# DELTA Galil Industries Ltd.

# Quarterly Report as of March 31, 2010

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

# **For the period ended March 31, 2010**

We hereby present to you the report of the Board of Directors of DELTA Galil Industries Ltd. (hereinafter: "**the Company**", "**DELTA**") in reference to the consolidated financial statements of the Company and its subsidiaries in Israel and overseas (hereinafter: "**the Group**") for the quarter ended March 31, 2010 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, Mark's & Spencer's, Target, 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: Lucky®, Nicole Miller®, Maidenform®, Converse®, Wilson® 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 USA, whereas production is mostly done in its facilities in the Middle East, Asia Pacific and via sub-contractors in those locations.

### 1.2. Material events in corporate operations during and after the reported period

1.2.1. Issuance of debentures - on January 24, 2010, trading of debentures (Series 20) started; these debentures were issued by the Company pursuant to a shelf offering by the Company dated January 18, 2010 (hereinafter in this section: "the shelf offering report"), pursuant to the Company's shelf prospectus dated May 29, 2008. In accordance with the outcome of this issuance, the Company issued NIS 113,000,000 par value debentures (Series 20), registered in the owner's name, of NIS 1 par value each. For details of the shelf offering report, outcome of the preliminary bidding by institutional investors and outcome of the public bidding, see reports dated January 17, 2010, January 18, 2010, January 19, 2010 and January 21, 2010 (references: ,2010-01-355935 2010-01-358482 ,2010-01-359094 and 2010-01-362040) included by way of reference.

1.2.2. On March 2, 2010, the Company announced it had signed an option agreement, whereby it granted a group of buyers an option to acquire land in NAHARIA owned by the Company - 258 thousand $m^2$ before expropriation. For further details, see immediate report dated March 2, 2010, reference:2010-01-400428 , included by way of reference.

1.2.3. On April 21, 2010, the Company announced that Mr. GIL SHIMON, Manager of Socks Operations, and Mr. MENNY ALON, Manager of Seamless Knitting Operations would no longer serve as senior officers of the Company, for details see immediate reports dated April 21, 2010, references 2010-01-455286 and 2010-01-455292.

1.2.4. Dividend declaration after the reporting period – on May 23, 2010 the Company declared on dividend grant in the amount of 1.5 million USD which are 6.41 cent per share that will be given on June 16, 2010. The grant appointing date will be June 2, 2010 and ex-date will be June 3, 2010. For more details see section 4 below.

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

## 2. Analysis of financial position

### 2.1. Balance Sheet

The Group’s consolidated balance sheet as of March 31, 2010 amounted to $390.0 million, compared to $357.2 million as of March 31, 2009.

The Group’s consolidated current assets as of March 31, 2010 amounted to $237.9 million, compared to $197.3 million as of March 31, 2009.

The increase in total balance sheet and in current assets as of March 31, 2010, compared to March 31, 2009, is due to proceeds of debenture issuance amounting to $30.5 million, issued by the Company in January 2010, which is included under cash and cash equivalents.

Furthermore, current assets as of March 31, 2010 increased due to increase in trade receivables and in inventory. The increase in recievables resulting from a 14% increase in sales in the current quarter compared to the same quarter last year.

The Group’s consolidated current liabilities in its consolidated balance sheet as of March 31, 2010 amounted to $163.7 million, compared to $203.2 million as of March 31, 2009.

The decrease in current liabilities as of March 31, 2010, compared to March 31, 2009, is primarily due to repayment of short-term borrowing from banks, due to a positive operating cash flow achieved in 2009, and due to a rights offering in November 2009, amounting to $21 million.

Group equity as of March 31, 2010 amounted to $183.2 million, or 47.0% of total balance sheet, compared to $145.2 million, or 40.6% of total balance sheet, as of March 31, 2009, and compared to $178.5 million, or 47.4% of total balance sheet, as of December 31, 2009.

The increase in Group equity as of March 31, 2010, compared to December 31, 2009, is due to net income in the first quarter of 2010, amounting to $3.9 million.

## 2.2. **Operating Results**

2.2.1. Below are Group summary income statements for the first quarter of 2010 and 2009, and for all of 2009 by quarter, $ in thousands:

| | **First quarter** | **First quarter** | **Year** |
|---|---|---|---|
| | **2010** | **2009** | **2009** |
| | **Un-audited** | | **Audited** |
| Sales | **140,541** | 123,426 | 572,534 |
| Cost of sales | **112,349** | 105,696 | 468,831 |
| Gross profit | **28,192** | 17,730 | 103,703 |
| Selling and marketing expenses | **15,737** | 16,441 | 66,342 |
| General and administrative expenses | **6,089** | 5,135 | 21,956 |
| Other income, Net | **947** | 579 | 761 |
| **Operating income (loss) before re-structuring expenses, impairment of fixed assets and loss from investment in subsidiary held for sale** | **7,313** | **(3,267)** | **16,166** |
| Restructuring expenses (income) | **485** | - | (1,331) |
| Impairment of fixed assets | **-** | - | 1,945 |
| Loss from subsidiary held for sale | **666** | - | - |
| **Operating income (loss)** | **6,162** | **(3,267)** | **15,552** |
| Finance expenses, net | **2,040** | 1,767 | 6,369 |
| Company share of income of associate | **-** | - | (41) |
| Income (loss) before taxes on income | **4,122** | (5,034) | 9,224 |
| Taxes on income (tax benefit) | **250** | (180) | 1,574 |
| **Net income (loss) for period** | **3,872** | **(4,854)** | **7,650** |
| Attribution of net income (loss) for the period: | | | |
| To Company shareholders | **3,842** | (4,884) | 7,662 |
| To minority interest | **30** | 30 | (12) |
| | **3,872** | **(4,854)** | **7,650** |
| **Net earnings (loss) per share attributable to equity holders of the Company:** | | | |
| **Basic and diluted** | **0.16** | **(0.26)** | **0.40** |

