

**Delta Galil Industries Ltd.**

**Quarterly Report as of June 30, 2009**

**Report of the Board of Directors  
on the state of corporate affairs**

**For the period ended June 30, 2009**

We hereby present to you the report of the Board of Directors of Delta Galil Industries Ltd. (hereinafter: “**the Company**”, “**Delta**”) with respect to the consolidated report of the company and its subsidiaries in Israel and overseas (hereinafter: “**the Group**”) for the quarter ended June 30, 2009 pursuant to Securities Regulations (Periodic and Immediate Reports), 1970.

**1. Summary description of the corporation and its business environment**

1.1 Overview

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

Group customers include leading retailers such as: Wal-Mart, Target, Marks & Spencer, Kohl's, Hema, Victoria's Secret as well as leading brands including: Nike, Hugo Boss, Calvin Klein, Tommy Hilfiger and others.

The Group also sells its products under franchise brands, including:

Maidenform®, Converse®, Wilson®, Nicole Miller®, Lucky® etc. and under its "Delta" private label in its domestic operations in Israel.

Delta designs and develops its products primarily in Israel and in the US, whereas production is mostly done in its facilities in the Middle East, Far East and via sub-contractors in those locations.

**1.2 Material events in corporate operations during the reported period**

1.2.1 Purchase of shares by Isaac Dabah CEO and Chairman of the Board of Directors.

On January 8<sup>th</sup> and March 3<sup>rd</sup> 2009, Mr. Isaac Dabah purchased (through GMM Capital LLC) 1,130,512 and 48,325 Delta shares in an average price of 7.0 and 6.1 NIS respectively, resulting that the holding percentage owned by him is 53.8% (Reference no. 2009-01-000129, 2009-01-050181).

1.2.2 Agreement to Purchase Assets and Activity in the Socks Segment.

On April 2, 2009 the transaction of purchasing assets and part of the activity of Gibor sports active wear (GSAW) Ltd ("Gibor") in the design, development marketing and selling of socks was completed, after the conditioned terms in the agreement (which were detailed in the previous immediate report), were met.

The purchase of Gibor assets is synergic to the Company's activity in the socks segment and designated to expand and leverage its activity in it. The purchase of Gibor's activity is in line with the Company's growth strategy in the socks activity in the last few years mainly in:

- Focusing on market leaders – strengthening our position as strategic partners to NIKE.
- Strengthening and widening the Company's technological advantage – getting into a technological niche with significant technological potential.
- Widening our brands activity.

Most of the activity purchased was versus NIKE which is an anchor customer, market leader.

The activity will allow a quick and high standard entrance into the soccer socks niche which characterized in relevantly low standard suppliers and with higher profitability.

Due to the fact that most of the activity purchased was mainly from Nike, it will allow synergy in a few fields:

1. Relying on the marketing and sales existing alignment with a small reinforcement.
2. The manufacturing activity of Gibor focused on the Israeli, Jordanian and Turkish sites in which the Company has significant attendance; this fact helps the operational alignment to absorb the activity in a relevantly short time and also allows an operational flexibility in manufacturing orders transfer between sits.
3. Improving the purchasing force from materials suppliers and other suppliers.
4. Integrating part of the purchased development activity into the existing development alignment of the Company.

5. Enforcing all synergies mentioned above while reducing overhead of the purchased activity, which will bring an improvement in the gross and operational profit margins.

The Company expects the transaction to double its sales to NIKE and will be a significant step towards tightening its relations with NIKE. The Company expects that the transaction will increase its sport socks sales to NIKE by 20\$ million on an annual basis - from 80% of sales in Europe and the rest in the US; and the Company will become the major socks supplier to NIKE, in general, and in the unique sports socks niche (Performance and sport Culture), in particular. In addition, the transaction is expected to allow the Company to enter into new customers in the soccer socks niche, a new category in which the Company had no activity<sup>1</sup>.

The sales of the purchased activity in 2007, 2008 and in the second quarter of 2008 amounted to \$32.7, \$32.6 and \$9.5 million, respectively.

The sales of the purchased activity in the second quarter of 2009 amounted to \$5.3 million, while the contribution to the operating profit amounted to \$0.2 million. See section 2.3.3 below.

### 1.2.3 Changes in the Company's senior functionaries list:

1.2.3.1 On July 22<sup>nd</sup>, 2009 Mr. Zvika Shamir ceased his positioning as the manager of the Intimate Apparel division.

1.2.3.2 On July 23<sup>rd</sup>, 2009 it was decided that Mr. Shlomo Doron will be appointed as the COO and Deputy CEO. Mr. Doron will start working in the Company no later than December 31<sup>st</sup>, 2009. Noted that his employment and service terms were approved by the Company's Audit committee and the Board of

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<sup>1</sup> To be noted that the mentioned in this report, is an estimation only and future observation, as defined in the securities law 1968, that may not be executed or executed differently than expected, resulting from reasons not dependent on the Company only and due to its being based on information known at the time of the report, including the Company's estimations, assumptions and intentions, fitted to the report date.

directors (for more details see immediate report from July 23<sup>rd</sup>, 2009 reference no. 177156-01-2009).

1.2.3.3 On July 23<sup>rd</sup>, 2009 Mr. Gil Admoni was nominated as the manager of Delta Israeli marketing division instead of Mr. Yoram Wienberger.

1.2.3.4 Due to the fact that the special general meeting approved on August 26<sup>th</sup> 2008 the nomination of Mr. Isaac Dabah as the Company's CEO in addition to his position as the Chairman of the board to a period of 12 months that will execute on August 26<sup>th</sup> 2009, and because Mr. Isaac Dabah has notified the Company today (August 20<sup>th</sup>, 2009 after the approval of the financial Quarterly reports) that he has decided to end his positioning as the Chairman of the board, the Board members decided to nominate Mr. Gideon Chitayat as the Company's Chairman of the Board. The employment and service terms of Mr. Gideon Chitayat will be approved by the Company's Audit committee, Board of Directors and the special general meeting with accordance to the law. In addition, the Board of directors has decided to continue Mr. Isaac Dabah nomination as the CEO of the Group. Mr. Isaac Dabah's employment and service terms will be approved by the Company's Audit committee, Board of Directors and the special general meeting with accordance to the law.

1.2.3.5 On August 20<sup>th</sup> 2009, Mr. Noam Lautman was nominated as a member of the Company's Audit committee, instead of Mr. Gideon Chitayat.

## **2. Analysis of financial position**

### **2.1 Balance sheet**

The Group's consolidated balance sheet as of June 30, 2009 amounted to \$375.1 million, compared to \$425.7 million as of June 30, 2008.

The Group's consolidated current assets as of June 30, 2009 amounted to \$212.1 million, compared to \$245.9 million as of June 30, 2008.

The decrease in the consolidated balance sheet and consolidated current assets amount as of June 30, 2009 compared to June 30, 2008 is mainly due to the decrease in the inventory.

The Group's consolidated current liabilities as of June 30, 2009 amounted to \$216.8 million, compared to \$229.5 million on June 30, 2008.

The decrease in consolidated liabilities as of June 30, 2009 compared to June 30, 2008 is due to a decrease in short term bank loans and in payables balance due to the decrease in working capital.

Group equity as of June 30, 2009 amounted to \$145.3 million, or 38.7% of total balance sheet, compared to \$150.1 million, or 39.5% of total balance sheet as of December 31, 2008.

The decrease in Group equity as of June 30, 2009 compared to December 31, 2008 is due to the loss in Q1 2009 which amounted to \$4.9 million.

## **2.2 Operating results**

2.2.1 Below are Group summary income statements for the Second quarter and the First half of 2009 and 2008 and for the year 2008, in \$ thousands:

|  | <b>Second quarter</b> |               | <b>First half</b> |              | <b>Yearly</b>   |
|--|-----------------------|---------------|-------------------|--------------|-----------------|
|  | <b>2009</b>           | <b>2008</b>   | <b>2009</b>       | <b>2008</b>  | <b>2008</b>     |
|  | <b>Un Audited</b>     |               |                   |              | <b>Audited</b>  |
| Sales  | 135,911               | 154,669       | 259,337           | 311,658      | 622,834         |
| Cost of sales  | 111,325               | 128,171       | 217,048           | 254,096      | 517,155         |
| Gross profit   | 24,559                | 26,498        | 42,289            | 57,562       | 105,679         |
| Selling and marketing expenses   | 16,620                | 19,459        | 33,061            | 40,210       | 78,953          |
| General and administrative expenses  | 5,059                 | 5,795         | 10,194            | 12,237       | 25,674          |
| Bad debt   | -                     | 1,029         | -                 | 1,029        | 1,029           |
| Other income (expenses), net   | (313)                 | 502           | 266               | 858          | 805             |
| <b>Operating income (loss) before re-structuring expenses and impairment of goodwill</b> | <b>2,567</b>          | <b>717</b>    | <b>(700)</b>      | <b>4,944</b> | <b>828</b>      |
| Restructuring expenses   | -                     | -             | -                 | -            | 9,162           |
| Impairment of goodwill   | -                     | -             | -                 | -            | 7,392           |
| <b>Operating income (loss)</b>   | <b>2,567</b>          | <b>717</b>    | <b>(700)</b>      | <b>4,944</b> | <b>(15,726)</b> |
| Finance expenses, net  | 1,857                 | 1,829         | 3,624             | 4,283        | 7,479           |
| Company share of loss of associate   | 1                     | -             | 1                 | -            | (55)            |
| Income (loss) before taxes on income   | 709                   | (1,112)       | (4,325)           | 661          | (23,260)        |
| Taxes on income (tax benefit)  | 468                   | (536)         | 288               | 342          | 2,522           |
| <b>Net income (loss) for period</b>  | <b>241</b>            | <b>(576)</b>  | <b>(4,613)</b>    | <b>319</b>   | <b>(25,782)</b> |
| Attribution of net income (loss) for the period:   |                       |               |                   |              |                 |
| To Company shareholders  | 211                   | (684)         | (4,673)           | 92           | (26,400)        |
| To minority interest   | 30                    | 108           | 60                | 227          | 618             |
|  | <b>241</b>            | <b>(576)</b>  | <b>(4,613)</b>    | <b>319</b>   | <b>(25,782)</b> |
| <b>Net earnings (loss) per share attributed to Company shareholders:</b>                 |                       |               |                   |              |                 |
| <b>Basic and diluted</b>   | <b>0.01</b>           | <b>(0.04)</b> | <b>(0.25)</b>     | <b>0.01</b>  | <b>(1.41)</b>   |

2.2.2 The following table lists major data, \$ in millions:

|  | Second Quarter |             | First half  |             | Yearly      |
|--|----------------|-------------|-------------|-------------|-------------|
|  | <u>2009</u>    | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2008</u> |
| Sales  | 135.9          | 154.7       | 259.3       | 311.7       | 622.8       |
| Operating income (loss) before restructuring expenses and impairment of goodwill                               | 2.6            | 0.7         | (0.7)       | 4.9         | 0.8         |
| Restructuring expenses   | -              | -           | -           | -           | 9.2         |
| Impairment of goodwill   | -              | -           | -           | -           | 7.4         |
| Operating income (loss)  | 2.6            | 0.7         | (0.7)       | 4.9         | (15.7)      |
| Adjusted EBITDA (*)  | 5.7            | 4.7         | 5.5         | 12.0        | 13.3        |
| Net income (loss) attributed to company shareholders, before restructuring expenses and impairment of goodwill | 0.2            | (0.7)       | (4.7)       | 0.1         | (9.8)       |
| Net income (loss) attributed to company shareholders   | 0.2            | (0.7)       | (4.7)       | 0.1         | (26.4)      |
| Operating cash flow  | <b>4.3</b>     | <b>12.3</b> | <b>7.9</b>  | <b>8.9</b>  | <b>15.8</b> |

|  | Second Quarter |             | First half  |             | Yearly      |
|--|----------------|-------------|-------------|-------------|-------------|
|  | <u>2009</u>    | <u>2008</u> | <u>2009</u> | <u>2008</u> | <u>2008</u> |
| Net profit (loss) per period                                   | 0.2            | (0.6)       | (4.6)       | 0.3         | (25.8)      |
| Tax on income (tax benefit)                                    | 0.5            | (0.5)       | 0.3         | 0.3         | 2.6         |
| Finance expenses, net  | 1.9            | 1.8         | 3.6         | 4.3         | 7.5         |
| Restructuring expenses   | -              | -           | -           | -           | 9.2         |
| Bad debt   | -              | 1.0         | -           | 1.0         | -           |
| Depreciation & amortization (including impairment of goodwill) | <u>3.1</u>     | <u>3.0</u>  | <u>6.2</u>  | <u>6.1</u>  | <u>19.8</u> |
| Adjusted EBITDA (*)  | <b>5.7</b>     | <b>4.7</b>  | <b>5.5</b>  | <b>12.0</b> | <b>13.3</b> |

(\*) Adjusted 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.

