

AVGOL INDUSTRIES 1953 LTD.

**Condensed Consolidated Financial Statements
as on September 30, 2011**

(Unaudited)

in U.S. Dollars

- Translation from Hebrew -

Avgol Industries 1953 Ltd.

**Condensed Consolidated Financial Statements
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Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As on September 30		As on December 31
	2011	2010	2010
	USD thousands (unaudited)	USD thousands	USD thousands
CURRENT ASSETS			
Cash and cash equivalents	7,612	41,943	17,035
Trade receivables	51,134	42,823	40,681
Other accounts receivable and debit balances	10,082	9,679	11,999
Current tax assets	483	-	3
Derivative financial instruments	4,497	4,141	5,163
Inventories	43,206	28,455	35,321
Total current assets	117,014	127,041	110,202
NONCURRENT ASSETS			
Property, plant and equipment, net	222,949	201,684	214,287
Derivative financial instruments	12,262	14,905	14,156
Deferred tax assets	694	978	351
Intangible asset	1,257	-	1,468
Long-term debit balances	3,899	3,434	5,310
Total noncurrent assets	241,061	221,001	235,572
Total assets	358,075	348,042	345,774
CURRENT LIABILITIES			
Short-term credit from banking corporations and others	26,325	26,312	25,260
Current maturities of long-term bonds	19,066	18,367	18,381
Trade payables	32,792	36,492	37,541
Current tax liabilities	1,976	1,605	3,313
Other accounts payable and credit balances	8,788	7,278	6,056
Total current liabilities	88,947	90,054	90,551
NONCURRENT LIABILITIES			
Long-term loans from banking corporations and others	69,298	59,941	66,623
Bonds	58,892	76,355	60,093
Liabilities in respect of derivative financial instruments	526	-	-
Liabilities in respect of employee benefits	147	405	276
Deferred tax liabilities	20,826	19,541	19,228
Total noncurrent liabilities	149,689	156,242	146,220
EQUITY			
Share capital	41	41	41
Premium on shares	51,701	51,637	51,678
Capital reserves	6,123	3,781	4,945
Surpluses	53,863	40,632	46,169
Equity attributed to owners of the parent company	111,728	96,091	102,833
Noncontrolling interest	7,711	5,655	6,170
Total equity	119,439	101,746	109,003
Total liabilities and equity	358,075	348,042	345,774

November 23, 2011

Approval date of the financial statements	Yehoshua Goldwasser Chairman of the Board	Shlomo Liran C.E.O.	Shachar Rachim C.F.O.
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The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	USD thousands unaudited	USD thousands unaudited	USD thousands unaudited	USD thousands unaudited	USD thousands
Revenue from sales	249,461	205,068	84,810	75,184	277,528
Cost of sales	198,852	161,193	66,941	55,782	217,286
Gross profit	50,609	43,875	17,869	19,402	60,242
Research and development expenses	2,713	2,070	943	531	2,403
Selling and marketing expenses	11,248	9,807	3,735	3,710	13,840
General and administrative expenses	7,224	6,126	2,366	2,233	8,464
Income from ordinary operations	29,424	25,872	10,825	12,928	35,535
Financing expenses	(6,761)	(6,529)	(3,200)	(2,344)	(9,073)
Financing income	173	439	44	88	548
Other income, net	785	134	336	55	829
Income before taxes on income	23,621	19,916	8,005	10,727	27,839
Taxes on income	(4,938)	(4,827)	(1,404)	(2,339)	(6,853)
Income for the period	18,683	15,089	6,601	8,388	20,986
Total income for the period attributed to:					
Owners of the parent company	17,628	14,745	6,084	8,307	20,260
Noncontrolling interest	1,055	344	517	81	726
	18,683	15,089	6,601	8,388	20,986
Earnings per share (in USD):					
Basic earnings	0.059	0.05	0.021	0.028	0.068
Diluted earnings	0.059	0.05	0.021	0.028	0.068
Weighted average of the share capital used to calculate earnings per share:					
Basic	297,853,595	297,853,595	297,853,595	297,853,595	297,853,595
Diluted	298,044,859	297,853,595	298,044,859	297,853,595	297,853,595