2.2.2. The following tables lists major data, $ in millions:

| | First quarter 2010 | First quarter 2009 | Year 2009 |
|---|---|---|---|
| **Sales** | **140.5** | 123.4 | 572.5 |
| **Operating income (loss) before re-structuring expenses, impairment of fixed assets and loss from subsidiary held for sale** | **7.3** | (3.3) | 16.2 |
| **Restructuring expenses (income)** | **0.5** | -,- | (1.3) |
| **Impairment of fixed assets** | **-,-** | -,- | 1.9 |
| **Loss from subsidiary held for sale** | **0.7** | -,- | -,- |
| **Operating income (loss)** | **6.2** | (3.3) | 15.6 |
| **Standardized EBITDA (*)** | **10.1** | (0.2) | 29.6 |
| **Operating net income (loss) attributable to equity holders of the Company, before re-structuring expenses, impairment of fixed assets and loss from subsidiary held for sale** | **5.0** | (4.9) | 8.3 |
| **Net income (loss) attributed to company shareholders** | **3.8** | (4.9) | 7.7 |
| **Cash flow from operating activities** | **0.8** | **3.6** | **40.8** |

| | First quarter 2010 | First quarter 2009 | Year 2009 |
|---|---|---|---|
| **Net income (loss) for period – as reported** | **3.9** | (4.9) | 7.7 |
| **Taxes on income (tax benefit)** | **0.2** | (0.2) | 1.6 |
| **Finance expenses, net** | **2.0** | 1.8 | 6.4 |
| **Restructuring expenses (income)** | **0.5** | -,- | (1.3) |
| **Impairment of fixed assets** | **-,-** | -,- | 1.9 |
| **Loss from investment in subsidiary** | **0.7** | -,- | -,- |
| **Depreciation and amortization** | **2.8** | 3.1 | 13.4 |
| **Standardized EBITDA** | **10.1** | (0.2) | 29.6 |

(*) Standardized 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.

Standardized EBITDA is calculated as follows: Net income (loss) plus taxes on income, net financing expenses, depreciation and amortization, re-structuring expenses, impairment of fixed assets and loss from investment in a subsidiary held for sale.

## 2.3. Analysis of operating results

### 2.3.1. Overview

Group sales in the first quarter of 2010 amounted to $140.5 million, compared to $123.4 million in the first quarter of 2009 – an increase of 14%.

Composition of Company sales by geography, $ in millions:

| | First quarter | | | | | | 2009 | |
|---|---|---|---|---|---|---|---|---|
| | **% change in origin currency** | **% Change** | **2010** | **% of total** | **2009** | **% of total** | | **% of total** |
| **North America** | *15* | ***15*** | **91.5** | *65* | 79.7 | *65* | 352.4 | *62* |
| **Israel** | *6* | ***13*** | **18.4** | *13* | 16.3 | *13* | 75.2 | *13* |
| **Europe** | *27* | ***34*** | **17.5** | *13* | 13.0 | *10* | 65.2 | *11* |
| **UK** | *(21)* | ***(13)*** | **12.5** | *9* | 14.3 | *12* | 77.8 | *14* |
| **Others** | | | **0.6** | | 0.1 | - | 1.9 | - |
| **Total** | *12* | ***14*** | **140.5** | *100* | **123.4** | *100* | **572.5** | *100* |

The increase in sales in the first quarter of 2010, compared to the corresponding period last year, was due to improvement in most sales markets, except for the UK, due to improved sales by retailers in the US and in Europe during the quarter. The increase in sales in the first quarter is due, *inter alia*, to inclusion of sales amounting to $5.4 million by the socks operations, acquired from GIBOR in April 2009.

Excluding incremental sales due to the aforementioned acquisition of GIBOR operations, sales increased by 10% over the corresponding period last year.

**North America**

Sales in North America increased by 15% in the first quarter of this year compared to the corresponding period last year, primarily due to higher bra sales.

**Israel**

Sales in Israel in the first quarter of this year increased, year-over-year, by 6% in NIS terms or by 13% in $ terms. The increase in sales was due to expansion of chain stores and to earlier Passover holiday this year.

**Europe**

Sales in Europe in the first quarter of this year increased by 34% in $ terms, or by 27% in € terms, over the corresponding period last year, primarily due to inclusion of $3.8 million sales of the socks operations acquired from GIBOR, and due to 6% higher average EUR/USD exchange rate compared to the average exchange rate in the corresponding period last year.

**UK**

Sales in the UK in the first quarter of 2010 decreased by 13%, or by 21% in GBP terms, over the year-ago period, due to lower sales to a certain customer and in accordance with

Company plan. Sales to this customer in the first quarter of 2010 amounted to $8.0 million, compared to $11.5 million in the corresponding period last year.
We believe that sales to this customer would continue to decline in 2010[1].

Gross profit in the first quarter of 2010 amounted to $28.2 million, or 20.0% of sales, compared to $17.7 million in the first quarter of 2009, or 14.4% of sales – an increase of 59%.

The increase in gross profit and margin in the first quarter of 2010 compared to the year-ago period is due to steps taken by the Company in 2009 to improve efficiency, including exiting non-profitable categories of UK operations, decrease in overhead, improved on-time delivery to customers, decreased failure cost and improved inventory management. The improvement in gross profit and margin was also due to overall increase in sales, primarily due to increase in bra sales to a customer in the US. For further details, see section 2.3.3 below.

**Selling and marketing expenses** decreased by 4.3%, amounting to $15.7 million in the first quarter of 2010, compared to $16.4 million in the first quarter of 2009.

The following table shows composition of selling and marketing expenses for the Delta Marketing Israel segment and for other Group operating segments, $ in millions:

| | **First quarter 2010** | **First quarter 2009** |
|---|---|---|
| **Delta Marketing Israel** | **7.2** | 6.2 |
| **Other activities** | **8.5** | 10.2 |
| **Total selling and marketing expenses** | **15.7** | 16.4 |
| **Selling and marketing expenses % of total sales** | **11.2%** | 13.3% |

The increase in selling and marketing expenses in the first quarter of 2010, over the corresponding period last year, for the Delta Marketing Israel operating segment, is due to expansion of chain stores and higher sales, as well as to revaluation of the NIS by 8% over the average exchange rate in the corresponding period last year, which resulted in higher expenses in $ terms.

The decrease in selling and marketing expenses for other operating segments in the first quarter of 2010 over the corresponding period last year, was due to lower sales in the UK and transition to direct (FOB) sales.

1 Note that this information is merely a forward-looking estimate, which may or may not materialize, or may differ from Company estimates and forecasts, due to circumstances outside of the Company's control, and due to being based on information available as of the report date, including Company estimates as of the report date.

**General and administrative expenses** in the first quarter of 2010 increased by 18.6%, amounting to $6.1 million, compared to $5.1 million in the first quarter of 2009.