The adjusted EBITDA is calculated as follows: net income (loss) plus tax on income, finance expenses net, depreciation and amortization, bad debt, impairment of goodwill and restructuring expenses.



## 2.3 Analysis of operating results

### 2.3.1 General

Group sales in Q2 of 2009 amounted to \$135.9 million, compared to \$154.7 million in Q2 of 2008, a decrease of 12.1%. The sales in original currency decreased by 6%.

In the first half of 2009, sales amounted to \$259.3 million compared to \$311.7 million in the first half of 2008, a decrease of 16.8%. The sales in original currency decreased by 11%.

The following table presents the group sales by geographic area, in million dollars:

|              | Second Quarter                |          |              |              |              |              | First half                    |          |              |              |              |              | Year 2008    |      |
|--------------|-------------------------------|----------|--------------|--------------|--------------|--------------|-------------------------------|----------|--------------|--------------|--------------|--------------|--------------|------|
|              | % change in original currency | % change | 2009         | % from total | 2008         | % from total | % change in original currency | % change | 2009         | % from total | 2008         | % from total | % from total |      |
| US           | (7)                           | (7)      | 84.7         | 62           | 91.0         | 59           | (10)                          | (10)     | 164.7        | 63           | 182.7        | 59           | 375.9        | 61   |
| Israel       | 3                             | (14)     | 16.6         | 12           | 19.3         | 12           | -                             | (15)     | 32.8         | 13           | 38.7         | 12           | 81.1         | 13   |
| UK           | (9)                           | (25)     | 17.9         | 13           | 24.0         | 16           | (19)                          | (37)     | 32.1         | 13           | 51.2         | 17           | 94.6         | 15   |
| Europe       | (9)                           | (20)     | 16.1         | 12           | 20.0         | 13           | (14)                          | (24)     | 29.2         | 11           | 38.6         | 12           | 70.5         | 11   |
| Other        |                               |          | 0.6          | 1            | 0.4          | 0            |                               |          | 0.5          |              | 0.5          | 0            | 0.7          |      |
| <b>Total</b> | (6)                           | (12)     | <b>135.9</b> | 100%         | <b>154.7</b> | 100%         | (11)                          | (17)     | <b>259.3</b> | 100%         | <b>311.7</b> | 100%         | <b>622.8</b> | 100% |

The decrease in sales in Q2 and in the first half of 2009 compared to the same periods last year was in the line with the Company's expectations and was due to the continuing recession, realized as part of the financial and economic crisis started in 2008. The continuance of the recession as mentioned also led to a conservative inventory policy in most of the Company's customers, which resulted in a decrease in Company's sales.

The sales in the UK in Q2 2009 decreased by 25% compared to the same period last year due to the exit from non-profitable categories to a major customer and in accordance with the Company's restructuring plan. The sales in original currency decreased by 9% compared to Q2 last year. Total sales to the customer in Q2 and the first half of 2009 amounted to \$14.0 and \$25.4 million compared to \$20.5 and \$43.5 million in the same periods last year.

The decrease in sales to this customer is expected to continue during 2009<sup>2</sup>.

In Q2 2009 the sales in Israel decreased in USD terms by 14% compared to the same quarter last year. But, in NIS terms the sales increased by 3% compared to the same quarter last year.

The increase in sales in NIS terms in this quarter compared to the same quarter last year was due to certain stability in the Israeli market on this period.

In the first half of the year the sales in Israel decreased in USD terms by 15% compared to the same period last year. But, in NIS terms sales remained unchanged compared to the first half last year.

For more details regarding the influence of the decrease in sales in USD terms over profitability, see paragraph 2.3.3 below.

**Gross profit** in Q2 of 2009 amounted to \$24.6 million, or 18.1% of sales, compared to \$26.5 million in Q2 of 2008, or 17.1% of sales, a decrease of 7.3%.

In the first half of 2009 the gross profit amounted to \$42.3 million, or 16.3% from total sales, compared to \$57.6 million in the first half of 2008, or 18.5% of sales, a decrease of 26.5%.

The decrease in gross profit in the first half of 2009 compared to the same periods last year was due to the decrease in sales and mainly from the weakness in the European currencies exchange rates compared to the USD. For additional details see section 2.3.3 below.

**Selling and marketing expenses** decreased by 14.6%, amounting to \$16.6 million in Q2 of 2009, compared to \$19.5 million in Q2 of 2008.

Selling and marketing expenses decreased by 17.8%, amounting to \$33.1 million in the first half of 2009, compared to \$40.2 million in the first half of 2008.

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<sup>2</sup> Please note that the informative above is an estimation and future observation only, which may or may not accrue, in a different way from the company's estimations, resulting reasons not depended on the company only and due to its being based on current information known to the company on the report date, including the company estimations on the report date.

The table below shows the breakdown of selling and marketing expenses between Delta Marketing Israel operating segment, and all other Group operating segments, in million \$:

|   | <b>Second quarter<br/>2009</b> | <b>Second quarter<br/>2008</b> | <b>First half<br/>2009</b> | <b>First half<br/>2008</b> |
|---|--------------------------------|--------------------------------|----------------------------|----------------------------|
| Delta Marketing Israel                          | 6.6                            | 7.9                            | 12.9                       | 15.0                       |
| Other operational segment                       | 10.0                           | 11.6                           | 20.2                       | 25.2                       |
| Total sales and marketing expenses              | 16.6                           | 19.5                           | 33.1                       | 40.2                       |
| % sales and marketing expenses from total sales | 12.2%                          | 12.6%                          | 12.7%                      | 12.9%                      |

The decrease in selling and marketing expenses in Q2 and first half of 2009 versus the same periods last year in Delta marketing Israel segment, was due to a 19% and 15% devaluation in the exchange rate of the NIS vs. the USD compared to the average rate in the same periods last year, devaluation which led to decreased expenses in USD terms.

The decrease in selling and marketing expenses in other segments in Q2 and in the first half of 2009 compared to the same periods last year was due to efficiency measures due to the reduction in the activity in the UK and from the weakness of the average exchange rate of the Pound vs. the USD. In addition, selling and marketing expenses decreased due to overhead reduction, weakness of the NIS exchange rate vs. the USD and due to the decrease of storage and distribution expenses due to the decrease in sales compared to the same periods last year.

**General and Administrative expenses** decreased in Q2 2009 by 25.9% and amounted to \$ 5.1 million, compared to \$ 6.8 million in Q2 2008.

In the first half of 2009 the general and administrative expenses decreased by 23.2% and amounted to \$10.2 million compared to \$13.3 million in the first half last year.

The decrease in general and administrative expenses in Q2 and the first half of 2009 in comparison to last year is partly due to a bad debt of \$1.0 million included in Q2 2008. More of the decrease was due to overhead deduction and the weakness of the average exchange rate of the NIS versus the USD compared to the exchange rate in comparable periods last year, weakness which led to decreased expenses in USD terms.

**Operating profit** in Q2 of 2009 amounted to \$2.6 million, compared to \$0.7 million in Q2 of 2008.

The improvement in operating profit in Q2 2009 compared to Q2 2008, was due to the decrease in selling, marketing, general and administrative expenses and despite the decrease in gross profit.

In the first half of 2009 the operating loss amounted to \$0.7 million compared to operating profit of \$4.9 million in the first half of 2008.

The change to operating loss in the first half of this year from an operating profit in the first half of last year is mainly due to the decrease in sales and in gross profit as mentioned above, which was partly offset by the decrease in selling and marketing and general and administrative expenses.

**Finance expenses** in Q2 of 2009, remained almost unchanged at \$1.8 million.

In the first half of 2009 finance expenses decreased by 15.4% and amounted to \$3.6 million compared to \$4.3 million in the same period last year.

The table below presents the composition of finance expenses in million USD:

|                               | <b>Second quarter<br/>2009</b> | <b>Second quarter<br/>2008</b> | <b>First half<br/>2009</b> | <b>First half<br/>2008</b> |
|-------------------------------|--------------------------------|--------------------------------|----------------------------|----------------------------|
| Interest expenses             | 1.5                            | 1.8                            | 2.7                        | 4.1                        |
| Exchange rate                 | 0.2                            | 0.1                            | 0.6                        | (0.2)                      |
| IFRS adjustments              | 0.2                            | (0.1)                          | 0.3                        | 0.4                        |
| <b>Total finance expenses</b> | <b>1.9</b>                     | <b>1.8</b>                     | <b>3.6</b>                 | <b>4.3</b>                 |

From the above data, we can see that the decrease in finance expenses in the first half of 2009 compared to the same period last year is mainly due to a \$1.4 million decrease in interest expenses, due to the decrease in the Libor interest rate and in the level of bank debt.

**Tax expenses** in Q2 2009 amounted to \$0.5 million compared to a tax benefit of \$0.5 million in Q2 2009.

Tax expenses in the first half of 2009 amounted to \$0.3 million resembling the same period last year. The reason for the tax expenses in the first half of the year despite the pre-tax loss is due to the fact that a tax asset was not recognized on that loss.

**The profit attributed to Company shareholders** in Q2 2009 amounted to \$0.2 million, compared to a loss of \$0.7 million in Q2 2008.

The loss attributed to Company's shareholders in the first half of 2009 amounted to \$4.7 million compared to a net profit of \$0.1 million in the first half last year.

2.3.2 Below is a summary of the Company's consolidated business results, by the five accounting segments included in its financial statements, for Q2 and first half of 2009 and the year 2008, in million \$:

**Second quarter ended June 30**

**(Un-audited)**

|  | Sales   |         |             | Operating income (loss) |         |             |
|--|---------|---------|-------------|-------------------------|---------|-------------|
|  | 2009    | 2008    | %<br>Change | 2009                    | 2008    | %<br>Change |
| <b>Delta USA – mass market</b>                           | 55,487  | 59,039  | (6)         | 1,039                   | 779     | 33          |
| <b>Intimate Apparel – UK, US Upper Market and Europe</b> | 29,939  | 45,879  | (35)        | (572)                   | (2,224) | 74          |
| <b>Socks – US and Europe</b>                             | 26,898  | 27,276  | (1)         | 876                     | (26)    |             |
| <b>Seamless knitwear</b>                                 | 8,610   | 7,439   | 16          | (374)                   | (934)   | 40          |
| <b>Delta Marketing Israel</b>                            | 16,130  | 18,536  | (13)        | 1,543                   | 3,383   | (54)        |
| <b>Adjustments</b>                                       | (1,153) | (3,500) |             | 55                      | (261)   |             |
| <b>Total sales &amp; operating income</b>                | 135,911 | 154,669 | (12)        | 2,567                   | 717     | 258         |

|  | First half ended June 30<br>(Un-audited) |                |             |                         |              |          | Year 2008<br>(Audited) |                         |
|--|--|----------------|-------------|-------------------------|--------------|----------|------------------------|-------------------------|
|  | Sales                                    |                |             | Operating income (loss) |              |          | Sales                  | Operating income (loss) |
|  | 2009                                     | 2008           | % Change    | 2009                    | 2008         | % Change |                        |                         |
| Delta USA – mass market  | 109,057                                  | 122,997        | (11)        | 1,528                   | 3,167        | (52)     | 253,577                | 5,974                   |
| Intimate Apparel – UK, US Upper Market and Europe  | 56,543                                   | 89,696         | (37)        | (4,206)                 | (3,430)      | 23       | 168,779                | (10,778)                |
| Socks – US and Europe  | 48,217                                   | 55,366         | (13)        | 689                     | 1,045        | (34)     | 106,438                | (689)                   |
| Seamless knitwear  | 14,972                                   | 14,435         | 4           | (1,162)                 | (944)        | (23)     | 29,403                 | (3,623)                 |
| Delta Marketing Israel   | 31,773                                   | 36,688         | (13)        | 2,194                   | 6,282        | (65)     | 77,545                 | 12,724                  |
| Adjustments  | (1,225)                                  | (7,524)        |             | 257                     | (1,176)      |          | (12,908)               | (2,780)                 |
| Total sales & operating income (loss) before restructuring expenses and impairment of goodwill | <u>259,337</u>                           | <u>311,658</u> | <u>(17)</u> | <u>(700)</u>            | <u>4,944</u> | <u>-</u> | <u>622,834</u>         | <u>828</u>              |
| Restructuring expenses   |  |                |             |                         |              |          |                        | 9,162                   |
| Impairment off goodwill  |  |                |             |                         |              |          |                        | 7,392                   |
| Total sales and operating loss   |  |                |             |                         |              |          |                        | <u>(15,726)</u>         |

### 2.3.3 Analysis of business results by operating segment

#### **Operating segment: Delta USA mass market**

Sales in Q2 of 2009 amounted to \$55.5 million, compared to \$59.0 million in Q2 of 2008, a decrease of 6%.