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	USD thousands unaudited	USD thousands unaudited	USD thousands unaudited	USD thousands unaudited	USD thousands
Income for the period	18,683	15,089	6,601	8,388	20,986
Other comprehensive income:					
Losses in respect of cash flow hedging, net of tax	(1,256)	(1,250)	(986)	(642)	(784)
Translation differentials in respect of foreign operations	2,530	1,032	1,025	879	1,730
Other comprehensive income (loss) for the period, net of tax	1,274	(218)	39	237	946
Total comprehensive income for the period	19,957	14,871	6,640	8,625	21,932
Total comprehensive income for the period attributed to:					
Owners of the parent company	18,416	14,315	5,990	8,369	20,861
Noncontrolling interest	1,541	556	650	256	1,071
	19,957	14,871	6,640	8,625	21,932

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period of nine months ended September 30, 2011 (unaudited)

	Share capital	Share premium	Capital reserve in respect of transactions with non-controlling interest	Capital reserve in respect of translation differentials of foreign operations	Capital reserve in respect of cash flow hedging	Revaluation fund in respect of step acquisition	Capital reserve in respect of share-based payments	Surpluses	Total attributed to shareholders of the parent company	Non-controlling interest	Total equity
	USD thousands										
Balance on January 1, 2011	41	51,678	(261)	1,779	1,535	1,434	458	46,169	102,833	6,170	109,003
Movement during the account period:											
Income for the period	-	-	-	-	-	-	-	17,628	17,628	1,055	18,683
Other comprehensive income (loss) for the period	-	-	-	2,044	(1,256)	-	-	-	788	486	1,274
Dividend paid	-	-	-	-	-	-	-	(10,000)	(10,000)	-	(10,000)
Transfer of capital reserve in respect of a step acquisition to surpluses	-	-	-	-	-	(66)	-	66	-	-	-
Tax benefit in respect of a share-based payment	-	23	-	-	-	-	-	-	23	-	23
Share-based payment	-	-	-	-	-	-	456	-	456	-	456
Total equity on September 30, 2011	41	51,701	(261)	3,823	279	1,368	914	53,863	111,728	7,711	119,439

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period of nine months ended September 30, 2010 (unaudited)

	Share capital	Share premium	Capital reserve in respect of transactions with non-controlling interest	Capital reserve in respect of translation differentials of foreign operations	Capital reserve in respect of cash flow hedging	Revaluation fund in respect of step acquisition	Capital reserve in respect of share-based payments	Surpluses	Total attributed to shareholders of the parent company	Non-controlling interest	Total equity
	USD thousands										
Balance on January 1, 2010	41	51,637	-	394	2,319	1,658	-	33,685	89,734	7,367	97,101
Movement during the account period:											
Income for the period	-	-	-	-	-	-	-	14,745	14,745	344	15,089
Other comprehensive income (loss) for the period	-	-	-	820	(1,250)	-	-	-	(430)	212	(218)
Acquisition of shares from the noncontrolling interest in a consolidated company	-	-	(261)	-	-	-	-	-	(261)	(2,268)	(2,529)
Transfer of capital reserve in respect of a step acquisition to surpluses	-	-	-	-	-	(202)	-	202	-	-	-
Dividend paid	-	-	-	-	-	-	-	(8,000)	(8,000)	-	(8,000)
Share-based payment	-	-	-	-	-	-	303	-	303	-	303
Total equity on September 30, 2010	41	51,637	(261)	1,214	1,069	1,456	303	40,632	96,091	5,655	101,746

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period of three months ended September 30, 2011 (unaudited)

	Share capital	Share premium	Capital reserve in respect of transactions with non-controlling interest	Capital reserve in respect of translation differentials of foreign operations	Capital reserve in respect of cash flow hedging	Revaluation fund in respect of step acquisition	Capital reserve in respect of share-based payments	Surpluses	Total attributed to shareholders of the parent company	Non-controlling interest	Total equity
	USD thousands										
Balance on July 1, 2011	41	51,678	(261)	2,930	1,265	1,390	759	47,757	105,559	7,062	112,621
Movement during the account period:											
Income for the period	-	-	-	-	-	-	-	6,084	6,084	517	6,601
Other comprehensive income for the period	-	-	-	893	(986)	-	-	-	(93)	132	39
Transfer of capital reserve in respect of a step acquisition to surpluses	-	-	-	-	-	(22)	-	22	-	-	-
Tax benefit in respect of a share-based payment	-	23	-	-	-	-	-	-	23	-	23
Share-based payment	-	-	-	-	-	-	155	-	155	-	155
Total equity on September 30, 2011	41	51,701	(261)	3,823	279	1,368	914	53,863	111,728	7,711	119,439