The increase in general and administrative expenses in the first quarter of 2010 was primarily due to an 8% revaluation of the NIS vs. USD on average, compared to the average exchange rates in the corresponding period last year, which increase expenses in $ terms by $0.3 million, as well as due to expenses with respect to benefit component of options granted to executives, amounting to $0.2 million.

Furthermore, general and administrative expenses in the first quarter of this year included expenses with respect to review of an acquisition transaction not yet concluded, amounting to $0.2 million (see immediate report dated December 11, 2009, reference 2009-01-315972).

**Re-structuring expenses** - in the first quarter of 2010, the Company decided to terminate its socks finishing operations in Jordan. The cost of termination of the operations amounted to $0.5 million, consisting primarily of impairment of fixed assets and severance pay to 90 terminated employees.

**Loss from a subsidiary held for sale** - the Company has signed an agreement to sell its subsidiary in India engaged in manufacture of socks. The capital loss from this sale amounted to $0.7 million and was included in results of the first quarter of 2010. The transaction is expected to close in 2010.

**Operating income** in the first quarter of 2010 amounted to $6.2 million, or to $7.3 million before re-structuring expenses and loss from a subsidiary held for sale, compared to an operating loss of $3.3 million in the first quarter of 2009.

The transition from operating loss in the first quarter of 2009 to operating income in the first quarter of this year, was primarily due to higher sales and gross profit, as described above.

**Finance expenses** increased by 15% in the first quarter of 2010, amounting to $2.0 million – compared to $1.8 million in the corresponding period last year.

The following table shows composition of financing expenses, $ in millions:

| | First quarter 2010 | First quarter 2009 |
|---|---|---|
| **Interest and commission expenses** | **1.4** | 1.3 |
| **Exchange rate differences** | **0.4** | 0.4 |
| **IFRS adjustments** | **0.2** | 0.1 |
| **Total finance expenses** | **2.0** | 1.8 |

**Tax expenses** in the first quarter of 2010 amounted to $0.2 million, compared to a tax benefit of $0.2 million in the corresponding period last year.

The low effective tax rate in the first quarter of 2010 is due to a tax benefit from utilization of carry-forward tax loss for which no deferred taxes had been recognized.

**Income attributable to equity holders of the Company** in the first quarter of 2010 amounted to $3.8 million, compared to loss of $4.9 million in the first quarter of 2009.

The transition from net loss in the first quarter of 2009 to net income in the first quarter of this year was due to improved operating income, as described above.

2.3.2. Below is a summary of the Company's consolidated business results, by the three operating segments included in its financial statements, for the first quarter of 2010 and 2009 and for all of 2009, $ in thousands:

| | Quarter ended March 31 | | | | | 2009 | |
|---|---|---|---|---|---|---|---|
| | (Un-audited) | | | | | Audited | |
| | Sales | | | Operating income (loss) before re-structuring expenses, impairment of fixed assets and loss from subsidiary held for sale | | Sales | Operating income (loss) |
| | 2010 | 2009 | % Chang | 2010 | 2009 | | |
| Delta USA – mass market | **64,647** | 62,541 | *3* | **1,382** | 453 | 268,566 | 5,927 |
| Delta Israel | **62,607** | 45,314 | *38* | **2,904** | (4,573) | 243,576 | 1,428 |
| Delta Marketing Israel | **18,087** | 15,643 | *16* | **2,331** | 651 | 72,822 | 10,464 |
| Adjustments | **(4,800)** | (72) | | **696** | 202 | (12,430) | (1,653) |
| Total sales and operating income (loss) before re-structuring expenses, impairment of fixed assets and loss from subsidiary held for sale | **140,541** | 123,426 | *14* | **7,313** | (3,267) | 572,534 | 16,166 |
| Restructuring expenses (income) | | | | **485** | | | (1,331) |
| Impairment of fixed assets | | | | **-** | | | 1,945 |
| Loss from subsidiary held for sale | | | | **666** | | | |
| Total operating income (loss) on consolidated financial statements | | | | **6,162** | (3,267) | | 15,552 |

### 2.3.3. Analysis of business results by operating segment

**Operating segment: DELTA USA – mass market**

Sales in the first quarter of 2010 amounted to $64.6 million, compared to $62.5 million in the corresponding period last year – an increase of 3%.

Operating income in the first quarter of 2010 amounted to $1.4 million, compared to $0.5 million in the corresponding period last year.

The year-over-year increase in operating income in the first quarter of 2010 is primarily due to higher sales, as described above.

**Operating segment: Delta Israel**

Sales in the first quarter of 2010 amounted to $62.6 million, compared to $45.3 million in the corresponding period last year – an increase of 38%.

Higher sales in this operating segment in the first quarter of 2010, compared to the first quarter of 2009, is due to higher bra sales to a customer in the US; to inclusion of sales of operations acquired from GIBOR, amounting to $5.4 million; and to revaluation of the EUR by 6% over the average exchange rate in the first quarter of last year. This was offset by a decrease in sales to a certain customer in the UK.

Excluding sales added by acquisition of the GIBOR operations, as set forth above, sales of the operating segment in the first quarter of 2010 increased by 26% over the corresponding period last year.

Operating income in the first quarter of 2010 amounted to $2.9 million, compared to operating loss amounting to $4.6 million in the corresponding period last year.

The transition from operating loss in the first quarter of 2009 to operating income this year, was due to higher sales, lower loss from UK operations, from $3.5 million in the first quarter of last year to operating break-even in the current quarter, due to implementation of streamlining measures and the re-structuring plan since the fourth quarter of 2008, exiting of non-profitable categories and a positive $0.8 million contribution by operations acquired from GIBOR.

**Operating segment: Delta Marketing Israel**

Sales in the first quarter of 2010 amounted to $18.1 million, compared to $15.6 million in the corresponding period last year – an increase of 16%.

Sales in NIS in the first quarter of 2010 amounted to NIS 67.6 million, compared to NIS 63.4 million in the first quarter of 2009 – an increase of 6%.

The higher sales in NIS in the first quarter of 2010, year-over-year, was primarily due to expansion of chain stores and to the earlier Passover this year.

Operating income in the first quarter of 2010 amounted to $2.3 million, compared to $0.7 million in the corresponding period last year.

The operating income in USD terms in the first quarter of 2009 included an adjustment to the inventory value due to the erosion of the NIS versus the USD in that quarter.

Operating income in the first quarter of 2010, in NIS terms, amounted to NIS 8.4 million, compared to NIS 6.5 million in the corresponding period last year, an increase of 30%.