Sales in the first half of 2009 amounted to \$109.0 million, compared to \$123.0 million in the first half of 2008, a decrease of 11%.

The decrease in sales in Q2 and first half of 2009 compared to the same periods last year was due to the decrease in customer's inventory, following its conservative policy in inventory management due to the economic crisis and due to the decrease in sales to a main customer due to different layout of sales between quarters in 2009 compared to 2008.

Operating income in Q2 of 2009 amounted to \$1.0 million, compared to \$0.8 million in Q2 of 2008.

Operating income in the first half of 2009 amounted to \$1.5 million, compared to \$3.1 million in the first half of 2008, a decrease of 52%.

The operating income in Q2 and the first half of 2008 included a bad debt deduction of Mervyn's LLC, due to the customer's filing for protection from its creditors (under Chapter 11) in the amount of \$1.0 million.

The operating income in Q2 and first half of 2008 excluding the above mentioned bad debt amounted to \$1.8 and \$4.1 million, respectively.

The decrease in the operating income in Q2 and in the first half of 2009 compared to the operating income excluding the bad debt mentioned above in the same periods last year was due to the decrease in sales.

#### **Operating segment: Intimate Apparel UK, US Upper Market and Europe**

Sales in Q2 of 2009 amounted to \$29.9 million, compared to \$45.9 million in Q2 of 2008, a decrease of 35%.

Sales in the first half of 2009 amounted to \$56.5 million, compared to \$89.7 million in the first half of 2008, a decrease of 37%.

The decrease in sales in Q2 and the first half of 2009 over the same periods of 2008 was due to the decrease in sales in the UK and mainly to a main customer, due to the exit from non-profitable categories, weakness of the customer's sales and 22% devaluation in the exchange rate of the Pound vs. the USD compared to the average rate last year.

Operating loss in Q2 of 2009 amounted to \$0.6 million, compared to \$2.2 in the same period last year, a 74% decrease.

The decrease in the operating loss in Q2 of 2009 compared to the same period last year was due to the decrease in the loss in the activity in the UK due to efficiency measures and the implementation of the restructuring plan the Company declared on at the end of 2008 which

included amongst others decrease in overhead in the UK, transfer to FOB method and other steps. The implementation of the plan is expected to end during the third quarter of this year.

The operating loss in the first half of 2009 amounted to \$4.2 million compared to \$3.4 million in the first half last year, an increase of 23%.

The increase in the operating loss increase in the first half of 2009 compared to the same period last year was due to the decrease in sales and due to the lower production levels in Egypt factory due to the decrease in sales.

### **Operating segment: Socks – US and Europe**

Sales in Q2 2009 amounted to \$26.9 million, compared to \$27.3 million in Q2 2008, a decrease of 1%.

Sales of the purchased activity from Gibor in Q2 2009 amounted to \$5.3 million, see section 1.2.2 above.

The segment sales excluding the sales of the purchased activity decreased by 21% compared to the same quarter last year due to a decrease of sales to main customer in the UK, and the weakening of the average exchange rate of the Pound versus the USD.

Sales in the first half of 2009 amounted to \$48.2 million, compared to \$55.4 million in the first half of 2008, a decrease of 13%.

The decrease in sales in the first half of 2009 excluding the purchased activity reached 22% and was due to the above mentioned reasons.

Operating income in Q2 2009 amounted to \$0.9 million, compared to an operating breakeven in the same quarter last year.

The improvement in the operating income in Q2 2009 compared to Q2 2008 was mainly due to the devaluation in the exchange rate of the NIS versus the USD, and from contribution to the operating income of \$0.2 million from the purchased activity from Gibor. For more details see section 1.2.2 above.

The operating income in the first half of 2009 amounted to \$0.7 million compared to \$1.0 million in the first half last year.

### **Operating segment: Seamless knitwear**

Sales in Q2 2009 amounted to \$8.6 million, compared to \$7.4 million in Q2 2008, an increase of 16%.

Sales in the first half of 2009 amounted to \$15.0 million, compared to \$14.4 million in the first half of 2008, an increase of 4%.

Operating loss in Q2 2009 amounted to \$0.4 million, compared to \$0.9 million in Q2 2008.

The decrease in operating loss in Q2 of 2009 compared to Q2 2008, was due to the increase in sales and in the production level and also from the devaluation in the NIS rate versus the USD, which attributed to a cost reduction in USD terms.



The operating loss in the first half of 2009 amounted to \$1.2 million compared to \$0.9 million in the same period last year. The increase in the operating loss in the first half of 2009 was mainly due to low production in the first quarter of the year, despite the increase in sales and the opposite influence of the devaluation of the NIS versus the USD.

**Operating segment: Delta Marketing Israel**

Sales in Q2 2009 amounted to \$16.1 million, compared to \$18.5 million in Q2 2008, a decrease of 13%.

Sales in NIS in Q2 2009 amounted to NIS 65.6 million, compared to NIS 62.8 million in Q2 of 2008, an increase of 4%.

The increase in sales in NIS in Q2 2009 was due to certain stabilization in the Israeli market during this period.

Sales in the first half of 2009 amounted to \$31.8 million, compared to \$36.7 million in Q2 2008, a decrease of 13%.

Sales in NIS in the first half of 2009 amounted to NIS 129.0 million, compared to NIS 128.3 million in the first half of 2008, an increase of 1%.

Operating income in Q2 2009 amounted to \$1.6 million, compared to \$3.3 million in Q2 2008, a decrease of 54%.

Operating income in NIS in Q2 2009 amounted to NIS 8.3 million, compared to NIS 8.2 million in Q2 2008, an increase of 0.3%.

Operating income in the first half of 2009 amounted to \$2.2 million, compared to \$6.3 million in Q2 2008, a decrease of 65%.

Operating income in NIS in the first half of 2009 amounted to NIS 14.7 million, compared to NIS 15.5 million in the first half of 2008, a decrease of 5%.

The decrease in operating income in USD in Q2 and in the first half of 2009 compared to the same periods last year was due to the decrease in sales and in gross profit. The decrease in gross profit was mainly due to an inventory adjustment due to the weakness of the NIS vs. the USD compared to an income from the same adjustment in the corresponding periods of 2008.

### 3. Liquidity and financing sources

Summary of cash flow statement, in \$ millions:

|   | Second quarter |        | First half |        | Year ended<br>on<br>December<br>31 |
|---|----------------|--------|------------|--------|------------------------------------|
|   | 2009           | 2008   | 2009       | 2008   | 2008                               |
| Net cash provided by operating activities                     | 4.3            | 12.3   | 7.9        | 8.9    | 15.8                               |
| Net cash used to activity investment excluding Gibor purchase | (0.6)          | (3.6)  | (2.1)      | (5.2)  | (7.8)                              |
| Net cash used for the purchase of Gibor activity              | (7.2)          | -      | (7.2)      | -      | -                                  |
| Net cash provided by (used in) financing activities           | 3.6            | (11.9) | 1.6        | (13.3) | (20.2)                             |
| Increase (decrease) in cash and cash equivalents              | 0.1            | (3.2)  | 0.2        | (9.6)  | (12.2)                             |

The Company finances its operations by its operating cash flow and by bank credit facilities.

In the first half of 2009 the Company had a positive operating cash flow of \$7.9 million compared to a cash flow of \$8.9 million in the same period last year.

During Q2 2009 the company completed the purchase of Gibor's activity. Total investment in cash included in the financial reports amounted to \$7.2 million and included amounts paid for fixed assets, customers relations and inventory.

The decrease in cash flow from investments activity (excluding the activity purchase from Gibor) in the first half of 2009 compared to the first half of 2008 was due to conservative investments policy.

Following are some financial indicators for the Second quarter of 2009 and 2008:

|  | Q2    | Q2    |
|--|-------|-------|
|  | 2009  | 2008  |
| <b>Current ratio</b>                                   | 0.98  | 1.07  |
| <b>Quick ratio</b>                                     | 0.54  | 0.55  |
| <b>Equity/ Total balance sheet</b>                     | 39%   | 41%   |
| <b>Days of credit to customers</b>                     | 63    | 59    |
| <b>Days of credit from suppliers</b>                   | 50    | 51    |
| <b>Inventory days</b>                                  | 76    | 85    |
| <b>Positive operating Cash flow (M\$) – Q2</b>         | 4.3   | 12.3  |
| <b>Positive operating Cash flow (M\$) – first half</b> | 7.9   | 8.9   |
| <b>Adjusted EBITDA (M\$) – Q2</b>                      | 5.7   | 4.7   |
| <b>Adjusted EBITDA (M\$) – first half</b>              | 5.5   | 12.0  |
| <b>Net Bank debt (M\$)</b>                             | 135.7 | 137.6 |
| <b>Equity (M\$)</b>                                    | 145.3 | 176.2 |

The increase in days of credit to customers in Q2 2009 was due to the purchase of Gibor activity which contributed \$5.3 million in sales in Q2 which will be collected starting from July, and as a result of a different segmentation in sales during the quarter compared to the same period last year.

Total net bank debt as of June 30, 2009 decreased by \$1.9 million, and amounted to \$135.7 million compared to \$137.6 million as of June 30, 2008, despite the investment of \$7.2 million in the Gibor deal.

The decrease in the net bank debt as of June 30, 2009 compared to June 30, 2008 was due to positive operating cash flow derived from the decrease in working capital.

#### **4. Exposure to market risks, risk factors and management thereof**

##### **4.1 The person responsible for management of market risks in the Company**

The Company manage the market risks based on a policy set by its Board of Directors.

Mr. Isaac Dabah, the Chairman of the board and Company's CEO, is responsible for managing the market risks.

Mr. Yossi Hajaj, Company's CFO, is responsible for managing the market risk associated with exchange rates and interest.

##### **4.2 Description of market risks to which the Group is exposed**

The Group, in its operations, is exposed to several market risk components, including: Exchange rate fluctuations, changes in raw material prices and in cost of transportation (mostly due to the impact of higher fuel prices on transportation costs) and changes in the LIBOR USD interest rate.

##### **4.3 Group policy with respect to market risks management**

###### **4.3.1 Changes in the economic environment and the crisis implications in the capital markets on operational results and on the business situation.**

The financial and economic crisis in the global markets which started on 2008 and into the first half of 2009, influence the Company in four major fields:

###### **1. Decrease in sales due to recession and slowdown in all markets.**

The Company's sales in Q2 and first half 2009 decreased by 12% and 17% compared to the same periods last year. This decrease was reflected in all markets in which the Company operates and was due to the continuance in the recession started in the second half of 2008 and due to a conservative policy in inventory management by most customers.

The continuance of the recession in the markets may badly influence the Company's sales in the rest of 2009.