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the period of three months ended September 30, 2010 (unaudited)

	Share capital	Share premium	Capital reserve in respect of translation differentials of foreign operations	Capital reserve in respect of transactions with non-controlling interest	Capital reserve in respect of cash flow hedging	Revaluation fund in respect of step acquisition	Capital reserve in respect of share-based payments	Surpluses	Total attributed to shareholders of the parent company	Non-controlling interest	Total equity
USD thousands											
Balance on July 1, 2010	41	51,637	510	(261)	1,711	1,478	148	32,303	87,567	5,399	92,966
Income for the period	-	-	-	-	-	-	-	8,307	8,307	81	8,388
Other comprehensive income (loss) for the period	-	-	704	-	(642)	-	-	-	62	175	237
Transfer of capital reserve in respect of a step acquisition to surpluses	-	-	-	-	-	(22)	-	22	-	-	-
Share-based payment	-	-	-	-	-	-	155	-	155	-	155
Total equity on September 30, 2010	41	51,637	1,214	(261)	1,069	1,456	303	40,632	96,091	5,655	101,746

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	For the year ended December 31, 2010										
	Share capital	Share premium	Capital reserve in respect of transactions with non-controlling interest	Capital reserve in respect of translation differentials of foreign operations	Capital reserve in respect of cash flow hedging	Revaluation fund in respect of step acquisition	Capital reserve in respect of share-based payments	Surpluses	Total attributed to shareholders of the parent company	Non-controlling interest	Total equity
	USD thousands										
Balance on January 1, 2010	41	51,637	-	394	2,319	1,658	-	33,685	89,734	7,367	97,101
Movement during 2010:											
Income for the year	-	-	-	-	-	-	-	20,260	20,260	726	20,986
Other comprehensive income (loss) for the year	-	-	-	1,385	(784)	-	-	-	601	345	946
Dividend paid	-	-	-	-	-	-	-	(8,000)	(8,000)	-	(8,000)
Transfer of capital reserve in respect of a step acquisition to surpluses	-	-	-	-	-	(224)	-	224	-	-	-
Acquisition of shares from the noncontrolling interest in a consolidated company	-	-	(261)	-	-	-	-	-	(261)	(2,268)	(2,529)
Tax benefit in respect of a share-based payment	-	41	-	-	-	-	-	-	41	-	41
Share-based payment	-	-	-	-	-	-	458	-	458	-	458
Total equity on December 31, 2010	41	51,678	(261)	1,779	1,535	1,434	458	46,169	102,833	6,170	109,003

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2 0 1 1	2 0 1 0	2 0 1 1	2 0 1 0	2 0 1 0
	USD thousands unaudited	USD thousands unaudited	USD thousands unaudited	USD thousands unaudited	USD thousands
Cash flows – operating activities					
Income for the period according to statement of income	18,683	15,089	6,601	8,388	20,986
Adjustments required to present the cash flows provided by (used in) operating activities (appendix A)	1,427	17,319	(1,395)	5,247	14,879
Net cash provided by operating activities	20,110	32,408	5,206	13,635	35,865
Cash flows – investment activities					
Investment in property, plant and equipment	(22,816)	(19,305)	(11,023)	(2,233)	(35,137)
Proceeds from sale of property, plant and equipment	44	-	-	-	-
Acquisition of intangible assets	-	-	-	-	(1,468)
Net cash used in investment activities	(22,772)	(19,305)	(11,023)	(2,233)	(36,605)
Cash flows – financing activities					
Increase (decrease) in short-term credit from banking corporations, net	7,350	5,512	10,908	(1,503)	4,701
Receipt of long-term loans from banking corporations and others	10,000	30,000	-	30,000	45,000
Repayment of long-term loans from banking corporations	(13,936)	(9,758)	(3,175)	(4,089)	(18,463)
Repayment of bonds to the public	-	-	-	-	(16,327)
Proceeds from payment of derivative financial instruments	-	880	-	-	880
Acquisition of shares from noncontrolling interest in a consolidated company	-	(2,931)	-	-	(2,931)
Dividend paid	(10,000)	(8,000)	-	-	(8,000)
Net cash provided by (used in) financing activities	(6,586)	15,703	7,733	24,408	4,860
Increase (decrease) in cash and cash equivalents	(9,248)	28,806	1,916	35,810	4,120
Balance of cash and cash equivalents at the beginning of the period	17,035	13,234	5,861	6,131	13,234
Impact of exchange differences on cash balances held in foreign currency	(175)	(97)	(165)	2	(319)
Balance of cash and cash equivalents at the end of the period	7,612	41,943	7,612	41,943	17,035