The year-over-year increase in operating income in the first quarter of 2010 is due to higher sales and gross income, as described above.

3. **Liquidity and financing sources**

Condensed cash flow statement, $ in millions:

| | Quarter ended March 31 | | Year ended December 31, 2009 |
|---|---|---|---|
| | **2010** | **2009** | |
| **Net cash provided by operating activities** | **0.8** | 3.6 | 40.8 |
| **Net cash used in investment activities** | **(1.1)** | (1.5) | (11.0) |
| **Net cash provided by (used in) financing activities** | **6.5** | (2.0) | (6.1) |
| **Increase in cash and cash equivalents** | **6.2** | 0.1 | 23.7 |

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

In the first quarter of 2010, the Company generated a positive operating cash flow of $0.8 million, compared to a positive cash flow of $3.6 million in the corresponding period last year.

The decrease in operating cash flow in the first quarter of 2010 over the same period last year was primarily due to higher working capital and inventory, due to larger extent of operations.

The following are some financial indicators for the first quarter of 2010 and of 2009:

| | First quarter 2010 | First quarter 2009 |
|---|---|---|
| **Current Ratio** | **1.46** | 0.97 |
| **Quick Ratio** | **0.92** | 0.50 |
| **Receivables credit days** | **65** | 62 |
| **Payables credit days** | **49** | 43 |
| **Inventory days** | **70** | 82 |
| **Positive operating cash flow ($ in millions)** | **0.8** | 3.6 |
| **Standardized EBITDA ($ in millions)** | **10.1** | (0.2) |
| **Net financial debt ($ in millions)** | **84.3** | 132.1 |
| **Net financial debt coverage ratio to standardized EBITDA (trailing 12 months)** | **2.1** | 22.8 |
| **Equity / balance sheet total** | **47.0%** | 40.6% |
| **Equity ($ in millions)** | **183.2** | 145.2 |

The improved current ratio and quick ratio, from 0.97 and 0.50, respectively, as of March 31, 2009, to 1.46 and 0.92, respectively, as of March 31, 2010, was due to positive operating cash flow, to rights offering by the Company in November 2009, and to debenture issuance in early 2010.

Net financial debt as of March 31, 2010 amounted to $84.3 million, compared to $132.1 million as of March 31, 2009, and compared to $84.1 million as of December 31, 2009.

The decrease in net financial debt as of March 31, 2010, compared to March 31, 2009, was due to positive operating cash flow, primarily due to decrease in working capital achieved in 2009, and to rights offering by the Company in November 2009, amounting to $21 million.

## 4. **Dividend**

After the balance sheet date, the Company declared distribution of a dividend totaling $1.5 million, amounting to $0.0641 per share, to be distributed on June 16, 2010. The record date for distributing this dividend will be June 2, 2010, and the ex-date will be June 3, 2010.

The following particulars concern the evaluation made by the board of directors relating decision-making about the above-mentioned distribution of dividends:

A. The Company board of directors has assessed whether the Company meets the profit and solvency test established in Section 302(A) of the Companies Law (1999), and subsequent to this assessment has affirmed that the Company meets these tests with respect to the above-mentioned distribution of dividends.

B. For the purpose of meeting the profit test, the board of directors has affirmed the above-mentioned distribution of dividends on the basis of the Company's retained earnings as of March 31, 2010, which exceed the amount of the approved dividend.

C. For the purpose of meeting the solvency test, the board of directors has considered the following matters: figures concerning the Company's financial situation, including figures concerning its liquid balances, balances due, and net balances due; the Company's unused lines of bank credit; the projected cash flow for 2010; and the expected payments of interest and principal on the Company's debentures. Following consideration of these matters, the Company board of directors has affirmed that the Company meets the solvency test with respect to the above-mentioned distribution of dividends, including under conservative scenarios.

D. The board of directors believes that the dividend will have no substantial negative impact on the Company's financial situation, including its capital structure, level of leverage, liquidity situation, and ability to continue its operations according to the format of its current activity.

The expected figures and estimates in paragraphs C and D above constitute forward-looking statements, as defined in the Securities Law (1986), based on an analysis of the figures listed in paragraph C above, as calculated by the Company. These estimates and expectations may not materialize, in whole or in part, or may differ materially from what the Company expects, for various reasons, including changes in the economic markets in Israel and overseas. Changes in capital market conditions, currency exchange rates, and the state of the various markets in which the Company operates are liable to affect the Company's activity.

## 5. **Exposure to market risk and management there of**

**Exposure to market risk, risk factors and management there of**

### 5.1. The person responsible for market risk management at the Company

Market risk management at the Company is conducted in accordance with the risk management policy set by the Company Board of Directors and senior management.

Mr. ISAAC DABAH, Company CEO, is the person responsible for market risk management at the Company.

Mr. YOSSI HAJAJ, Company CFO, is responsible for management of market risk associated with exchange rates and interest.

5.2. Description of market risk factors

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

For general details of risk factors to which the Company is exposed, see section 1.27 of Part I of the Annual Report.

5.3. Company policy with regard to market risk management

The financial crisis in Europe in recent weeks may impact the Company on two major levels:
Lower sales, should the crisis evolve into a recession in Europe - which may impact Company profitability.
Sales to Europe consist 13% of total sales in Q1 of 2010 and 11% of 2009 sales.
Volatility of exchange rates of European currencies vs. the USD.

In the first quarter of 2010, average exchange rates for the EUR and GBP were 6% and 9% higher, respectively, compared to average exchange rates in the corresponding period last year.
However, in the first quarter of 2010, average exchange rates for the EUR and GBP were 6% and 4% lower, respectively, compared to average exchange rates in the fourth quarter of 2009, which led to lower Company sales in $ terms. After the balance sheet date, the EUR continued to devalue vs. the USD, by 10% compared to the average exchange rate in the first quarter of 2010, and should this decline continue, it would result in further decrease in Company sales and operating income in $ terms.
The Company has conducted hedging transactions to protect against the risk of net cash flow due to excess proceeds in EUR would be impacted by changes in exchange rates in the first half of 2010 (see also section 5.4 below), but has yet to conduct such transactions for the second half of this year.
Should the EUR exchange rate in the second half of 2010 be lower than its average exchange rate in the first quarter of 2010, and should sale prices not be adjusted, the Company's operating income would decrease by $100 thousand per quarter for each 1% decrease in said exchange rate.