## 2. Volatility in foreign exchange rates vs. the US dollar (USD).

In Q2 and first half of 2009, the average exchange rates of the Euro and the Pound Sterling devaluation by 13% and 22% respectively, compared to the average exchange rates in the same periods last year, a devaluation which contributed to the decrease in sales in USD terms. More of, the USD average rate has strength vs. the NIS rate in the second quarter of the year by 19% and 15% compared to the average exchange rate on the same periods last year, this strengthening resulted in a decrease in sales in Israel in USD terms.

To be noted that, during the last few months and until the date of the reports there has been a strengthening in the Europeans currency rates and the NIS in comparison to USD, this tendency if continue will cause a decrease in the above mentioned influences, later during this year.

The Company works in several ways in order to reduce its exposure to the exchange rate volatility:

### a) Changing the selling currency to UK customers (form Pound Sterling to USD).

Starting September 2009, most of the sales to the main customer in the UK will be in USD; hence the exposure to the Pound Sterling will be significantly reduced.

### b) Carry out forward contracts for up to one year period, in order to hedge itself from the risk in which net cash flow derived from surplus expenses or income in NIS, GBP or in Euro will be affected from the change in these exchange rates. See section 4.4 below.

## 3. Decline in commodities prices.

The Company is purchasing raw materials, accessories and finished products and has transportation costs that a significant part of them is influenced from the commodities prices. During 2009 the raw materials prices were lowered (such as: cotton and nylon threads), finished products prices and transportation prices and that is due to the decrease in the commodities prices.

To be noted that, during the last few months and until the date of the reports the commodities prices increased, this tendency if continues will offset the above mentioned influences, later during this year.

## 4. Decrease in interest rates in the US and in Europe and increase in the mark up on bank credit.

The Company borrows bank loans in an average level of \$140 million on a LIBOR interest basis.

The LIBOR interest for 3 months declined from 2.9% at the end of 2008 to 0.7% and 1.2% on average in the Q2 and first half of this year respectively. On the other hand, the bank

credit price became more expensive. The net influence of those two factors was positive.

Interest expenses in Q2 and first half of 2009 decreased by \$0.3 and \$1.4 million compared to the same periods last year, due to the decrease in the LIBOR rate which was partly offset by the increase in credit price, as mentioned above.

*Please note that the information above is an estimation and future observation only, which may or may not accrue, in a different way from the company's estimations, resulting reasons not depended on the company only and due to its being based on current information known to the company on the report date, including the company estimations on the report date.*

4.3.2 The Company is exposed to a macro financial risks factors, segmental risk factors, and risk factors unique to its operations. Full detail of these risk factors, to which the Group is exposed to, presented in part "A" to the 2008 annual report.

4.4 Financial derivatives.

Following are the open transactions as of June 30, 2009 which is not recognized as financial hedge against the Euro, NIS and the Pound:

| <u>Payment date</u> | <u>Amount in thousand \$</u> | <u>Transaction exchange rate (\$ to 1 Euro)</u> |
|---------------------|------------------------------|---|
| 13/07/09            | 1,125                        | 1.3696  |
| 29/07/09            | 1,125                        | 1.3694  |
| 11/08/09            | 1,125                        | 1.3698  |
| 31/08/09            | 1,125                        | 1.3696  |
| 11/09/09            | 1,125                        | 1.4210  |
| 30/09/09            | 1,125                        | 1.4207  |
| 13/10/09            | 1,125                        | 1.4206  |
| 30/10/09            | 1,125                        | 1.4205  |
|                     | <u>9,000</u>                 |   |

| <u>Payment date</u> | <u>Amount in thousand \$</u> | <u>Transaction exchange rate (NIS to 1 \$)</u> |
|---------------------|------------------------------|--|
| 09/07/09            | 2,000                        | 4.1547   |
| 09/08/09            | 2,000                        | 4.1540   |
| 09/09/09            | 2,000                        | 4.2526   |
| 08/10/09            | 2,000                        | 4.2537   |
|                     | <u>8,000</u>                 |  |

| <u>Payment date</u> | <u>Amount in thousand \$</u> | <u>Transaction exchange rate (\$ to 1 Pound)</u> |
|---------------------|------------------------------|--|
| 06/07/09            | 750                          | 1.60205  |
| 13/07/09            | 750                          | 1.60203  |
| 20/07/09            | 750                          | 1.60200  |
| 27/07/09            | 750                          | 1.60195  |
| 03/08/09            | 750                          | 1.63745  |
| 10/08/09            | 750                          | 1.63740  |
| 17/08/09            | 750                          | 1.63740  |
| 24/08/09            | 750                          | 1.63730  |
| 08/09/09            | 750                          | 1.63720  |
| 14/09/09            | 750                          | 1.63175  |
| 21/09/09            | 750                          | 1.63710  |
| 29/09/09            | 750                          | 1.63705  |
|                     | 9,000                        |  |

The Company included in Q2 and the first half of 2009 the results of the transactions which have been closed during the report period and the estimated results from open transactions as follows:

|   | <b>Second quarter</b> | <b>First half</b> |
|---|-----------------------|-------------------|
|   | <b>2009</b>           |                   |
|   | <b>Thousand \$</b>    |                   |
| <u>Profit (loss)</u>                                      |                       |                   |
| Pound/ USD transactions                                   | (221)                 | (221)             |
| Euro/ USD transactions                                    | (184)                 | 323               |
| NIS/ USD transactions                                     | 744                   | 134               |
| Total influence on operating income and on pre-tax profit | 339                   | 236               |

After the report date the Company entered into transactions to protect itself from the weakening of the Pound and Euro exchange rate vs. the USD as follows:

| <u>Payment date</u> | <u>Amount in thousand \$</u> | <u>Transaction exchange rate (\$ to 1 Euro)</u> |
|---------------------|------------------------------|---|
| 10/11/09            | 1,125                        | 1.42092   |
| 30/11/09            | 1,125                        | 1.42091   |
| 10/12/09            | 1,125                        | 1.42090   |
| 30/12/09            | 1,125                        | 1.42088   |
|                     | 4,500                        |   |

| <u>Payment date</u> | <u>Amount in thousand \$</u> | <u>Transaction exchange rate (\$ to 1 Pound)</u> |
|---------------------|------------------------------|--|
| 05/10/09            | 750                          | 1.64870  |
| 13/10/09            | 750                          | 1.64868  |
| 19/10/09            | 750                          | 1.64866  |
| 26/10/09            | 750                          | 1.64865  |
| 02/11/09            | 500                          | 1.64864  |
| 09/11/09            | 500                          | 1.64867  |
| 16/11/09            | 500                          | 1.65200  |
| 23/11/09            | 500                          | 1.65200  |
| 15/12/09            | 500                          | 1.69150  |
| 29/12/09            | 500                          | 1.69150  |
|                     | 6,000                        |  |

4.5 Linkage basis report, \$ in thousands

| <b>As of June 30, 2009</b>   |                  |                |                |                |                            |                              |                |
|--|------------------|----------------|----------------|----------------|----------------------------|------------------------------|----------------|
| <b>Un-audited</b>  |                  |                |                |                |                            |                              |                |
|  | <u>In USD</u>    | <u>In GBP</u>  | <u>In Euro</u> | <u>In NIS</u>  | <u>In other currencies</u> | <u>Non-monetary balances</u> | <u>Total</u>   |
| <b>Assets:</b>   |                  |                |                |                |                            |                              |                |
| Cash and cash equivalents  | 3,505            | 54             | 122            | 14             | 758                        | -                            | 4,453          |
| Trade receivables  | 62,968           | 8,316          | 15,810         | 13,286         | 480                        | -                            | 100,860        |
| Other accounts receivable  | 2,526            | 273            | 164            | 2,146          | 699                        | 3,643                        | 9,451          |
| Inventory  | -                | -              | -              | -              | -                          | 94,426                       | 94,426         |
| Assets classified as held for sale   | -                | -              | -              | -              | -                          | 2,916                        | 2,916          |
| Long-term debit balances   | 1,072            | -              | -              | 46             | 115                        | 238                          | 1,471          |
| Deferred tax assets  | -                | -              | -              | -              | -                          | 4,490                        | 4,490          |
| Excess plan assets over liabilities due to employment termination              | -                | -              | -              | -              | -                          | 212                          | 212            |
| Fixed assets, net of accumulated depreciation                                  | -                | -              | -              | -              | -                          | 79,486                       | 79,486         |
| Intangible assets, net of accumulated amortization                             | -                | -              | -              | -              | -                          | 77,332                       | 77,332         |
| <b>Total assets</b>  | <b>70,071</b>    | <b>8,643</b>   | <b>16,096</b>  | <b>15,492</b>  | <b>2,052</b>               | <b>262,743</b>               | <b>375,097</b> |
| <b>Liabilities:</b>  |                  |                |                |                |                            |                              |                |
| Short term credit from banks   | 125,559          | 2,943          | 4,823          | 19             | -                          | -                            | 133,344        |
| Trade payables   | 27,332           | 2,396          | 2,723          | 8,596          | 4,074                      | -                            | 45,121         |
| Other accounts payable   | 14,890           | 7,381          | 172            | 13,414         | 2,368                      | 120                          | 38,345         |
| Long-term loans from banks   | 6,774            | -              | -              | -              | -                          | -                            | 6,774          |
| Liabilities for employment termination, net of deposits to severance pay funds | -                | -              | -              | -              | -                          | 440                          | 440            |
| Long-term loans and other liabilities  | 5,381            | 269            | 70             | 12             | -                          | -                            | 5,732          |
| <b>Total liabilities</b>   | <b>179,936</b>   | <b>12,989</b>  | <b>7,788</b>   | <b>22,041</b>  | <b>6,442</b>               | <b>560</b>                   | <b>229,756</b> |
| <b>Balance sheet total, net</b>  | <b>(109,865)</b> | <b>(4,346)</b> | <b>8,308</b>   | <b>(6,549)</b> | <b>(4,390)</b>             | <b>262,183</b>               | <b>145,341</b> |



4.6 Tests of sensitivity to exchange rate fluctuations of NIS, GBP and Euro vs. the USD and to interest rate fluctuations, in \$ thousands.

Sensitivity to change in NIS/USD exchange rate:

| Expected exchange rate  | Gain (Loss) from Changes |                | Fair value      | Gain (Loss) from Changes |                |
|---|--------------------------|----------------|-----------------|--------------------------|----------------|
|   | 10% Increase             | 5% Increase    |                 | 5% Decrease              | 10% Decrease   |
|   | NIS 4.31 = \$1           | NIS 4.11 = \$1 |                 | NIS 3.72 = \$1           | NIS 3.53 = \$1 |
| Cash and cash equivalents                                     | (1)                      | (1)            | 14              | 1                        | 1              |
| Trade receivables <sup>5</sup>                                | (1,329)                  | (664)          | 13,286          | 664                      | 1,329          |
| Other accounts receivable                                     | (215)                    | (107)          | 2,146           | 107                      | 215            |
| Long-term debit balances                                      | (5)                      | (2)            | 46              | 2                        | 5              |
| Short-term credit from banks                                  | 2                        | 1              | (19)            | (1)                      | (2)            |
| Trade payables  | 860                      | 430            | (8,596)         | (430)                    | (860)          |
| Other accounts payable  | 1,341                    | 671            | (13,414)        | (671)                    | (1,341)        |
| Long-term loans and other liabilities                         | 1                        | 1              | (12)            | (1)                      | (1)            |
| Off-balance-sheet liabilities in respect of rental agreements | 640                      | 318            | (6,389)         | (318)                    | (640)          |
| <b>Total</b>  | <b>1,294</b>             | <b>647</b>     | <b>(12,938)</b> | <b>(647)</b>             | <b>(1,294)</b> |

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

|                                     | 10% increase <sup>1</sup> | 5% increase <sup>2</sup> | Discount rate of 12% | 5% Decrease <sup>3</sup> | 10% Decrease <sup>4</sup> |
|-------------------------------------|---------------------------|--------------------------|----------------------|--------------------------|---------------------------|
| <u>Pre-tax change in fair value</u> | <u>62</u>                 | <u>31</u>                | <u>(6,581)</u>       | <u>(31)</u>              | <u>(63)</u>               |

