), an immediate report on the meeting's results from January 2 2017 (ref. no.: 2017-01-000970) and an immediate report on changes to the Articles of Association from January 2 2017 (ref. no. 2017-01-000979), included by way of referral.

Regulation 29 – Recommendations and Decisions by the Board of Directors

The following are special general meeting resolutions in or after the reported period:

2016

On January 20 2016 a special general meeting was held of the Company's shareholders, with the following decisions on the agenda: (a) reappointment of the serving Company directors (except for the external directors): approval of the reappointment for an additional term of office of all serving Company directors who are not external directors: Noam Lautman, Isaac Dabah, Gideon Chitayat, Yitzhak Weinstock, Tzipporah Carmon and Israel Baum; (b) discussion in the Company's Financial Statements and Board of Directors report for the year ending December 31 2014; (c) approval of amendment to the Company's remuneration policy; and (d) approval of the terms of service and employment of Mr. Isaac Dabah, CEO, Company Director and controlling shareholder, as Company CEO, for a three-year period starting January 1 2016. The general meeting ratified the above decisions. For further details, see the immediate report on summoning the meeting from December 16 2015 (ref. no. 2015-01-181197) and for further details regarding the results of the meeting see the immediate report from January 20 2016 (ref. no. 2016-01-014929), presented by inclusion by way of referral.

For further details regarding the general meeting pertaining to the approval of the terms of employment of Mr. Dabah as Company CEO – see also Regulation 22 above; for recommendations in the matter of payment of dividends or distribution – see Section 4.3 of the Description of the Corporation's Business

2017

On January 2 2017, a special yearly general meeting was held of the Company’s shareholders, with the following on the agenda: (a) reappointment of the Company’s serving directors (with the exception of the external directors); (b) confirmation of the reappointment of the accounting form of PWC Israel (Kesselman and Kesselman) as the Company’s auditing accountant until the Company's next annual general meeting and certification of the Company Board of Directors to set their salary; (v) a discussion of the Company’s Financial Statements and Board of Directors’ Report for the year ending December 31 2015; (d) approval of an amendment to the Company’s remuneration policy; (e) approval of the terms of employment of Mrs. Gloria Dabah, daughter of the Company’s Controlling Shareholder, as Vice President Kids Division DG Premium Brands, for a three-year period starting January 1 2017; (f) amendment of the Company’s Articles of Association in the matter or insurance and indemnification items; (g) increasing the Company’s listed capital and approving the relevant section in the Company’s Articles of Association; (h) amendment of the Company’s Articles of Association on additional matters; (i) amendment to the Company’s Memorandum of Association; (j) updating the wording of the letter of indemnification used by the Company, and granting it to officers serving at the Company and/or subsidiaries, as they will serve from time to time, who are not Company controlling shareholders or related to them; and (k) granting the revised letter of indemnification to the Company’s and/or the subsidiaries’ officers who are or are related to controlling shareholders. With the exception of Resolution (d) above, in the matter of the Company’s remuneration policy, the general meeting ratified the above decisions. For further details, see the immediate report on summoning the meeting from December 12 2016 (ref. no. 2016-01-092952) and for further details regarding the results of the meeting see the immediate report from January 2 2017 (ref. no. 2017-01-000970), presented by inclusion by way of referral.

On January 24 2017 the Company announced that it was summoning a special general meeting to be held on March 1 2017, on the agenda of which would be amending the Company’s remuneration policy. For further details, see the immediate report on summoning the meeting from January 24 2017 (ref. no. 2017-01-008206), presented by inclusion by way of referral.

Regulation 29a – Corporate Decisions

The following are the Company's resolutions regarding exemptions, insurance or commitments to compensate executives, in effect from the report date:

Director and Executive Liability Insurance Policy

In accordance with the revised remuneration policy for Company officers, without detracting from the law, the Remuneration Committee shall be entitled to approve, from time to time and so long as the remuneration policy is in effect, the Company’s engagement in an insurance policy to cover the liability of all Company officers, including directors (and including officers and directors who are Company controlling shareholders), so long as the yearly coverage included in the policy for a specific year is up to $20 million, the deductible does not exceed $300,000 and the premium does not exceed $100,000 per year.