It is Company policy to maintain as high an alignment as possible between the currency in which its products are sold and the currency in which products and/or raw materials are bought. The

Company regularly reviews its balance sheet exposure and its economic exposure, in accordance with forecasted revenues and expenses for the coming 12 months.

The Company takes action on several levels in order to mitigate its exposure to exchange rate volatility:

A. Change of sale currency vis-à-vis UK customers (from GBP to USD). Starting in 2010, most sales to a major customer in the UK are denominated in USD, hence exposure to GBP is lower.

B. The Company had surplus of NIS payments over proceeds. Significant reduction of exposure to fluctuations in USD/NIS exchange rate, by increasing sales in NIS and reducing costs denominated in NIS (due to lower overhead in Israel).

C. Contracting future contracts for a term of up to 12 months, to hedge the risk of net cash flow due to excess revenues in EUR would be impacted by exchange rate fluctuations.

5.4. Financial instruments

The following open positions as of March 31, 2010 are not recognized as an accounting hedge, vs. the EUR:

| **Maturity** | **Amount $ in thousands** | **Exchange rate for transaction (USD per EUR 1)** |
|---|---|---|
| April 12, 2010 | 1,500 | 1.5003 |
| April 26, 2010 | 1,500 | 1.5001 |
| May 10, 2010 | 1,500 | 1.5000 |
| May 25, 2010 | 1,500 | 1.4998 |
| June 10, 2010 | 1,500 | 1.4995 |
| June 28, 2010 | 1,500 | 1.4990 |
| | 9,000 | |

In its results for the first quarter of 2010, the Company included under Other income, Net the results of transactions which closed in the reporting period, as well as the estimated results of the aforementioned open transactions, which amounted to gain of $0.9 million.

5.5. Linkage basis report, $ in thousands

| | As of March 31, 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Un-audited | | | | | | |
| | **In USD** | **In GBP** | **In EUR** | **In NIS** | **In Other Currencies** | **Non-Monetary Balances** | **Total** |
| Assets: | | | | | | | |
| Cash and cash equivalents | 33,232 | 80 | 127 | 429 | 201 | - | 34,069 |
| Trade receivables | 70,086 | 4,771 | 11,980 | 14,262 | 899 | - | 101,998 |
| Other accounts receivable | 579 | 119 | 893 | 5,436 | 405 | 1,126 | 8,558 |
| Inventory | | | | | | 87,881 | 87,881 |
| Assets classified as held for sale | 2,520 | | | | | 2,916 | 5,436 |
| Long-term debit balances | 977 | - | - | 47 | - | 400 | 1,424 |
| Deferred tax assets | - | - | - | - | - | 3,595 | 3,595 |
| Excess plan assets over liabilities due to employment termination | | | | | | 85 | 85 |
| Fixes assets, net of accumulated depreciation | | | | | | 69,017 | 69,017 |
| Intangible assets, net of accumulated amortization | | | | | | 77,986 | 77,986 |
| **Total assets** | **107,394** | **4,970** | **13,000** | **20,174** | **1,505** | **243,006** | **390,049** |
| Liabilities: | | | | | | | |
| Short term loans from banks | 67,513 | 2 | 14,896 | 4 | 344 | - | 82,759 |
| Trade payables | 34,192 | 1,267 | 3,229 | 7,104 | 1,581 | - | 47,373 |
| Other accounts payable | 16,071 | 1,901 | 782 | 12,536 | 2,165 | 107 | 33,562 |
| Long-term loans from banking corporations | 5,571 | - | - | - | - | - | 5,571 |
| Severance pay liabilities, net of plan assets | | | | | | 385 | 385 |
| Deferred taxes | | | | | | 771 | 771 |
| Debentures[2] | 30,081 | - | - | - | - | - | 30,081 |
| Other non-current liabilities | 6,302 | - | - | - | - | - | 6,302 |
| **Total liabilities** | **159,730** | **3,170** | **18,907** | **19,644** | **4,090** | **1,263** | **206,804** |
| **Balance sheet total, net** | **(52,336)** | **1,800** | **(5,907)** | **530** | **(2,585)** | **241,743** | **183,245** |

2 Debentures issued in January 2010, are NIS denominated, bear fixed NIS interest and are non-linked. The Company has contracted a swap agreement with a bank, to swap a USD cash flow for the NIS cash flow, hence this liability is presented as linked to USD.

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

Sensitivity to change in NIS/USD exchange rate:

| | Gain (Loss) from Changes | | | Gain (Loss) from Changes | |
|---|---|---|---|---|---|
| **Expected exchange rate** | 10% Increase | 5% Increase | Fair Value | 5% Decrease | 10% Decrease |
| | NIS 4.08 = $1 | NIS 3.90 = $1 | NIS 3.71 = $1 | NIS 3.53 = $1 | NIS 3.34 = $1 |
| **Cash and cash equivalents** | (43) | (21) | 429 | 21 | 43 |
| **Trade receivables** [5] | (1,426) | (713) | 14,262 | 713 | 1,426 |
| **Other accounts receivable** | (544) | (272) | 5,436 | 272 | 544 |
| **Long-term debit balances** | (5) | (2) | 47 | 2 | 5 |
| **Short-term credit from banks** | - | - | (4) | - | - |
| **Trade payables** | 710 | 355 | (7,104) | (355) | (710) |
| **Other accounts payable** | 1,254 | 627 | (12,536) | (627) | (1,254) |
| **Off-balance-sheet liabilities in respect of rental agreements** | 819 | 410 | (8,194) | (410) | (819) |
| **Total** | 765 | 384 | (7,664) | (384) | (765) |

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

| | 10% increase [1] | 5% increase [2] | Discount rate of 12% | 5% Decrease [3] | 10% Decrease [4] |
|---|---|---|---|---|---|
| **Change in fair value, before tax** [6] | 86 | 43 | (8,268) | (44) | (88) |