Sensitivity to GBP/USD exchange rate fluctuations:

| Expected exchange rate  | Gain (Loss) from Changes |              | Fair value     | Gain (Loss) from Changes |              |
|---|--------------------------|--------------|----------------|--------------------------|--------------|
|   | 10% Increase             | 5% Increase  |                | 5% Decrease              | 10% Decrease |
|   | \$1.83 = 1£              | \$1.74 = 1£  | \$1.66 = 1£    | \$1.58 = 1£              | \$1.50 = 1£  |
| Cash and cash equivalents                                     | 5                        | 3            | 54             | (3)                      | (5)          |
| Trade receivables <sup>5</sup>                                | 832                      | 416          | 8,316          | (416)                    | (832)        |
| Other accounts receivable                                     | 27                       | 14           | 273            | (14)                     | (27)         |
| Short-term credit from banks                                  | (294)                    | (147)        | (2,943)        | 147                      | 294          |
| Trade payables  | (240)                    | (120)        | (2,396)        | 120                      | 240          |
| Other accounts payable  | (738)                    | (369)        | (7,381)        | 369                      | 738          |
| Long-term loans and other liabilities                         | (27)                     | (14)         | (269)          | 14                       | 27           |
| Off-balance-sheet liabilities in respect of rental agreements | (96)                     | (48)         | (960)          | 48                       | 96           |
| <b>Total</b>  | <b>(531)</b>             | <b>(265)</b> | <b>(5,306)</b> | <b>265</b>               | <b>531</b>   |

Sensitivity to changes in discount rate of liabilities in respect of rent and licence agreements denominated in GBP:

|  | <u>10% increase</u> <sup>1</sup> | <u>5% increase</u> <sup>2</sup> | <u>Discount rate of 12%</u> | <u>5% Decrease</u> <sup>3</sup> | <u>10% Decrease</u> <sup>4</sup> |
|--|----------------------------------|---------------------------------|-----------------------------|---------------------------------|----------------------------------|
| <u>Pre-tax change in fair value</u> <sup>6</sup> | <u>44</u>                        | <u>22</u>                       | <u>(1,373)</u>              | <u>(23)</u>                     | <u>(47)</u>                      |

Sensitivity to change in EUR/USD exchange rate:

|                                       | <u>Gain (Loss) from Changes</u> |                    | <u>Fair value</u>  | <u>Gain (Loss) from Changes</u> |                     |
|---------------------------------------|---------------------------------|--------------------|--------------------|---------------------------------|---------------------|
|                                       | <u>10% Increase</u>             | <u>5% Increase</u> |                    | <u>5% Decrease</u>              | <u>10% Decrease</u> |
| Expected exchange rate                | <u>\$1.55 = 1€</u>              | <u>\$1.48 = 1€</u> | <u>\$1.41 = 1€</u> | <u>\$1.34 = 1€</u>              | <u>\$1.27 = 1€</u>  |
| Cash and cash equivalents             | 12                              | 6                  | 122                | (6)                             | (12)                |
| Trade receivables <sup>5</sup>        | 1,581                           | 791                | 15,810             | (791)                           | (1,581)             |
| Other accounts receivable             | 16                              | 8                  | 164                | (8)                             | (16)                |
| Short-term credit from banks          | (482)                           | (241)              | (4,823)            | 241                             | 482                 |
| Trade payables                        | (272)                           | (136)              | (2,723)            | 136                             | 272                 |
| Other accounts payable                | (17)                            | (9)                | (172)              | 9                               | 17                  |
| Long-term loans and other liabilities | (7)                             | (4)                | (70)               | 4                               | 7                   |
| <b>Total</b>                          | <b>831</b>                      | <b>415</b>         | <b>8,308</b>       | <b>(415)</b>                    | <b>(831)</b>        |

Sensitivity to the change of expenses capitalization rate from license agreements in Euro:

|                                     | <u>10% Increase</u> <sup>1</sup> | <u>5% Increase</u> <sup>2</sup> | <u>Discount rate of 12%</u> | <u>5% Decrease</u> <sup>3</sup> | <u>10% Decrease</u> <sup>4</sup> |
|-------------------------------------|----------------------------------|---------------------------------|-----------------------------|---------------------------------|----------------------------------|
| <u>Pre-tax change in fair value</u> | <u>2</u>                         | <u>1</u>                        | <u>(252)</u>                | <u>(1)</u>                      | <u>(2)</u>                       |

Sensitivity to change in average LIBOR interest rate. The following calculation relates to cash flow exposure and not to change in fair value in the loan portfolio amounting to \$140 million (in \$ thousands) while average interest rate to 30 June 2009 is 2.51%:

| <u>Change in interest rate</u>          | <u>10% Increase</u> | <u>5% Increase</u> | <u>5% Decrease</u> | <u>10% Decrease</u> |
|---|---------------------|--------------------|--------------------|---------------------|
| Expected interest rate after the change | 2.76%               | 2.64%              | 2.38%              | 2.26%               |
| Pre-tax gain (loss) due to changes      | <u>(352)</u>        | <u>(176)</u>       | <u>176</u>         | <u>352</u>          |

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

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

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

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

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

<sup>6</sup> Most of the liabilities included in the above sensitivity analysis tables refer to rent agreements, and amounts of the liabilities for franchise agreements are not material.

## 5. **Disclosure with respect to critical accounting estimates**

In creating the financial statements according to acceptable accounting practices, Company's management is required to use estimates and valuations which impact the reported information for assets and liabilities, as well as data for contingent assets and pending liabilities, which are disclosed in the financial statements and for revenue and expense data for the reported period. These estimates sometimes require discretion in an uncertain environment, and materially impact presentation of data on the financial statements.

For complete details of accounting estimates and assumptions, see Note 3 to the 2008 financial statements in Part C to the annual report.

## 6. **Disclosure regarding the process of the financial statements approval**

The Company Board of Directors has decided that the Company's Audit Committee, is the organ in charge of overall supervision of the Company's financial statements.

Prior to approval of the Company's financial statements, the draft financial statements and notes there to are submitted to members of the Audit Committee, typically 3 days prior to the meeting, subject to any statute.

Invitees to meetings of the Audit Committee to discuss approval of the financial statements are: the CEO, CFO and Company comptroller as well as the independent CPAs who present the financial statements to Committee's members and answer any questions.

During the Audit Committee's meeting to discuss the financial statement, the Committee reviews and discusses the Company's financial statements, reviews major changes there in, refers to comments by Company management and the independent CPA and reviews the match between the financial statements and events which have occurred in the Company and with standards used by the Company to prepare its financial statements.

After the discussion, the Chairman of the Audit Committee brings up for a vote the recommendation by the Committee to the Board of Directors to approve the financial statements; the Chairman finds out if any Committee members still have any unanswered questions or issues.

After recommendation by the Audit Committee to approve the financial statements as set forth above, the financial statements and the relevant notes are brought for approval to the Company Board of Directors.

Note also that if, during compilation of the financial statements, the VP, Finance or the Company CEO have any material or new questions or issues requiring preliminary discussion before submitting the financial statements for approval by the Board of Directors – the VP, Finance or the Company CEO would have the Board of Directors convene for a preliminary meeting to discuss and elaborate these issues.

Names of the Audit Committee members who attended the meeting on August 17, 2009, at which Committee recommended that the Company Board of Directors to approve the financial statements as of June 30, 2009: Amnon Neubach, Dr. Giora Morag and Dr. Gideon Chitayat.

Also attended the meeting the Company's CEO and Chairman of the Board of Directors Mr. Isaac Dabah and Mr. Izhak Wienstock, Director.

Names of Board members who attended the Board of Directors' meeting on August 20, 2009 at which the financial statements as of June 30, 2009 were approved: Mr. Isaac Dabah, Mr. Israel Baum, Dr. Gideon Chitayat, Mr. Noam Lautman, Mr. Giora Morag, Mr. Amnon Neubach, and Mr. Izhak Wienstock,.

The Board of Directors and management express their great appreciation to Delta's employees and managers.

Signed on August 20, 2009

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Isaac Dabah  
CEO & Chairman of the  
Board of Directors

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Amnon Neubach  
Director

**Delta Galil Industries Ltd.**  
**Interim Report**  
**(Un-audited)**  
**As of June 30, 2009**

**Delta Galil Industries Ltd.**  
**Interim Report**  
**(Un-audited)**  
**As of June 30, 2009**

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**Review report of interim financial information**  
**to the shareholders of**  
**Delta Galil Industries Ltd.**

**Introduction**

We have reviewed the accompanying Balance sheet of Delta Galil Industries Ltd and its subsidiaries (together – the Group) as of June 30 ,2009 and the related statements of comprehensive income, changes in equity and cash flows for the six and three-month period then ended. Board of Directors and Management are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, 'Interim financial reporting' and in accordance with chapter 4 of the Israeli Securities Regulations (Interim and Immediate Statements), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We have not reviewed the interim financial information of consolidated subsidiaries whose assets constitute approximately 9% of the consolidated totals assets as of June 30, 2009. We were furnished with the reports of other certified public accountants on their review of the interim financial statements as of June 30, 2009 of consolidated subsidiaries. Our conclusion, as it relates to the interim financial statements of those consolidated subsidiaries, is based on the reports of other certified public accountants.

**Scope of review**

We conducted our review in accordance with audit standard 1 of the Israeli Association of Accountants 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Israeli Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review and the review of other certified public accountants, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34.

In addition to the last paragraph, based on our review and the review of other certified public accountants, nothing came to our attention that indicated that any material modifications should be made in the said interim condensed consolidated financial statements in order for them to be in conformity with the disclosure instructions of chapter 4 of the Israeli Securities Regulations (Interim and Immediate Statements), 1970.

Tel Aviv, Israel  
August 20, 2009

Kesselman & Kesselman  
Certified Public Accountant (Isr.)  
A member of  
**PricewaterhouseCoopers  
International Limited**

**Delta Galil Industries Ltd.**

Summary consolidated balance sheet as of June 30, 2009

|  | <b>June 30</b>         |                | <b>December 31</b> |
|--|------------------------|----------------|--------------------|
|  | <b>2009</b>            | <b>2008</b>    | <b>2008</b>        |
|  | <b>(Un-audited)</b>    |                | <b>(Audited)</b>   |
|  | <b>\$ in thousands</b> |                |                    |
| <b>Assets</b>  |                        |                |                    |
| <b>Current assets:</b>   |                        |                |                    |
| Cash and cash equivalents  | 4,453                  | 7,177          | 4,224              |
| Other accounts receivable:   |                        |                |                    |
| Trade  | 100,860                | 101,794        | 89,594             |
| Tax on income - receivable   | 1,179                  | 1,359          | 2,717              |
| Other  | 8,272                  | 9,642          | 7,353              |
| Inventory  | 94,426                 | 120,560        | 112,158            |
| Assets classified as held for sale                                   | 2,916                  | 5,410          | 2,916              |
| <b>Total current assets</b>  | <b>212,106</b>         | <b>245,942</b> | <b>218,962</b>     |
| <b>Non-current assets:</b>   |                        |                |                    |
| Long-term prepaid expenses   | 91                     | 176            | 98                 |
| Long-term debt balances  | 1,380                  | 1,513          | 1,359              |
| Deferred tax assets  | 4,490                  | 6,837          | 4,561              |
| Excess plan assets over liabilities due to<br>employment termination | 212                    | 47             | 212                |
| Fixed assets, net of accumulated<br>depreciation                     | 79,486                 | 82,776         | 80,113             |
| Intangible assets, net of accumulated<br>amortization                | 77,332                 | 88,404         | 74,841             |
| <b>Total non-current assets</b>                                      | <b>162,991</b>         | <b>179,753</b> | <b>161,184</b>     |
| <b>Total assets</b>  | <b>375,097</b>         | <b>425,695</b> | <b>380,146</b>     |