In accordance with the above, the Company has a policy covering the liability of directors and executives serving in it and in its subsidiaries. The policy has a liability limit of $10 million, for all insurance incidents and for the accumulated insurance period. The insurance period starts May 1 2016 and ends April 30 2017. The total premium for the policy in question is $31,000.

Advance Indemnity for Directors and Executives

On January 2 2017 the Company general meeting approved, after receiving the approval of the Remuneration Committee and the Board of Directors, to re-issue the letters of undertaking to indemnify Company directors and officers, including Company directors and officers who are or are related to Company controlling shareholders, at the same wording of the existing letters of indemnification, which were attached as an appendix to the meeting convening report from December 28 2016 (ref. no. 2016-01-092952).

Chapter E

Yearly report on the effectiveness of internal control on financial reporting and disclosure as per Regulation 9.b. (a) of the Securities Regulations (Periodic and Immediate Reports), 1970:

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

In this regard, management consists of:

1. Mr. Isaac Dabah, CEO and director;
2. Yossi Hajaj, Deputy CEO and Chief of Operations
3. Jacob Heen, Chief Financial Officer
4. Esti Maoz, VP of Marketing and Strategic Development;
5. Yitzhak Weinstock, COO of Delta U.S.A
6. Maurice Reznik, President of Delta U.S.A. and CEO of Ladies Operating Activity in Delta U.S.A
7. Zvika Shwimmer, Head of Operating Segment, Delta Israel;
8. Einat Amitay, VP of Human Resources;
9. Avi Avital, VP of Information Systems;
10. Miki Laxer , V.P. Finance and secretary;
11. Inbar Schwartz, VP of Business Development;
12. Yaniv Benedek, Company Accountant;

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

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

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

Management, under the supervision of the Board of Directors, conducted an examination and evaluation of its internal controls over financial reporting and disclosure in the corporation and its effectiveness. The assessment of the effectiveness of internal controls over financial reporting and disclosure carried out by management under the Board of Directors' supervision included:

1. Updating the scoping document prepared by the Company in 2016 for the Q3 2016 monetary results, in order to confirm the material processes and sites intended to be included in the current mapping (with the exception of activity purchased pursuant to the CBC purchase transaction).

2. Updating the processes and controls in the areas of activity and sites determined to be the most material for the Company's activity, in accordance with changes occurring over the course of 2016, as detailed below:

   - Acquisitions and inventory circle
   - Sales circle

   These controls were examined in the Delta USA, Schiesser, Delta Israel and Global Upper Market Segment in Israeli sites.

   The internal controls effectiveness assessment included a definition of key controls in the field of ITGC (information systems), in the field of monetary reporting at the sites noted below and at Company HQ as well as in the field of Entity-Level Controls (ELC) at the Company's headquarters.

3. Over the course of 2016 the Company examined the performance of the controls defined, and the required documentation level was adequate and in accordance with definitions.
4. Over the course of 2016 the Company updated the Audit Committee a number of times regarding the progress of work, the flaws detected and their treatment.

Reference to the Purchased Activity (CBC – Contemporary Brands Coalition)

On August 26 2016 the Company completed its purchase of CBC, for details see Section 1.3.8 of the Board of Directors' Report.

The purchased activity results were consolidated for the first time under Delta reports for the third quarter of 2016 starting from the transaction completion date, and were consolidated in full in the fourth quarter of 2016.

In light of the purchase transaction completion date and after an in-depth examination, Company management believes that a practical difficulty exists in preparing an effectiveness assessment report for 2016 regarding the acquired activity, as of the completion of the acquisition transaction, the acquired activity had not conducted any examination processes for the effectiveness of internal controls on financial reporting and on disclosure as these were determined following the recommendation of the Goshen Committee (ISOX).