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

Translation from Hebrew

AVGOL INDUSTRIES 1953 LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period of nine months ended September 30		For the period of three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	USD thousands unaudited	USD thousands unaudited	USD thousands unaudited	USD thousands unaudited	USD thousands
APPENDIX A –					
<u>Adjustments required to present the cash flows provided by operating activities</u>					
<u>Income and expenses not involving cash flows:</u>					
Depreciation and amortization	13,150	11,377	4,425	4,182	15,739
Capital gain from sale of property, plant and equipment	(14)	-	1	-	-
Reconciliation of assets and liabilities, net	19	3	14	1	4
Increase in deferred tax liabilities, net	1,588	2,990	61	1,480	3,161
Increase (decrease) in employee benefit liabilities	(129)	(60)	(156)	17	(189)
Accrued financing expenses in respect of bonds	1,966	2,116	1,402	1,828	1,293
Accrued financing expenses in respect of derivative financial instruments	55	-	55	-	-
Share-based payments	456	303	155	155	458
<u>Changes in asset and liability items, net:</u>					
Increase in trade receivables	(10,137)	(12,108)	(5,095)	(5,334)	(9,877)
Decrease (increase) in other accounts receivable and current tax assets	3,094	1,898	1,731	1,705	(2,149)
Increase in inventories	(7,580)	(532)	(702)	(6,768)	(7,333)
Increase (decrease) in trade payables	(751)	10,053	(4,746)	6,625	10,743
Increase (decrease) in other accounts payable and credit balances	(290)	1,279	1,460	1,356	3,029
	<u>1,427</u>	<u>17,319</u>	<u>(1,395)</u>	<u>5,247</u>	<u>14,879</u>
<u>APPENDIX B – Additional Information</u>					
Interest paid	<u>4,586</u>	<u>4,180</u>	<u>690</u>	<u>458</u>	<u>7,155</u>
Interest received	<u>-</u>	<u>408</u>	<u>-</u>	<u>408</u>	<u>408</u>
Taxes paid	<u>5,858</u>	<u>3,871</u>	<u>1,522</u>	<u>1,002</u>	<u>4,226</u>
Taxes received	<u>729</u>	<u>3,913</u>	<u>-</u>	<u>3,913</u>	<u>3,913</u>

The notes accompanying the condensed consolidated financial statements constitute an integral part thereof.

AVGOL INDUSTRIES 1953 LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – TRANSLATION FROM HEBREW

NOTE 1 – GENERAL

- A.** The Company is a holding company, which wholly owns Avgol Ltd. (hereinafter – “Avgol Israel”). The Company’s registered office is located in Tel-Aviv. The Company’s securities are listed for trading on the Tel-Aviv Stock Exchange.

The Company and its investee companies (hereinafter – “the Group”) engage mainly in the manufacture, marketing and sales of nonwoven fabrics, which are used for the manufacture of hygiene products (mainly disposable diapers for infants and adults, and feminine hygiene products). However, the Company also manufactures products for other uses (agriculture, furniture and upholstery, construction, apparel, disposable towelettes and more).

Correct to the approval date of the financial statements, the Group has 12 production lines, with construction of an additional production line currently underway in the United States, which is expected to begin operating during 2012, and the construction of an additional production line currently underway in China, which is expected to begin operating during 2012.

- B.** These condensed financial statements should be read in conjunction with the Company’s annual financial statements and accompanying notes as on December 31, 2010 and for the year then ended.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Basis for preparing the financial statements:

The condensed consolidated financial statements (hereinafter – “Interim Financial Statements”) of the Group were prepared in conformity with International Accounting Standard IAS 34 – *Financial Reporting for Interim Periods* (hereinafter – “IAS 34”).

When preparing these Interim Financial Statements, the Group applied accounting policies, rules of presentation and calculation methodologies consistent with those applied in the preparation of its financial statements as on December 31, 2010 and for the year then ended.

- B.** The condensed consolidated financial statements were prepared in conformity with the disclosure provisions prescribed in Section D of the Securities Regulations (Immediate and Periodic Reports), 5730 – 1970.