Sensitivity to GBP/USD exchange rate fluctuations:

| | Gain (Loss) from Changes | | | Gain (Loss) from Changes | |
|---|---|---|---|---|---|
| | 10% Increase | 5% Increase | Fair Value | 5% Decrease | 10% Decrease |
| **Expected exchange rate** | $1.66 = 1£ | $1.59 = 1£ | $1.51 = 1£ | $1.44 = 1£ | $1.36 = 1£ |
| **Cash and cash equivalents** | 8 | 4 | 80 | (4) | (8) |
| **Trade receivables** [5] | 477 | 239 | 4,771 | (239) | (477) |
| **Other accounts receivable** | 12 | 6 | 119 | (6) | (12) |
| **Short-term credit from banks** | - | - | (2) | - | - |
| **Trade payables** | (127) | (63) | (1,267) | 63 | 127 |
| **Other accounts payable** | (190) | (95) | (1,901) | 95 | 190 |
| **Off-balance-sheet liabilities in respect of rental agreements** | (97) | (48) | (967) | 48 | 97 |
| **Total** | 83 | 43 | 833 | (43) | (83) |

Sensitivity to changes in discount rate of liabilities in respect of rental, franchise and storage service agreements denominated in GBP:

| | 10% increase [1] | 5% increase [2] | Discount rate of 12% | 5% Decrease [3] | 10% Decrease [4] |
|---|---|---|---|---|---|
| **Change in fair value, before tax** [6] | 46 | 23 | (1,217) | (24) | (49) |

Sensitivity to change in EUR/USD exchange rate:

| | Gain (Loss) from Changes | | | Gain (Loss) from Changes | |
|---|---|---|---|---|---|
| | 10% Increase | 5% Increase | Fair Value | 5% Decrease | 10% Decrease |
| **Expected exchange rate** | $1.48 = 1€ | $1.41 = 1€ | $1.34 = 1€ | $1.28 = 1€ | $1.21 = 1€ |
| **Cash and cash equivalents** | 13 | 6 | 127 | (6) | (13) |
| **Trade receivables** [5] | 1,198 | 599 | 11,980 | (599) | (1,198) |
| **Other accounts receivable** | 89 | 45 | 893 | (45) | (89) |
| **Short-term credit from banks** | (1,490) | (745) | (14,896) | 745 | 1,490 |
| **Trade payables** | (323) | (161) | (3,229) | 161 | 323 |
| **Other accounts payable** | (78) | (39) | (782) | 39 | 78 |
| **Total** | (591) | (295) | (5,907) | 295 | 591 |

Sensitivity to change in discount rate of liabilities with respect to franchise agreements denominated in EUR:

| | 10% increase [1] | 5% increase [2] | Discount rate of 12% | 5% Decrease [3] | 10% Decrease [4] |
|---|---|---|---|---|---|
| **Change in fair value, before tax** | 2 | 1 | (352) | (1) | (2) |

Sensitivity to changes in weighted LIBOR interest rate

The following calculation relates to cash flow exposure, rather than to change in fair value, with respect to a loan portfolio amounting to $88 million ($ in thousands), with weighted interest on this loan portfolio as of March 31, 2010 being 2.85%:

| Change in interest rate | 10% Increase | 5% Increase | 5% Decrease | 10% Decrease |
|---|---|---|---|---|
| Expected interest rate after the change | 3.14% | 3.00% | 2.71% | 2.56% |
| Pre-tax gain (loss) due to changes | (250) | (125) | 125 | 250 |

1 For a 13.2% discount rate.

2 For a 12.6% discount rate.

3 For a 11.4% discount rate.

4 For a 10.8% discount rate.

5 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.

6 Most of the liabilities included in the above sensitivity analysis tables refer to rental agreements, and amounts of the liabilities for franchise and storage services agreements are not material.

Below are sensitivity analysis with respect to the SWAP agreement in which the Company is engaged with, in reference with the swap of NIS cash flow to USD cash flow. To be noted that the changes to the SWAP agreement value will be charged to capital fund in the Company's balance sheet and will have no influence on the profit and loss statement.

Sensitivity SWAP analysis to the changes in the exchange rate (NIS/USD):

| Change rate | -10% | -5% | 0% | 5% | 10% |
|---|---|---|---|---|---|
| Forward transaction | 4,036,612 | 2,034,004 | 231,657 | -1,399,038 | -2,881,488 |
| Balance | 3,804,955 | 1,802,347 | | -1,630,695 | -3,133,145 |

Sensitivity SWAP analysis to the changes in NIS interest rate:

| Change rate | -10% | -5% | 0% | 5% | 10% |
|---|---|---|---|---|---|
| Forward transaction | 756,658 | 492,829 | 231,657 | -26,866 | -282,771 |
| Balance | 525,025 | 261,172 | | -258,523 | -514,428 |

Sensitivity SWAP analysis to the changes in USD interest rate:

| Change rate | -10% | -5% | 0% | 5% | 10% |
|---|---|---|---|---|---|
| Forward transaction | -226,921 | 3,405 | 231,657 | 457,856 | 682,023 |
| Balance | -458,578 | -228,252 | | 226,199 | 450,366 |

## Corporate governance aspects

6. **<u>Disclosure with regard to approval process of financial statements</u>**

The Company Board of Directors has determined that the organ in charge of overall control of financial statements for the Company is the Finance Committee.

Prior to approval of the Company's financial statements, the draft financial statements and notes there to are submitted to members of the Finance Committee, in a reasonable time prior to the meeting, subject to any statute.

Invitees to meetings of the Finance 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 members and answer any questions.

During the Finance 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 Finance 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 Finance Committee to approve the financial statements as set forth above, the financial statements and notes there to 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 of the Finance committee to discuss and elaborate these issues.

Names of the Finance Committee members who attended the meeting on May 20, 2010, at which the Finance Committee recommended that the Company Board of Directors approve the financial statements and Board of Directors' report as of March 31, 2010 are: YEHEZKEL DOVRAT, Committee Chairman; SHAUL BEN-ZE'EV; GIDEON CHITAYAT (Chairman of the Board of Directors); and NOAM LAUTMAN.
The meeting was also attended by ISAAC DABAH, Company CEO.
During the board of directors meeting in which the financial statements are discussed and approved, the Company's CFO describes, in details, the main issues of the financial statements by comparing it to prior

periods, and focusing on significant changes and significant issues in the financial statements, significant estimations and critical estimations implemented in the reports, items likelihood, the implementation of the financial policy and the changes in it – if were any.

A representative of the Company's external auditor attend the Board of directors meeting in which the financial statements are discussed and approved, which customary give his input and comments to the financial reports. The CFO and the external auditor answers the director's questions and a discussion is conducted on the reports before approving.

At the end of the discussion, the Board of directors votes to approve the financial reports.