In accordance with the authority's staff's guideline from July 2010 – 1 FAQ (SOX) ("the Authority Guideline"), it was decided that in the event that control was achieved of a "different corporation" over the course of the reported period ("the Acquired Corporation") in such a manner that management and the Board of Directors failed to assess the effectiveness of internal controls in the Acquired Corporation as of the report date, then:

"The Authority Staff shall not consider providing disclosure in the effectiveness assessment report on the matter of the scope of the assessment of the effectiveness of internal controls, in which the Board of Directors and management note that the acquired corporation is not included in the incidence of the Effectiveness Assessment Report as a violation of the regulations."

In fact, according to the Authority's Guideline, the Company is entitled to an extension regarding the activity purchased as a "different corporation" for which control has been achieved, at the implication and context this term is given in accordance with the Authority's guideline.

Company management and the Board of Directors have reached the conclusion that the implications of the acquisition transaction requires appropriate preparations and changes on behalf of CBC in order to plan and build an array of controls that meets all of the risks involved (inasmuch as these exist), implementing the controls at the Company and testing the effectiveness of internal controls on financial reporting and on disclosure – both at the level of closing the financial statements of the Acquired Corporation and at the level of the finance array and its information systems. These preparations and changes naturally required extended planning, performance and implementation times, as follows:

1. As part of the implications of the purchase agreement, the data-flow processes have changed, as well as the business plans of the purchased corporation, and these are undergoing renewed assessment and characterization processes.

2. Due to the brief amount of time from the completion of the purchase transaction before the scoping process for Delta Galil with the consolidated data along with the purchased activity, following which the Company will decide again which processes are material and whether changes need to be made in determining material processes at the level of the group as a whole.

3. After the scoping process, the Company must document the processes found to be material in the purchased corporation, and make sure that all of the risks that exist in these processes are covered by appropriate controls, in order to reduce the Company's exposure to the risks in question. As of this letter, Company management cannot yet make final decisions and define the new processes, as these have not yet been completed and have not yet been defined.

   Along with all of the above, Company management believes that the level of controls, procedures, internal implementation and financial reporting is of high quality, in manner that provides full disclosure to the public. This takes into account the controls that existed in the Acquired Corporation prior to the transaction and in the controls added by the Company after the transaction and toward the preparation of the December 31 2016 Financial Statements, including:

   a. Preparing a detailed reporting package contains features data regarding the purchased activity – both in the United States and in Europe.

   b. Conducting interviews with key personnel in the finance array of the purchased activity in order to understand the preparation of its Financial Statements.

   c. The Financial Statements of the purchased activity as of the transaction completion rate were audited by accounting firm BDO in the United States and in Europe, making them a reliable basis for calculating the allocation of the purchase cost (PPA).

4. The Company estimates that formulating the processes and assimilating them in the Acquired Corporation, to the point in which a real and correct report can be given on the effectiveness of controls, shall take one year, taking into account the mapping processes, completing the documentation processes as quickly as possible (including holding interviews with the relevant personnel), establishing test procedures and controls, assimilation processes at the Company, correcting flaws (if any are found) as well as the testing itself.

Subject to the above, Company management is of the opinion that despite the fact that no effectiveness assessment processes have been implemented for the internal audit of financial reporting and disclosure in the Acquired Corporation, this fact has no material impact on financial reporting and disclosure at the level of the Company's Consolidated Financial Statements, and based on the effectiveness assessment carried out by management under the supervision of the Board of Directors as detailed above, the Corporation's Board of Directors and management have reached the conclusion that the Corporation's internal controls over financial reporting and disclosure as of December 31 2016 are effective.

Executive statements:

(a1) CEO Statement According to Regulation 9.b.(d)(1)

Executive Statement

CEO's Statement

I, Isaac Dabah, to hereby state that:

1. I have studied the periodic reports of Delta Galil Industries Ltd. (hereinafter – the Corporation) for 2016 (hereinafter – the Statements);
2. To the best of my knowledge, the Statements do not contain any untrue statement of a material fact nor omit to state a material fact necessary so that the exhibits included therein, in light of the circumstances under which such exhibits were made, will not be misleading with respect to the reported period.
3. To the best of my knowledge, the Financial Statements and other financial information included in the Statements, adequately reflect, in all material aspects, the financial standing, operating results and cash flows of the Corporation for the dates and periods referred to in the Statements;
4. I have disclosed, to the Corporation's independent auditor, the Board of Directors and the Audit and Financial Statements Committees, based on my most up-to-date evaluation of internal controls of financial reporting and disclosure:
    a. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting and disclosure that are reasonably likely to negatively impact the Corporation's ability to record, process, summarize and report financial information in such a manner so as to cast doubt on the reliability of financial reporting and the preparation of the Financial Statements in accordance with the law, and –
    b. Any fraud, material or not, involving the CEO or his direct subordinates or other employees who have a significant role in internal controls over financial reporting and disclosure;
5. I, by myself or along with others in the Corporation:
    a. Have established controls and procedures, or confirmed that the establishment and existence of controls and procedures under my supervision, intended to ensure that material information referring to the Corporation, including its subsidiaries as defined in the Securities Regulations (Yearly Financial Statements), 2010, has been brought to my attention by others in the Corporation and in its subsidiaries, particularly over the course of the preparation of the reports; and –
    b. Have established controls and procedures, or confirmed that the establishment and existence of controls and procedures under my supervision, designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements in accordance with the law, including in accordance with generally accepted accounting practices;
    c. Have assessed the effectiveness of internal controls on financial reporting and disclosure, and presented in this report the conclusions of the Board of Directors and Management regarding the effectiveness of internal controls as of the reports.

The above does not detract from my responsibility or the responsibility of any other person according to the law.

__________________ __________________

February 22 2017 Isaac Dabah – CEO

(b) Statement of the Most Senior Executive from the Field of Finance as per Regulation 9.b.(d).(2)

(b) Statement of the Most Senior Executive from the Field of Finance as per Regulation 9.b.(d).(2)

Executive Statement

Statement of the Most Senior Executive from the Field of Finance

I, Jacob Heen, do hereby declare that:

1. I have studied the Financial Statements and other financial information included in the reports of Delta Galil Industries Ltd. (hereinafter – the Corporation) for 2016 (hereinafter – the Statements);
2. To the best of my knowledge, the Financial Statements and other monetary information do not contain any untrue statement of a material fact nor omit to state a material fact necessary so that the exhibits included therein, in light of the circumstances under which such exhibits were made, will not be misleading with respect to the reported period.
3. To the best of my knowledge, the Financial Statements and any other financial information included in the Statements, adequately reflect, in all material aspects, the financial standing, operating results and cash flows of the Corporation for the dates and periods referred to in the Statements.
4. I have disclosed, to the Corporation's independent auditor, the Board of Directors and the Audit and Financial Statements Committees, based on my most up-to-date evaluation of internal controls of financial reporting and disclosure:
   a. All material deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting and disclosure insomuch as they refer to the Financial Statements and other financial information included in the Statements, that are reasonably likely to negatively impact the Corporation's ability to record, process, summarize and report financial information in such a manner so as to cast doubt on the reliability of the financial reporting and the preparation of the Financial Statements in accordance with the law; and –
   b. Any fraud, material or not, involving the CEO or his direct subordinates or other employees who have a significant role in internal controls over financial reporting and disclosure;
5. I, by myself or along with others in the Corporation:
   a. Have established controls and procedures, or confirmed that the establishment and existence of controls and procedures under my supervision, intended to ensure that material information referring to the Corporation, including its subsidiaries as defined in the Securities Regulations (Yearly Financial Statements), 2010, insomuch as it is relevant to the Financial Statements and other financial information included in the Statements, has been brought to my attention by others in the Corporation and in its subsidiaries, particularly over the course of the preparation of the reports; and –
   b. Have established controls and procedures, or confirmed that the establishment and existence of controls and procedures under our supervision, designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements in accordance with the law, including in accordance with generally accepted accounting practices;
   c. Have assessed the effectiveness of internal control of financial reporting and disclosure, as it relates to the Financial Statements and other financial information included in the Statements as of the report date; my conclusions regarding this assessment have been presented to the Board of Directors and Management and are integrated into this report.

The above does not detract from my responsibility or the responsibility of any other person according to the law.

February 22 2017 | Jacob Heen – Chief Financial Officer