C. Exchange rates and linkage basis:

- (1) Balances in or linked to foreign currency are included in the financial statements according to the representative rates of exchange published by the Bank of Israel and in effect on the date of the statement of financial position.
- (2) Balances linked to the Consumer Price Index (hereinafter – “the CPI”) are stated according to the last CPI “known” on the date of the statement of financial position (the CPI of the month preceding the financial statements date) or according to the CPI in respect of the last month of the report period (the CPI of the month of the financial statements date), depending upon the conditions of the transaction.

AVGOL INDUSTRIES 1953 LTD.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – TRANSLATION FROM HEBREW

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Exchange rates and linkage basis: (continued)

(3) Following are data on the representative rates of exchange of the USD and on the CPI:

	Representative exchange rate of the USD				CPI	
	In NIS	In EUR	In CNY	In RUB	For Points	Known Points
Financial statements as on:						
September 30, 2011	3.712	0.736	6.388	31.88	128.56	128.81
September 30, 2010	3.665	0.734	6.698	30.44	124.90	124.55
December 31, 2010	3.549	0.749	6.612	30.48	125.83	125.37
Rates of change:	%	%	%	%	%	%
for the nine-month period ended:						
September 30, 2011	4.59	(1.74)	(3.71)	4.59	2.17	2.74
September 30, 2010	(2.91)	5.91	(2.03)	0.60	1.90	1.61
for the three-month period ended:						
September 30, 2011	8.69	6.55	(1.62)	13.53	0.00	0.57
September 30, 2010	(5.42)	(9.77)	(1.63)	(2.42)	1.22	1.23
For the year ended:						
December 31, 2010	(5.98)	8.08	(3.29)	0.7	2.66	2.28

D. Income taxes in Interim Statements:

Income tax expenses (income) for the presented periods include the total of the current taxes, and the total change in the deferred tax balances, excluding deferred taxes deriving from transactions directly allocated to equity and to business combination transactions.

NOTE 3 – NEW ISSUED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

A. New standards and interpretations affecting the current period and/or previous report periods:

- **Amendment to IAS 34 – Financial Reporting for Interim Periods**

The amendment emphasizes the principles specified in IAS 34, whereby the purpose of the information disclosed in Interim Financial Statements relative to events and transactions that are material to understanding the changes in the entity's financial position and performance since the date of the last annual report, is to update the information relative to them since the last annual financial statements. Additionally, the amendment clarifies how this principle should be implemented in relation to financial instruments, and adds the following disclosure requirements:

- Changes in the business or economic circumstances that affect the fair value of financial assets and liabilities, regardless of whether they are measured at fair value or amortized cost;
- Transfers of financial instruments measured at fair value among the fair value disclosure hierarchies specified in IFRS 7 – *Financial Instruments: Disclosures*.

NOTE 3 – NEW ISSUED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (continued)**A. New standards and interpretations affecting the current period and/or previous report periods:** (continued)

- **Amendment to IAS 34 – *Financial Reporting for Interim Periods*** (continued)

- Reclassification of financial assets deriving as a result of a change in the objectives of the holding or the use thereof.

The amendment is applicable retrospectively in relation to annual reporting periods beginning on or after January 1, 2011. For additional information, see note 4 regarding financial instruments.

- **Amendment to IAS 1 (revised) – *Presentation of Financial Statements***

The amendment prescribes that details of the other comprehensive income are to be presented in the statement of changes in equity or in the notes, according to the Company's accounting policy. The amendment is applicable retrospectively in relation to annual reporting periods beginning on or after January 1, 2011. Accordingly, the Company has opted not to present details of its other comprehensive income in the statement of changes in equity.

- **IAS 24 (revised) – *Related-Party Disclosures***

The revised standard eases the disclosure requirements relative to entities related to a government, a government authority or similar body regarding transactions carried out with entities related to the same government, government authority or similar body. The standard also amends the definition of a "related party." Additionally, the standard redefines the term "related party." This standard is applicable retrospectively in relation to annual reporting periods beginning on or after January 1, 2011.