Names of Board members who attended the Board of Directors' meeting on May 23, 2010 at which the financial statements and the Board of Directors' report as of March 31, 2010 were approved, are: Board of Directors Chairman, GIDEON CHITAYAT; ISRAEL BAUM; YITZHAK WEINSTOCK; NOAM LAUTMAN; SHAUL BEN-ZE'EV; TZIPORA CARMON; YEHEZKEL DOVRAT; and ISAAC DABAH.

**Disclosure provisions with regard to financial reporting by the corporation**

7. **Disclosure with regard to critical accounting estimates**

In creating the financial statements according to acceptable accounting practices, company 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 Annual financial statements published on March 2, 2010.

8. **Obligatory notes outstanding**

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

| Series | T |
|---|---|
| Issue date | Listed for trading on January 24, 2010 pursuant to shelf offering report published by the Company on January 18, 2010 and pursuant to Company's shelf prospectus dated May 29, 2008 |
| Par value amount of debentures at issuance (in NIS) | 113,000,000 |
| Par value amount of debentures as of March 31, 2010 (in NIS), including linkage | 113,000,000 |
| Start date of principal repayment | 19.7.2012 |
| Number of annual installments of principal repayment | 1 |
| Accrued interest as of March 31, 2010 | NIS 1.5 million |
| Value on stock exchange soon prior to March 31, 2010 | NIS 118 million |
| Interest | Fixed - 7% |
| Effective interest as of issuance date | 7.12% |
| Interest payment dates | Semi-annual installments on July 19 and on January 19 of each year, 2010 through 2016 (first installment payable on July 19, 2010). |
| Linkage type | Non-linked |
| Conversion rights | Debentures are not convertible |
| Right to early redemption or forced conversion | Should the stock exchange decide to de-list the debentures from trading due to decline in value of the |

| Series | T |
|---|---|
| | debenture series below the threshold determined by the stock exchange, the Company shall not allow early redemption of debentures due to said de-listing. |
| Guarantee to secure payment | Not guaranteed by any liens |
| Rating | Rated A3/Stable by Midroog Ltd. (see report dated December 31, 2009, reference 2009-01-338541). |
| Details and contact information of trustee | STRAUSS LAZAR Trust Company (1992) Ltd., 17 YITZHAK SADEH Street, TEL AVIV (Tel. 03-623777, Fax: 03-5613824); Contact person: Mr. ORI LAZAR, email: ori@slcpa.co.il |

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

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

Signed: May 23, 2010

| GIDEON CHITAYAT | ISAAC DABAH |
|---|---|
| Chairman of the Board of Directors | CEO and Director |

# DELTA Galil Industries Ltd.

# Key Information for Interim Period

# (Un-audited)

# March 31, 2010

**DELTA Galil Industries Ltd.**

**Key Information for Interim Period**

**(Un-audited)**

**March 31, 2010**

## Table of Contents

**Independent CPA's review**

**To Shareholders of**

**DELTA Galil Industries Ltd.**

## Introduction

We have reviewed the enclosed financial information of DELTA Galil Industries Ltd. and its subsidiaries (hereinafter: "the Group"), which includes the condensed consolidated statement of financial position as of March 31, 2010 and the condensed consolidated statements of comprehensive income, changes to equity and cash flow for the three-month period then ended.
The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period in accordance with IAS 34 "Interim financial reporting", and they are also responsible for preparation of financial information for these interim periods pursuant to Chapter 4 of the Securities Regulations (Periodic and immediate reports), 1970. We are responsible for expressing our conclusion with regard to the financial information for this interim period, based on our review.

We have not reviewed the condensed financial information for the interim period of subsidiaries whose assets included in consolidation account for 7% of total consolidated assets as of March 31, 2010. The condensed financial information for the interim period of those subsidiaries was reviewed by another CPA, whose review report has been provided to us, and our conclusion - in as much as it relates to financial information with respect to these companies - is based on said review reports by the other CPA.

## Scope of review

We have conducted our review in accordance with Review Standard 1 of the Israeli CPA Association "Review of financial information for interim periods conducted by the entity's external CPA". Reviewing financial information for interim periods consists of clarifications, primarily with persons in charge of financial and accounting issues, and of application of analytical and other review procedures. Such a review is significantly limited in scope by comparison to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore does not enable us to be certain of being aware of all material issues which may have been identified by an audit. Therefore, we do not express an audit-based opinion.

## Conclusion

Based on our review and on review reports by other CPAs, we have not become aware of anything which caused us to believe that the aforementioned financial information is not compiled, in all material aspects, in accordance with IAS 34.

In addition to the foregoing, based on our review and on review reports by other CPAs, we have not become aware of anything which caused us to believe that the aforementioned financial information is not compliant, in all material aspects, with disclosure provisions of Chapter 4 of the Securities Regulations (Periodic and immediate reports), 1970.

Tel Aviv
May 23, 2010

Kesselman & Kesselman
CPAs

**DELTA GALIL Industries Ltd.**

Condensed consolidated Statements of Financial Position
As of March 31, 2010

| | March 31 | | December 31 |
|---|---|---|---|
| | 2010 | 2009 | 2009 |
| | (Un-audited) | | (Audited) |
| | $ in thousands | | |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 34,069 | 4,218 | 27,893 |
| Other accounts receivable: | | | |
| Trade receivables | 101,998 | 84,530 | 103,140 |
| Taxes on income - receivable | 1,268 | 2,166 | 2,199 |
| Others | 7,290 | 7,220 | 5,833 |
| Inventory | 87,881 | 96,223 | 80,685 |
| Assets classified as held for sale | 5,436 | 2,916 | 2,916 |
| Total current assets | 237,942 | 197,273 | 222,666 |
| **Non-current assets:** | | | |
| Long-term pre-paid expenses | 101 | 91 | 94 |
| Long-term debit balances | 1,092 | 1,378 | 1,323 |
| Financial derivative | 231 | | |
| Excess plan assets over liabilities due to employment termination | 85 | 212 | 85 |
| Fixes assets, net of accumulated depreciation | 69,017 | 78,536 | 72,677 |
| Intangible assets, net of accumulated amortization | 77,986 | 74,978 | 76,040 |
| Deferred tax assets | 3,595 | 4,711 | 3,541 |
| Total non-current assets | 152,107 | 159,906 | 153,760 |
| Total assets | 390,049 | 357,179 | 376,426 |