**Isaac Dabah**

CEO and Chairman of the Board

\_\_\_\_\_

**Gidon Chitayat**

Director

\_\_\_\_\_

**Yossi Hajaj**

CFO

\_\_\_\_\_

**Date of approval of financial statements by the Company's Board of Directors:  
August 20, 2009**



**Delta Galil Industries Ltd.**  
Summary consolidated balance sheet as of June 30, 2009

|   | <b>June 30</b>      |                | <b>December 31</b> |
|---|---------------------|----------------|--------------------|
|   | <b>2009</b>         | <b>2008</b>    | <b>2008</b>        |
|   | <b>(Un-audited)</b> |                | <b>(Audited)</b>   |
| <b>\$ in thousands</b>  |                     |                |                    |
| <b>Liabilities and Equity</b>                                 |                     |                |                    |
| <b>Current liabilities:</b>                                   |                     |                |                    |
| Short-term loans from banks                                   | 127,387             | 131,954        | 129,985            |
| Current maturities of long-term loans<br>from banks           | 5,957               | 8,200          | 8,200              |
| Other payables:   |                     |                |                    |
| Trade payables  | 45,121              | 54,541         | 45,459             |
| Tax on income - payable                                       | 496                 | 676            | 335                |
| Other   | 37,849              | 34,132         | 39,639             |
| <b>Total current liabilities</b>                              | <b>216,810</b>      | <b>229,503</b> | <b>223,618</b>     |
| <b>Non-current liabilities:</b>                               |                     |                |                    |
| Liabilities from banks, net of current maturities             | 6,774               | 4,600          | -                  |
| Liabilities for employment termination, net of<br>plan assets | 440                 | 505            | 473                |
| Liability for adjustment of acquisition cost                  | -                   | 6,484          | -                  |
| Other non-current liabilities                                 | 5,732               | 8,394          | 5,987              |
| <b>Total non-current liabilities</b>                          | <b>12,946</b>       | <b>19,983</b>  | <b>6,460</b>       |
| <b>Total liabilities</b>                                      | <b>229,756</b>      | <b>249,486</b> | <b>230,078</b>     |
| <b>Equity:</b>  |                     |                |                    |
| Equity attributable to Company shareholders:                  |                     |                |                    |
| Share capital   | 21,851              | 21,851         | 21,851             |
| Share premium   | 101,114             | 101,114        | 101,114            |
| Unassigned income balance                                     | 29,299              | 60,389         | 33,813             |
| Other accumulated loss, total                                 | -                   | (166)          | -                  |
| Treasury shares   | (9,700)             | (9,700)        | (9,700)            |
|   | 142,564             | 173,488        | 147,078            |
| Minority interest   | 2,777               | 2,721          | 2,990              |
| <b>Total equity</b>   | <b>145,341</b>      | <b>176,209</b> | <b>150,068</b>     |
| <b>Total liabilities and equity</b>                           | <b>375,097</b>      | <b>425,695</b> | <b>380,146</b>     |

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

**Delta Galil Industries Ltd.**

Summary consolidated comprehensive income for periods  
ended on June 30, 2009

|   | 6 months ended on<br>June 30           |         | 3 months ended on<br>June 30 |         | Year<br>ended on<br>December<br>31 |
|---|--|---------|------------------------------|---------|------------------------------------|
|   | 2009                                   | 2008    | 2009                         | 2008    | 2008                               |
|   | Non-Audited                            |         |                              |         | Audited                            |
|   | Thousand \$                            |         |                              |         |                                    |
|   | Excluding profit (loss) net, for share |         |                              |         |                                    |
| Sales   | 259,337                                | 311,658 | 135,911                      | 154,669 | 622,834                            |
| Cost of sales   | 217,048                                | 254,096 | 111,352                      | 128,171 | 517,155                            |
| Gross profit  | 42,289                                 | 57,562  | 24,559                       | 26,498  | 105,679                            |
| Selling and marketing expenses  | 33,061                                 | 40,210  | 16,620                       | 19,459  | 78,953                             |
| General & administrative expenses                                       | 10,194                                 | 13,266  | 5,059                        | 6,824   | 26,703                             |
| Other income, net   | 266                                    | 858     | (313)                        | 502     | 805                                |
| Restructuring expenses  | -                                      | -       | -                            | -       | 9,162                              |
| Impairment of goodwill  | -                                      | -       | -                            | -       | 7,392                              |
| Operating income (loss)   | (700)                                  | 4,944   | 2,567                        | 717     | (15,726)                           |
| Financial expenses, net   | 3,624                                  | 4,283   | 1,857                        | 1,829   | 7,479                              |
| Share in losses of associated company                                   | 1                                      | -       | 1                            | -       | 55                                 |
| Income (loss) before taxed on income                                    | (4,325)                                | 661     | 709                          | (1,112) | (23,260)                           |
| Tax on income (tax benefit)   | 288                                    | 342     | 468                          | (536)   | 2,522                              |
| Net income (loss) of period   | (4,613)                                | 319     | 241                          | (576)   | (25,782)                           |
| <b>Other comprehensive income</b>                                       |  |         |                              |         |                                    |
| Actuary losses – defined benefit plan to employees                      | -                                      | -       | -                            | -       | (233)                              |
| Net change to cash flow hedge transactions                              | -                                      | -       | -                            | (129)   | -                                  |
| Net changes from currency translation adjustments                       | -                                      | -       | -                            | -       | 166                                |
| Tax on income & expenses directed to capital                            | -                                      | -       | -                            | -       | 38                                 |
| Other gain (loss) to the period   | -                                      | -       | -                            | (129)   | (29)                               |
| Total comprehensive gain (loss) to the period                           | (4,613)                                | 319     | 241                          | (705)   | (25,811)                           |
| <b>Attribution of net income (loss) for the period:</b>                 |  |         |                              |         |                                    |
| To company shareholders   | (4,673)                                | 92      | 211                          | (684)   | (26,400)                           |
| To minority interest  | 60                                     | 227     | 30                           | 108     | 618                                |
| Total   | (4,613)                                | 319     | 241                          | (576)   | (25,782)                           |
| <b>Attribution of net income (loss) for the period:</b>                 |  |         |                              |         |                                    |
| To company shareholders   | (4,673)                                | 92      | 211                          | (813)   | (26,429)                           |
| To minority interest  | 60                                     | 227     | 30                           | 108     | 618                                |
| Total   | (4,613)                                | 319     | 241                          | (705)   | (25,811)                           |
|   | <b>In dollars</b>                      |         |                              |         |                                    |
| <b>Net earning (loss) per share attributed to company shareholders:</b> |  |         |                              |         |                                    |
| Basic and diluted   | (0.25)                                 | 0.01    | 0.01                         | (0.04)  | (1.41)                             |

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

## Delta Galil Industries Ltd.

Summary consolidated statements of changes in shareholders equity as of June 30, 2009

### Attributed to Company shareholders

| <b>Ordinary share capital</b>                              |                 |                  |   |                                 |                    |         |                      |                 |          |
|--|-----------------|------------------|---|---------------------------------|--------------------|---------|----------------------|-----------------|----------|
| Number of<br>shares  | Amount          | Share<br>premium | Differences<br>from translation<br>of foreign<br>operations | Unassigned<br>income<br>balance | Treasury<br>shares | Total   | Minority<br>interest | Total<br>equity |          |
| In thousands   | \$ in thousands |                  |   |                                 |                    |         |                      |                 |          |
| <b>Balance as of January 1, 2009 (audited)</b>             | 19,948          | 21,851           | 101,114   | -,-                             | 33,813             | (9,700) | 147,078              | 2,990           | 150,068  |
| <b>Transactions for the period ended on June 30, 2009:</b> |                 |                  |   |                                 |                    |         |                      |                 |          |
| Total comprehensive recognized revenue (loss)              | -               | -                | -   | -                               | (4,673)            | -       | (4,673)              | 60              | (4,613)  |
| Dividend to minority interest                              | -               | -                | -   | -                               | -                  | -       | -                    | (273)           | (273)    |
| Benefit component of options granted to employees          | -               | -                | -   | -                               | 132                | -       | 132                  | -               | 132      |
| Dividend from previous years that was not collected        | -               | -                | -   | -                               | 27                 | -       | 27                   | -               | 27       |
| <b>Balance as of June 30, 2009 (un-audited)</b>            | 19,948          | 21,851           | 101,114   | -,-                             | 29,299             | (9,700) | 142,564              | 2,777           | 145,341  |
| <b>Balance as of January 1, 2008 (audited)</b>             | 19,948          | 21,851           | 101,114   | (166)                           | 60,596             | (9,700) | 173,695              | 2,737           | 176,432  |
| <b>Transactions in the period ended June 30, 2008:</b>     |                 |                  |   |                                 |                    |         |                      |                 |          |
| Total recognized revenue                                   | -               | -                | -   | -                               | 92                 | -       | 92                   | 227             | 319      |
| Dividend to minority                                       | -               | -                | -   | -                               | -                  | -       | -                    | (243)           | (243)    |
| Benefit component of options granted to employees          | -               | -                | -   | -                               | (299)              | -       | (299)                | -               | (299)    |
| <b>Balance as of June 30, 2008 (un-audited)</b>            | 19,948          | 21,851           | 101,114   | (166)                           | 60,389             | (9,700) | 173,488              | 2,721           | 176,209  |
| <b>Balance As of January 1, 2008 (audited)</b>             | 19,948          | 21,851           | 101,114   | (166)                           | 60,596             | (9,700) | 173,695              | 2,737           | 176,432  |
| <b>Transactions in 2008:</b>                               |                 |                  |   |                                 |                    |         |                      |                 |          |
| Total recognized revenue (loss)                            | -               | -                | -   | 166                             | (26,595)           | -       | (26,429)             | 618             | (25,811) |
| Dividend to minority interest                              | -               | -                | -   | -                               | -                  | -       | -                    | (365)           | (365)    |
| Benefit component of options granted to employees          | -               | -                | -   | -                               | (188)              | -       | (188)                | -               | (188)    |
| <b>Balance As of December 31, 2008 (audited)</b>           | 19,948          | 21,851           | 101,114   | -,-                             | 33,813             | (9,700) | 147,078              | 2,990           | 150,068  |

## Delta Galil Industries Ltd.

Summary consolidated statements of changes in shareholders equity as of June 30, 2009

### Attributed to Company shareholders

| <u>Ordinary share capital</u>  |               |                  |   |  |                                 |                    |                |                      |                 |                |
|--|---------------|------------------|---|--|---------------------------------|--------------------|----------------|----------------------|-----------------|----------------|
| Number of<br>shares  | Amount        | Share<br>premium | Differences<br>from translation<br>of foreign<br>operations | Unrealized<br>gain (loss)<br>from cash<br>flow hedge | Unassigned<br>income<br>balance | Treasury<br>shares | Total          | Minority<br>interest | Total<br>equity |                |
| <u>In thousands</u>  |               |                  |   |  | \$ in thousands                 |                    |                |                      |                 |                |
| <b>Balance as of April 1, 2009 (un-audited)</b>                        | 19,948        | 21,851           | 101,114   | -,-  | -,-                             | 29,024             | (9,700)        | 142,289              | 2,899           | 145,188        |
| <b>Transactions for the period of 3 months ended on June 30, 2009:</b> |               |                  |   |  |                                 |                    |                |                      |                 |                |
| Total comprehensive recognized revenue (loss)                          | -             | -                | -   | -  | -                               | 211                | -              | 211                  | 30              | 241            |
| Dividend to minority interest  | -             | -                | -   | -  | -                               | -                  | -              | -                    | (152)           | (152)          |
| Benefit component of options granted to employees                      | -             | -                | -   | -  | -                               | 64                 | -              | 64                   | -               | 64             |
| <b>Balance as of June 30, 2009 (un-audited)</b>                        | <u>19,948</u> | <u>21,851</u>    | <u>101,114</u>  | <u>-,-</u>   | <u>-,-</u>                      | <u>29,299</u>      | <u>(9,700)</u> | <u>142,564</u>       | <u>2,777</u>    | <u>145,341</u> |
| <b>Balance as of April 1, 2008 (un-audited)</b>                        | 19,948        | 21,851           | 101,114   | (166)  | 129                             | 61,472             | (9,700)        | 174,700              | 2,856           | 177,556        |
| <b>Transactions in the period of 3 months ended June 30, 2008:</b>     |               |                  |   |  |                                 |                    |                |                      |                 |                |
| Total recognized revenue   | -             | -                | -   | -  | (129)                           | (684)              | -              | (813)                | 108             | (705)          |
| Dividend to minority interest  | -             | -                | -   | -  | -                               | -                  | -              | -                    | (243)           | (243)          |
| Benefit component of options granted to employees                      | -             | -                | -   | -  | -                               | (399)              | -              | (399)                | -               | (399)          |
| <b>Balance as of June 30, 2008 (un-audited)</b>                        | <u>19,948</u> | <u>21,851</u>    | <u>101,114</u>  | <u>(166)</u>   | <u>-,-</u>                      | <u>60,389</u>      | <u>(9,700)</u> | <u>174,488</u>       | <u>2,721</u>    | <u>176,209</u> |