B. New issued standards and interpretations, which are not in effect and have not been early adopted by the Group and are not expected to have a material impact on the financial statements:

For information about the inception dates and the transitional instructions of the standards, the amendments to standards and the interpretations specified hereunder, see note 2.BB(3) of the Company's annual financial statements as on December 31, 2010 and for the year then ended:

- **IFRS 9 – *Financial Instruments*.**

C. New issued standards and interpretations, which are not in effect and have not been early adopted by the Group and which are expected or likely to have an impact on future periods:

- **IFRS 10 – *Consolidated Financial Statements***

The standard prescribes the following provisions relative to consolidated financial statements:

- Control over an entity by another entity is to be determined based on a uniform model, regardless of whether the other entity is a "special-purpose entity." Within the scope of this standard, the Standing Interpretations Committee's SIC 12 – *Consolidation – Special-Purpose Entities* was withdrawn.
- An investor's control over another entity (hereinafter: "the Investee") exists when the investor has power over the investee, is exposed to variable returns due to its involvement with the investee and has the ability to exercise its power to affect the extent of those returns.

NOTE 3 – NEW ISSUED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (continued)**C. New issued standards and interpretations, which are not in effect and have not been early adopted by the Group and which are expected or likely to have an impact on future periods:** (continued)**• IFRS 10 – Consolidated Financial Statements** (continued)

- The standard prescribes provisions for identifying the existence of “de facto control” when an entity holds less than half of the voting rights in the other entity. For this purpose, an examination is required, inter alia, of the investor’s holding ratio in the investee, relative to the ratio and dispersion of the public’s holdings.
- Potential voting rights in the investee are to be taken into account for the purpose of ascertaining whether control exists when the conditions vest a substantive ability to direct the relevant activities of the entity in the present.
- The new standard does not include any amendment in the procedures for consolidating financial statements.

This standard is to be applied retrospectively, apart for exceptions as specified in the standard, in relation to annual reporting periods beginning on or after January 1, 2013. Early adoption is permitted, provided that it is adopted concurrently with IFRS 11 – *Joint Arrangements*, IFRS 12 – *Disclosures of Interests in Other Entities* and IAS 28 (2011) – *Investments in Associates and Joint Ventures*.

The Management of the Company assesses that the implementation of the standard will not have a material impact on the Group’s financial statements.

• IAS 19 (2011) – Employee Benefits

The standard revises the provisions of IAS 19 – *Employee Benefits* in its existing format, in relation to the following aspects:

- Actuarial gains or losses are to be recognized in other comprehensive income and will not be classified later to profit and loss. Accordingly, the revision eliminates the choice of allocating the actuarial gains or losses either immediately to profit and loss, or according to the “corridor approach.”
- Interest income in respect of assets of a defined benefit plan are to be recognized based on the discount rate of the liability and not on the expected rate of return on the assets.
- Short-term employee benefits are to include benefits that are expected to be fully settled within 12 months after the year in which the entitling service was provided by the employee.
- Severance benefits resulting from an offer encouraging voluntary severance are to be recognized as a liability on the date when the reporting entity can no longer withdraw the offer.

This standard is to be applied retrospectively, apart for exceptions as specified in the standard, in relation to annual reporting periods beginning on or after January 1, 2013. Early adoption is permitted.

At this stage, the Management of the Company is unable to assess the impact of implementation of the standard on its financial position and operating results.

NOTE 3 – NEW ISSUED FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS (continued)

C. New issued standards and interpretations, which are not in effect and have not been early adopted by the Group and which are expected or likely to have an impact on future periods: (continued)

- **IFRS 13 – *Fair Value Measurement***

The standard replaces the fair value measurement guidance specified in the various international financial reporting standards with guidance consolidated in a single standard constituting the guidelines for measuring fair value. Accordingly, provisions were prescribed for measuring fair value for all items being measured at fair value in the statement of financial position or for disclosure purposes.

According to the standard, “fair value” is defined as the sum that would be received from the sale of an asset or the sum that would be paid to transfer a liability during the ordinary course of business between market participants on the date of the measurement.

The standard prescribes the various approaches that may be used for measuring fair value and requires the use of evaluation techniques that maximize the use of relevant observable market data. In relation to nonfinancial assets, the standard states that the fair value of an asset should be estimated assuming its “highest and best use” by market participants.

This standard is to be applied prospectively in relation to annual reporting periods beginning on or after January 1, 2013. Early adoption is permitted.

At this stage, the Management of the Company is unable to assess the impact of implementation of the standard on its financial position and operating results.

- **Amendment to IAS 1 (revised) – *Presentation of Financial Statements (regarding presentation of items of other comprehensive income in the statement of comprehensive income)***

The standard prescribes that items included under other comprehensive income must be separated and presented in one of the following two groups:

- Items to be classified later under profit and loss;
- Items that will not be classified later under profit and loss.

The amendment also prescribes that if items of other comprehensive income are presented prior to a tax effect, the tax effect should be presented separately in respect of each of the groups. The standard is to be applied retrospectively in relation to annual reporting periods beginning on or after January 1, 2013. Early adoption is permitted.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – TRANSLATION FROM HEBREW

NOTE 4 – FINANCIAL INSTRUMENTS

Material changes in the fair value of financial assets measured at fair value through other comprehensive income:

Specified hereunder are the changes in the fair value of derivative financial instruments designated for cash flow hedging, since a significant change in fair value occurred during the report period:

For the period of nine months ended September 30, 2011 (unaudited):

<u>Financial instrument</u>		<u>Fair value on January 1, 2011 USD thousands</u>	<u>Change in the fair value USD thousands</u>	<u>Fair value on September 30, 2011 USD thousands</u>
Derivative financial instruments	(1)	19,319	(3,086)	16,233

(1) The change in the fair value of the derivative financial instruments derives from changes in the CPI and in the exchange rate of the USD.

NOTE 5 – DIVIDEND

On January 18, 2011, the Company's Board of Directors approved the distribution of a dividend to the shareholders at the sum of USD 10 million (USD 0.03357 per share). The dividend was paid on February 16, 2011.

NOTE 6 – MATERIAL EVENTS DURING THE REPORT PERIOD

- A. Regarding a new framework transaction for the purchase of the raw material, polypropylene, by the Group from Carmel Olefins, see note 7.A.
- B. During January 2011, Avgol America signed an agreement for a loan and for refinancing of an existing loan with banking corporations (hereinafter: "the Loan and Refinancing Agreement"). The Loan and Refinancing Agreement rescheduled and extended the duration of a loan at the sum of approximately USD 25 million, which Avgol America had obtained from the said banks, in such manner that the loan was rescheduled over a period of eight years ending in December 2018. Furthermore, Avgol America obtained an additional loan within the scope of this agreement at the sum of USD 10 million for a like period of eight years. Avgol Israel guaranteed Avgol America's liabilities by virtue of the Loan and Refinancing Agreement.
- C. Further to that stated in note 9.B of the annual financial statements for 2010, up until the approval date of these statements, the Group has invested approximately USD 31.7 million in relation to the new production lines in the United States and in China.
- D. On March 23, 2011, the Company's Audit Committee and Board of Directors approved a bonus to the C.E.O. at the sum of approximately USD 120 thousand in respect of the year 2010.
- E. On May 12, 2011, the Group repaid the sum of approximately USD 5.4 million by way of early repayment to a banking corporation.
- F. On May 23, 2011, the Group engaged with a banking corporation in a transaction to fix the variable interest rate applicable to a loan at the sum of approximately USD 10 million (LIBOR + 2.2%) to fixed interest at the rate of 4.04%, fully adjusting the Company's repayment schedule of principal and interest.

NOTE 6 – MATERIAL EVENTS DURING THE REPORT PERIOD (continued)

G. On June 1, 2011, the Group engaged in a transaction with a banking corporation to fix the variable interest rate applying to a loan at the sum of approximately USD 10 million (LIBOR + 2.2%) to a fixed rate of 3.95%, fully adjusting the Company's repayment schedule of principal and interest.

H. Further to that stated in note 9.B of the annual financial statements for 2010, on August 3, 2011, Avgol Israel engaged in an agreement with Avgol Israel's Chinese partner in the Chinese company on the matter of the establishment of an additional production line for the manufacture of nonwoven fabric in the Chinese company's plants in China. Subsequent to the investment in the construction of the production line and the increase of the Chinese company's equity, the Chinese partner shall hold 16-17% of the equity of the Chinese partnership, while Avgol Israel shall hold 83-84%, this according to the ratio of total equity to the inclusive total investment to be invested by each party in the partnership. The total equity investment as stated, shall be determined within the range of USD 10.2 – 12.4 million (between CNY 66.6 – 80.7 million), according to approvals to be received by the customs authorities in China for the purpose of receiving customs benefits in China.

The balance of the investment, totalling approximately USD 27-30 million, shall be executed by way of local bank financing and/or a shareholders' loan that Avgol Israel shall provide to the Chinese company.

During a period of three years after the date of this agreement, the Chinese partner shall be vested the right to offer to purchase a certain portion of the Chinese company's equity from Avgol, in a manner that shall increase the Chinese partner's holding to 20% of the issued share capital of the Chinese company.