**Delta Galil Industries Ltd.**  
Summary consolidated cash flows for  
periods ended on June 30, 2009

|   | <b>6 months ended on</b> |                 | <b>3 months ended on</b> |                 | <b>Year</b>     |
|---|--------------------------|-----------------|--------------------------|-----------------|-----------------|
|   | <b>June 30</b>           |                 | <b>June 30</b>           |                 | <b>ended on</b> |
|   | <b>2009</b>              | <b>2008</b>     | <b>2009</b>              | <b>2008</b>     | <b>December</b> |
|   | <b>Non-Audited</b>       |                 |                          |                 | <b>31</b>       |
|   | <b>Non-Audited</b>       |                 |                          |                 | <b>2008</b>     |
|   | <b>Thousand \$</b>       |                 |                          |                 |                 |
|   | <b>Audited</b>           |                 |                          |                 |                 |
| <b>Cash flow from operating activities:</b>                                   |                          |                 |                          |                 |                 |
| Net income (loss) for period  | (4,613)                  | 319             | 241                      | (576)           | (25,782)        |
| Adjustments required to reflect cash flows from operating activities          | 12,437                   | 14,617          | 4,177                    | 16,394          | 52,691          |
| Interest paid in cash   | (1,759)                  | (3,311)         | (1,113)                  | (1,670)         | (6,132)         |
| Tax on income received (paid) in cash   | 1,856                    | (2,762)         | 980                      | (1,840)         | (4,987)         |
| Net cash provided by operating activities                                     | <u>7,921</u>             | <u>8,863</u>    | <u>4,285</u>             | <u>12,308</u>   | <u>15,790</u>   |
| <b>Cash flow from investing activities:</b>                                   |                          |                 |                          |                 |                 |
| Entrance to merger of purchased activity (appendix A)                         | (7,175)                  | -               | (7,175)                  | -               | -               |
| Additional payments for adjustment of acquisition cost                        | -                        | (2,117)         | -                        | (2,117)         | (2,117)         |
| Purchase of fixed assets and intangible assets                                | (2,494)                  | (4,172)         | (798)                    | (2,246)         | (7,781)         |
| Proceeds from sales of fixed assets   | 324                      | 1,235           | 192                      | 750             | 1,887           |
| Proceeds from sales of leased land  | -                        | -               | -                        | -               | 170             |
| Repayment of long term receivable   | 142                      | -               | 60                       | -               | 60              |
| Loans granted to an associated company  | -                        | (81)            | -                        | -               | (81)            |
| Loans receivable from associated company                                      | -                        | -               | -                        | -               | 16              |
| Loans granted to employees  | (4)                      | (42)            | -                        | -               | (91)            |
| Loan repayment by employees   | 15                       | 34              | 4                        | 11              | 77              |
| Long term deposits  | (97)                     | (1)             | (53)                     | (5)             | 27              |
| Net cash used in investing activities   | <u>(9,289)</u>           | <u>(5,144)</u>  | <u>(7,770)</u>           | <u>(3,607)</u>  | <u>(7,833)</u>  |
| <b>Cash flow from financing activities:</b>                                   |                          |                 |                          |                 |                 |
| Dividend to minority interest in a consolidated company                       | (273)                    | (243)           | (152)                    | (243)           | (365)           |
| Repayment of loans & other long term liabilities                              | (3,750)                  | (3,600)         | (2,950)                  | (2,800)         | (8,289)         |
| Long term loans received  | 8,300                    | -               | 5,300                    | -               | -               |
| Short term credit from banks, net   | (2,592)                  | (9,305)         | 1,500                    | (8,888)         | (11,343)        |
| Amounts charged for deferred expenses   | (68)                     | (164)           | (60)                     | -               | (214)           |
| Net cash provided by (used in) financing activities                           | <u>1,617</u>             | <u>(13,312)</u> | <u>3,638</u>             | <u>(11,931)</u> | <u>(20,211)</u> |
| <b>Net increase (decrease) in cash and cash equivalents</b>                   | 249                      | (9,593)         | 153                      | (3,230)         | (12,254)        |
| <b>Profit (loss) from translation differences of cash and cash equivalent</b> | (20)                     | 94              | 82                       | 4               | (198)           |
| <b>Cash and cash equivalent balance at start of period</b>                    | 4,224                    | 16,676          | 4,218                    | 10,403          | 16,676          |
| <b>Cash and cash equivalent balance at end of period</b>                      | <u>4,453</u>             | <u>7,177</u>    | <u>4,453</u>             | <u>7,177</u>    | <u>4,224</u>    |

**Delta Galil Industries Ltd.**

Summary consolidated cash flows for  
periods ended on June 30, 2009

|   | 6 months ended on |               | 3 months ended on |               | Year          |
|---|-------------------|---------------|-------------------|---------------|---------------|
|   | June 30           |               | June 30           |               | ended on      |
|   | 2009              | 2008          | 2009              | 2008          | December      |
|   | Non-Audited       |               |                   |               | 31            |
|   | Thousand \$       |               |                   |               | 2008          |
|   |                   |               |                   |               | Audited       |
| <b>Adjustments required to reflect cash flow from current activities</b>  |                   |               |                   |               |               |
| Revenues and expenses not involving cash flow:  |                   |               |                   |               |               |
| Depreciation  | 5,425             | 5,431         | 2,694             | 2,684         | 11,073        |
| Amortization  | 800               | 676           | 418               | 348           | 1,472         |
| Impairment of goodwill  | -                 | -             | -                 | -             | 7,392         |
| Share in losses of associated company   | 1                 | -             | 1                 | -             | 55            |
| Cash erosion  | 20                | (94)          | (82)              | (4)           | 106           |
| Interest paid in cash   | 1,759             | 3,311         | 1,113             | 1,670         | 6,132         |
| Income taxes paid (received) in cash  | (1,856)           | 2,762         | (980)             | 1,840         | 4,987         |
| Interest component of liability for adjustment of acquisition cost  | -                 | (230)         | -                 | (442)         | (2,982)       |
| Deferred income taxes, net  | 71                | (1,287)       | 221               | (1,089)       | 1,027         |
| Liabilities due to employment termination, net  | (58)              | 308           | 16                | (126)         | (116)         |
| Restructuring expenses  | -                 | -             | -                 | -             | 8,861         |
| Capital gain from realization of assets   | (164)             | (858)         | (92)              | (502)         | (805)         |
| Benefit component of options granted to employees   | 132               | (299)         | 64                | (399)         | (188)         |
| Loss from changes in fair value of derivatives ,net   | (253)             | -             | (393)             | -             | (81)          |
| Long-term pre-paid expenses   | 4                 | (74)          | (2)               | (37)          | -             |
| Other   | (31)              | (41)          | 15                | (24)          | (38)          |
|   | <u>5,850</u>      | <u>9,605</u>  | <u>2,993</u>      | <u>3,919</u>  | <u>36,895</u> |
| Changes to operating assets and liabilities:  |                   |               |                   |               |               |
| Decrease (increase) in trade receivables  | (11,266)          | 1,258         | (16,330)          | 6,234         | 13,535        |
| Decrease (increase) in other receivables  | 719               | (2,094)       | 65                | (837)         | (1,108)       |
| Increase (decrease) in trade payables   | 226               | (6,241)       | 10,721            | 6,710         | (14,420)      |
| Increase (decrease) in other payables   | (2,656)           | (4,857)       | 3,099             | 1,487         | (7,559)       |
| Decrease (increase) in inventories  | 19,564            | 16,946        | 3,629             | (1,119)       | 25,348        |
|   | <u>6,587</u>      | <u>5,012</u>  | <u>1,184</u>      | <u>12,475</u> | <u>15,796</u> |
|   | <u>12,437</u>     | <u>14,617</u> | <u>4,177</u>      | <u>16,394</u> | <u>52,691</u> |
| <b>Further information on investments and finance operation not involving cash flow:</b>                        |                   |               |                   |               |               |
| Trade payables for non-cash acquisition of fixed and other assets and long terms prepaid expenses (leased land) | (539)             | 104           | (396)             | 357           | (777)         |
| Payables due to leased real estate  | (115)             | 37            | (22)              | (7)           | 60            |
| Liability for guaranteed minimum royalties  | 3,045             | 5,214         | 447               | -             | 5,326         |
| Liability payable for acquisition of a consolidated company   | -                 | (746)         | -                 | (546)         | (4,478)       |
| Receivables from purchased activity   | 358               | -             | 358               | -             | -             |

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

**Delta Galil Industries Ltd.**  
Summary consolidated cash flows for  
periods ended on June 30, 2009

Appendix A –

Activity acquisition – see note 5 below.

|                | <b>3 and 6 months ended<br/>on June 30<br/>2009<br/>Unaudited<br/>\$ thousands</b> |
|----------------|--|
| Receivables    | (79)   |
| Inventory      | (1,832)  |
| Fixed assets   | (3,638)  |
| Other assets   | (1,738)  |
| Trade payables | 31   |
| Other payables | 81   |
|                | <u>(7,175)</u>   |

## **Delta Galil Industries Ltd.**

Summary consolidated notes as of June 30, 2009 (Un-audited)

### **Note 1 – Overview**

Delta Galil Industries Ltd. (hereinafter “the Company”) is an Israeli corporation which, together with its subsidiaries (hereinafter “the Group”) is primarily engaged in manufacturing and marketing of intimate apparel in 5 major operating segments - USA mass market, intimate apparel – US upper market and Europe, Socks, Delta Marketing Israel and Seamless. Information on Group's operating segments and principle markets is presented in note 3.

Company shares were traded through March 2008 on the NASDAQ Global Market (hereinafter the “NASDAQ”) and on the Tel Aviv Stock Exchange Ltd. (hereinafter the “the stock exchange”).

In March 2008 the Company applied to de-list its shares from trading and to discontinue its registration in the USA; see Note 2a. On March 27, 2008, Company shares were de-listed from NASDAQ. From this date forward the main exchange market is the Israeli exchange market in Tel-Aviv.

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

### **Note 2 – Significant Accounting Policies:**

#### **a. Overview**

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

#### **b. Preparation of the financial statements**

The Group's summary of the financial statements information as of June 30, 2009 and to the intermediate period of 6 and 3 months ended on the same date (below" the financial information to the intermediate period") was prepared with accordance to the international standard 34 – intermediate financial statement" (hereinafter – "IAS 34")' and with accordance to the securities standards (periodic and intermediate statements), 1970. the financial statements for the intermediate period should be consider the annual statements as of December 31, 2008 and to the same year ended on the same date and the notes summary accompany it, which were prepared with accordance to the international financial statements ("IFRS standards" as follows). The financial intermediate statement is reviewed and not audited.



## **Delta Galil Industries Ltd.**

Summary consolidated notes as of June 30, 2009 (Un-audited)

### **Note 2 – Significant Accounting Policies (continuance)**

#### **c. Significant accounting policies**

The main financial policy and the calculation methods, which were implicated on the financial intermediate statements, are the same as those used to prepare the annual statements as of December 31, 2008 and to the year ended on the same date, with exception of the stated below.

Taxes on income to the intermediate period are recognized on the best evaluation basis of the management to the average tax rate which relates to the expected annual income.

Standard which is valid for the financial period starting on January 1, 2009:

International financial standard 1 (reviewd) "financial statements presentation" ("hereafter –IAS" 1 (R)). 1(R) IAS forbid the presentation of profit and loss items and consist capital changes that are not from transactions with shareholders (hereafter – "comprehensive income"), in statement of change in shareholder equity, with the demand to present the comprehensive income separated from the changes from transactions with shareholders validated as owners. All comprehensive income items must be presented in the comprehensive income statement. Even so, an identity may choose to present all expenses and income items recognized in the period of the only comprehensive income statement in tow statements: statement which presents profit or loss (separated consolidated statements) and a second statement which starts with profit and loss and presents other comprehensive income items (comprehensive income statement).

The group chose to present all expenses and income items recognized in the period in the single report on comprehensive income.

More of, an adjustment to IAS1 (R) became valid, starting from January 1, 2009. The adjustment stated that only part of the assets and financial obligations recognized as "held for trading" with accordance to international financial statement 39 – "financial implements: recognition and measurement" are an example to assets and obligations classified as current. In order to implement the above mentioned adjustment there was no significant influence on the Group's financial statements.

As detailed in the group's annual financial statements as of December 31, 2008 and to the year ended on the same date, standards, adjustments and interpretations to additional existing standards which got validity and are obligated for the financial periods starting from January 1, 2009, but their implementations for the first time there is no significant influence on the Group's financial statements.

**Delta Galil Industries Ltd.**

Summary consolidated notes as of June 30, 2009 (Un-audited)

**Note 3 – Segment reporting:**

|   | <b>Delta USA<br/>mass<br/>market</b> | <b>Intimate Apparel<br/>–UK, US Upper<br/>Market and<br/>Europe</b>  | <b>Socks</b>  | <b>Seamless<br/>knitwear</b> | <b>Delta<br/>Marketing<br/>Israel</b> | <b>Adjustments<br/>for<br/>Consolidated</b> | <b>Total</b>   |
|---|--------------------------------------|--|---------------|------------------------------|---------------------------------------|---|----------------|
|   | <b>\$ in thousand (Un – audited)</b> |  |               |                              |                                       |   |                |
| <b>A period of 3 months ended on June 30, 2009:</b> |                                      |  |               |                              |                                       |   |                |
| Sales to external customers                         | 55,396                               | 28,965   | 26,851        | 8,055                        | 16,130                                | 514   | 135,911        |
| Inter segment                                       | 91                                   | 974  | 47            | 555                          | -                                     | (1,667)                                     | -              |
| Total sales, net                                    | <u>55,487</u>                        | <u>29,939</u>  | <u>26,898</u> | <u>8,610</u>                 | <u>16,130</u>                         | <u>(1,153)</u>                              | <u>135,911</u> |
| Segment profit (loss)                               | <u>1,039</u>                         | <u>(572)</u>   | <u>876</u>    | <u>(374)</u>                 | <u>1,543</u>                          | <u>55</u>                                   | <u>2,567</u>   |
| Capital gain, net                                   |                                      |  |               |                              |                                       | <u>1,857</u>                                | <u>1,857</u>   |
| Share in losses of associated company               |                                      |  |               |                              |                                       | <u>1</u>                                    | <u>1</u>       |
| Loss before tax benefit                             |                                      |  |               |                              |                                       |   | <u>709</u>     |
|   | <b>Delta USA<br/>mass<br/>market</b> | <b>Intimate Apparel<br/>– UK, US Upper<br/>Market and<br/>Europe</b> | <b>Socks</b>  | <b>Seamless<br/>knitwear</b> | <b>Delta<br/>Marketing<br/>Israel</b> | <b>Adjustments<br/>for<br/>Consolidated</b> | <b>Total</b>   |
|   | <b>\$ in thousand (Un – audited)</b> |  |               |                              |                                       |   |                |
| <b>A period of 3 months ended on June 30, 2008:</b> |                                      |  |               |                              |                                       |   |                |
| Sales to external customers                         | 59,039                               | 43,446   | 27,271        | 5,492                        | 18,487                                | 934   | 154,669        |
| Inter segment                                       | -                                    | 2,433  | 5             | 1,947                        | 49                                    | (4,434)                                     | -              |
| Total sales, net                                    | <u>59,039</u>                        | <u>45,879</u>  | <u>27,276</u> | <u>7,439</u>                 | <u>18,536</u>                         | <u>(3,500)</u>                              | <u>154,669</u> |
| Segment profit (loss)                               | <u>779</u>                           | <u>(2,224)</u>   | <u>(26)</u>   | <u>(934)</u>                 | <u>3,383</u>                          | <u>(261)</u>                                | <u>717</u>     |
| Capital gain, net                                   |                                      |  |               |                              |                                       | <u>1,829</u>                                | <u>1,829</u>   |
| Loss before tax benefit                             |                                      |  |               |                              |                                       |   | <u>(1,112)</u> |

**Delta Galil Industries Ltd.**

Summary consolidated notes as of June 30, 2009 (Un-audited)

**Note 3 – Segment reporting** (continuance):

|   | <b>Delta USA<br/>mass<br/>market</b> | <b>Intimate Apparel<br/>–UK, US Upper<br/>Market and<br/>Europe</b>  | <b>Socks</b>  | <b>Seamless<br/>knitwear</b> | <b>Delta<br/>Marketing<br/>Israel</b> | <b>Adjustments<br/>for<br/>Consolidated</b> | <b>Total</b>   |
|---|--------------------------------------|--|---------------|------------------------------|---------------------------------------|---|----------------|
|   | <b>\$ in thousand (Un – audited)</b> |  |               |                              |                                       |   |                |
| <b>A period of 6 months ended on June 30, 2009:</b> |                                      |  |               |                              |                                       |   |                |
| Sales to external customers                         | 108,957                              | 55,211   | 48,144        | 14,134                       | 31,773                                | 1,118                                       | 259,337        |
| Inter segment                                       | 100                                  | 1,332  | 73            | 838                          | -                                     | (2,343)                                     | -              |
| Total sales, net                                    | <u>109,057</u>                       | <u>56,543</u>  | <u>48,217</u> | <u>14,972</u>                | <u>31,773</u>                         | <u>(1,225)</u>                              | <u>259,337</u> |
| Segment profit (loss)                               | <u>1,528</u>                         | <u>(4,206)</u>   | <u>689</u>    | <u>(1,162)</u>               | <u>2,194</u>                          | <u>257</u>                                  | <u>(700)</u>   |
| Capital gain, net                                   |                                      |  |               |                              |                                       | <u>3,624</u>                                | 3,624          |
| Share in losses of associated company               |                                      |  |               |                              |                                       | <u>1</u>                                    | <u>1</u>       |
| Loss before tax benefit                             |                                      |  |               |                              |                                       |   | <u>(4,325)</u> |
|   | <b>Delta USA<br/>mass<br/>market</b> | <b>Intimate Apparel<br/>– UK, US Upper<br/>Market and<br/>Europe</b> | <b>Socks</b>  | <b>Seamless<br/>knitwear</b> | <b>Delta<br/>Marketing<br/>Israel</b> | <b>Adjustments<br/>for<br/>Consolidated</b> | <b>Total</b>   |
|   | <b>\$ in thousand (Un – audited)</b> |  |               |                              |                                       |   |                |
| <b>A period of 6 months ended on June 30, 2008:</b> |                                      |  |               |                              |                                       |   |                |
| Sales to external customers                         | 122,997                              | 85,843   | 55,361        | 9,094                        | 36,639                                | 1,724                                       | 311,658        |
| Inter segment                                       | -                                    | 3,853  | 5             | 5,341                        | 49                                    | (9,248)                                     | -              |
| Total sales, net                                    | <u>122,997</u>                       | <u>89,696</u>  | <u>55,366</u> | <u>14,435</u>                | <u>36,688</u>                         | <u>(7,524)</u>                              | <u>311,658</u> |
| Segment profit (loss)                               | <u>3,167</u>                         | <u>(3,430)</u>   | <u>1,045</u>  | <u>(944)</u>                 | <u>6,282</u>                          | <u>(1,176)</u>                              | 4,944          |
| Capital gain, net                                   |                                      |  |               |                              |                                       | <u>4,283</u>                                | 4,283          |
| Loss before tax benefit                             |                                      |  |               |                              |                                       |   | <u>661</u>     |

**Delta Galil Industries Ltd.**

Summary consolidated notes as of June 30, 2009 (An-audited)

**Note 3 – Segment reporting** (continuance):

|   | Delta USA<br>mass<br>market     | Intimate Apparel<br>– UK, US Upper<br>Market and<br>Europe | Socks          | Seamless<br>knitwear | Delta<br>Marketing<br>Israel | Adjustments<br>for<br>Consolidated | Total           |
|---|---------------------------------|--|----------------|----------------------|------------------------------|------------------------------------|-----------------|
|   | <u>\$ in thousand (Audited)</u> |  |                |                      |                              |                                    |                 |
| <b>A year ended on December 31, 2008:</b>   |                                 |  |                |                      |                              |                                    |                 |
| Sales to external customers   | 253,577                         | 159,516  | 106,412        | 22,690               | 77,496                       | 3,143                              | 622,834         |
| Inter segment   | -                               | 9,263  | 26             | 6,713                | 49                           | (16,051)                           | -               |
| Total sales, net  | <u>253,577</u>                  | <u>168,779</u>   | <u>106,438</u> | <u>29,403</u>        | <u>77,545</u>                | <u>(12,908)</u>                    | <u>622,834</u>  |
| Segment profit (loss) before restructuring expenses<br>and impairment of goodwill | <u>5,974</u>                    | <u>(10,778)</u>  | <u>(689)</u>   | <u>(3,623)</u>       | <u>12,724</u>                | <u>(2,780)</u>                     | 828             |
| Restructuring expenses  | -                               | 7,501  | 1,370          | 291                  | -                            | -                                  | 9,162           |
| Impairment of goodwill  | <u>5,586</u>                    | <u>1,806</u>   | -              | -                    | -                            | -                                  | <u>7,392</u>    |
| Segment profit (loss) after restructuring expenses<br>and impairment of goodwill  | <u>388</u>                      | <u>(20,085)</u>  | <u>(2,059)</u> | <u>(3,914)</u>       | <u>12,724</u>                | <u>(2,780)</u>                     | <u>(15,726)</u> |
| Financing expenses, net   |                                 |  |                |                      |                              | <u>7,479</u>                       | 7,479           |
| Company's share in affiliated company loss  |                                 |  |                |                      |                              | <u>55</u>                          | <u>55</u>       |
| Loss before taxes   |                                 |  |                |                      |                              | <u>(23,260)</u>                    | <u>(23,260)</u> |

**Delta Galil Industries Ltd.**

Summary consolidated notes as of June 30, 2009 (Un-audited)

**Note 4 – Capital**

**Options to employees**

On July 13<sup>th</sup> 2009 the Company's Board of Directors have decided to grant, from the options granted in 2006 plan, 325,500 options to 120 employees, in an exercise price of \$3.02 per option (equal to the average share price in the last 30 trading days prior to the decision).

**Note 5 – Subsequent event**

On April 2, 2009, the transaction of purchasing assets and part of operations of Gibor sports active wear Ltd. (Gibor) was completed, in the design, development, production, sales and marketing of socks, after the conditioned terms in the agreement (which were detailed in the last immediate report) were met.

The purchase of Gibor's assets was done in order to extent and leverage the Company's activity in the socks field.

According to the agreement, the Company purchased from Gibor all machinery and equipment which Gibor owned in the socks field (hereinafter the operation field); the list of customers in the operation field and connections with them (as much as possible to transfer), with no obligation from Gibor side as for the continuance of the operations with them, all knowledge of Gibor in the operation field and 100% of the issued capital of the Company owned by Gibor. The Company will purchase the inventory of Gibor in order to complete the deal, as detailed in the agreement.

Total value for the assets purchased, with the exception of inventory, amount to \$5.7 million from which \$5.4 million was paid at the transaction completion date and will be transferred during Q3 2009.

In addition, the Company purchased the inventory Gibor holds at the date of the transaction completion as mentioned above for \$1.8 million.

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