In the event that such an offer is received from the Chinese partner, Avgol shall conduct negotiations with it in good faith, taking into account the economic considerations at the time, and considering the company's market value based on an up-to-date company valuation.

I. On August 23, 2011, the Company's Board of Directors approved an annual bonus plan to the Company's C.E.O., Mr. Shlomo Liran. The Company shall award the C.E.O. an annual bonus in respect of 2011 at the level of 10 gross monthly salaries (excluding social benefit contributions). The rate of the bonus that will actually be awarded will be calculated based on the C.E.O.'s meeting of financial and strategic targets set by the Company's Board of Directors.

J. On September 1, 2011, the group engaged in a transaction with a banking corporation to fix the variable interest rate applying to a loan at the sum of approximately USD 7 million (LIBOR + 2.2%) to a fixed rate of 3.37%, fully adjusting the Company's repayment schedule of principal and interest.

K. On September 1, 2011, the group engaged in a transaction with a banking corporation to fix the variable interest rate applying to a loan at the sum of approximately USD 5 million (LIBOR + 2.4%) to a fixed rate of 3.57%, fully adjusting the Company's repayment schedule of principal and interest.

L. On August 15, 2011, the employment agreements expired of Mr. Yehoshua Goldwasser, the Manager of Business Development and active Chairman of the Board, of Mr. Achai Bonneh, Vice Chairman and Head of Innovation and Technology and of Mr. Abraham Zilberfeld, Corporate Secretary and V.P. Economics. On September 8, 2011, the Company's Board of Directors approved an engagement of the Company and Avgol Israel in consulting agreements with the aforesaid officers and directors. Generally, the cost to derive to the Company in respect of these agreements shall not change significantly. The approval of the aforesaid agreements is subject to the approval of the General Meeting, which shall convene on November 27, 2011.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – TRANSLATION FROM HEBREW

NOTE 6 – MATERIAL EVENTS DURING THE REPORT PERIOD (continued)

L. (continued)

The financial statements as on September 30, 2011 include an expenditure of approximately USD 150 thousand in respect of remunerations to be paid to the aforesaid officers retroactively for the period between August 15, 2011 and September 30, 2011, pursuant to the consulting agreements that are subject to the General Meeting's approval, as stated above.

- M. On September 15, 2011, Avgol Israel obtained a short-term loan at the sum of approximately USD 5 million from a banking corporation in Israel. The loan is for a term of six months and bears dollar interest at the rate of LIBOR + 3.55%.

NOTE 7 – TRANSACTIONS WITH RELATED PARTIES

- A. On February 10, 2011, the Company's Audit Committee and Board of Directors approved a new framework transaction for a period of five years, which regulates the purchases of the raw material, polypropylene by the Group from Carmel Olefins (hereinafter: "COL"). The framework transaction prescribes that the Group shall purchase a quantity of polypropylene during each calendar year that shall not exceed 40,000 tons per annum. On the aforesaid date, the Company's Audit Committee and Board of Directors also approved an annual agreement for 2011 between Avgol Israel and subsidiaries and COL, which regulates the polypropylene purchases from Carmel Olefins Ltd. during 2011. Within the scope of the agreement for 2011, the Group undertook to purchase a quantity of polypropylene from COL that shall not diminish from 22,500 tons, with a deviation of up to +/- 10%. If the Group shall purchase this quantity in full, and subject to the Group's fulfillment of the conditions of the annual agreement, COL shall credit the Group with a 3% discount off the total cost of the purchases. In addition, the Group shall be entitled to a volume discount according to the scale prescribed in the agreement. The Company's Audit Committee and Board of Directors also approved a framework for spot transactions for the purchase of up to 6,000 tons of the raw material, polypropylene, in 2011.

The transactions specified above were approved by the Company's General Meeting that convened on March 31, 2011.

NOTE 8 – EVENTS SUBSEQUENT TO THE LAST DAY OF THE REPORT PERIOD

- A. On October 6, 2011, Avgol Israel obtained a short-term loan at the sum of approximately USD 10 million from a banking corporation in Israel. The loan is for a term of three months and bears dollar interest at the rate of LIBOR + 3.25%.
- B. On October 11, 2011, Avgol Israel obtained a short-term loan at the sum of approximately USD 5 million from a banking corporation in Israel. The loan is for a term of six months and bears dollar interest at the rate of LIBOR + 3.35%.

NOTE 9 – APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved for publication on November 23, 2011.