**GIDEON CHITAYAT**
**Chairman of the Board of Directors**

**ISAAC DABAH**
**CEO**

**YOSSI HAJAJ**
**CFO**

**Approval date of key information for interim period by the Company Board of Directors: May 23, 2010**

| | March 31 | | December 31 |
|---|---|---|---|
| | 2010 | 2009 | 2009 |
| | (Un-audited) | | (Audited) |
| | $ in thousands | | |
| **Liabilities and Equity** | | | |
| **Current liabilities:** | | | |
| Short-term loans from banks | 80,645 | 125,927 | 104,127 |
| Current maturities of long-term loans | | | |
| From banks | 2,114 | 8,000 | 2,110 |
| Other accounts payable: | | | |
| Trade payables | 47,373 | 34,821 | 45,111 |
| Taxes on income - payable | 995 | 301 | 864 |
| Others | 32,567 | 34,171 | 35,002 |
| Total current liabilities | 163,694 | 203,220 | 187,214 |
| **Non-current liabilities:** | | | |
| Loans from banking corporations less | | | |
| current maturities | 5,571 | 2,400 | 5,723 |
| Debentures | 30,081 | - | - |
| Severance pay liabilities, net of plan assets | 385 | 398 | 335 |
| Other non-current liabilities | 6,302 | 5,973 | 3,861 |
| Reserve for deferred taxes | 771 | - | 787 |
| Total non-current liabilities | 43,110 | 8,771 | 10,706 |
| **Total liabilities** | 206,804 | 211,991 | 197,920 |
| **Equity:** | | | |
| Equity attributable equity holders of the parent company: | | | |
| Share capital | 23,090 | 21,851 | 23,086 |
| Share premium | 120,942 | 101,114 | 120,854 |
| Other capital reserves | 494 | - | - |
| Retained earnings | 45,844 | 29,024 | 41,721 |
| Treasury shares | (9,700) | (9,700) | (9,700) |
| | 180,670 | 142,289 | 175,961 |
| Minority interest | 2,575 | 2,899 | 2,545 |
| **Total equity** | 183,245 | 145,188 | 178,506 |
| **Total liabilities and equity** | 390,049 | 357,179 | 376,426 |

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

**DELTA Galil Industries Ltd.**

Condensed consolidated statements of comprehensive income (loss)
For the three-month period ended March 31, 2010

| | Three months ended March 31 | | Year ended December 31 |
|---|---|---|---|
| | **2010** | **2009** | **2009** |
| | **(Un-audited)** | | **(Audited)** |
| | **$ in thousands (except for earning (loss) per share data)** | | |
| Sales | 140,541 | 123,426 | 572,534 |
| Cost of sales | 112,349 | 105,696 | 468,831 |
| Gross profit | 28,192 | 17,730 | 103,703 |
| Selling and marketing expenses | 15,737 | 16,441 | 66,342 |
| General and administrative expenses | 6,089 | 5,135 | 21,956 |
| Other income, Net | 947 | 579 | 761 |
| Restructuring expenses (revenues), Net | 485 | - | (1,331) |
| Impairment of fixed assets | - | - | 1,945 |
| Loss from subsidiary held for sale | 666 | - | - |
| Operating income (loss) | 6,162 | (3,267) | 15,552 |
| Finance expenses, net | 2,040 | 1,767 | 6,369 |
| Company share of income of associate | - | - | (41) |
| Income (loss) before taxes on revenue | 4,122 | (5,034) | 9,224 |
| Income tax (tax benefit) | 250 | (180) | 1,574 |
| Income (loss) for the period | 3,872 | (4,854) | 7,650 |
| **Other comprehensive after-tax income (loss)** | | | |
| Defined benefit plan actuarial gain (loss) | | - | 23 |
| Taxes on income and expenses recognized directly in other comprehensive loss | | - | (105) |
| Cash flow defense | 260 | | |
| Reserve from translation differences | 234 | - | - |
| Other comprehensive loss for the period, net of tax | 494 | - | (82) |
| Total comprehensive income (loss) for the period | 4,366 | (4,854) | 7,568 |
| **Attribution of net income (loss) for the year:** | | | |
| To equity holders of the parent company | 3,842 | (4,884) | 7,662 |
| To minority interest | 30 | 30 | (12) |
| | 3,872 | (4,854) | 7,650 |
| **Attribution of total comprehensive income (loss) for the year:** | | | |
| To equity holders of the parent company | 3,336 | (4,884) | 7,580 |
| To minority interest | 30 | 30 | (12) |
| Total recognized revenues and expenses | 4,366 | (4,854) | 7,568 |
| | **In USD** | | |
| **Net earnings (loss) per share attributable to equity holders of the parent company:** | | | |
| Basic and diluted | 0.16 | (0.26) | 0.40 |

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

**DELTA Galil Industries Ltd.**

Condensed consolidated statements of changes to equity
For the three-month period ended March 31, 2010

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary share capital | | | | | | | | |
| | **Number of shares** | **Amount** | **Share premium** | **Other capital reserves** | **Retained earnings** | **Treasury shares** | **Total** | **Minority interest** | **Total equity** |
| | **In thousands** | **$ in thousands** | | | | | | | |
| **Balance As of January 1, 2010 (audited)** | 24,586 | 23,086 | 120,854 | | 41,721 | (9,700) | 175,961 | 2,545 | 178,506 |
| **Movement in period ended March 31, 2010:** | | | | | | | | | |
| Comprehensive income (loss) | | | | 494 | 3,842 | | 4,336 | 30 | 4,366 |
| Proceeds from share issuance | 13 | 4 | 88 | | | | 92 | | 92 |
| Benefit component of options granted | | | | | 281 | | 281 | | 281 |
| **Balance as of March 31, 2010 (un-audited)** | 24,599 | 23,090 | 120,942 | 494 | 45,844 | (9,700) | 180,670 | 2,575 | 183,245 |
| | | | | | | | | | |
| **Balance As of January 1, 2009 (audited)** | 19,948 | 21,851 | 101,114 | -,- | 33,813 | (9,700) | 147,078 | 2,990 | 150,068 |
| **Movement in period ended March 31, 2009:** | | | | | | | | | |
| Comprehensive income (loss) | - | - | - | - | (4,884) | - | (4,884) | 30 | (4,854) |
| Dividends to minority interest | - | - | - | - | - | - | - | (121) | (121) |
| Benefit component of options granted | - | - | - | - | 68 | - | 68 | - | 68 |
| Uncollected dividends with respect to previous years | - | - | - | - | 27 | - | 27 | - | 27 |
| **Balance as of March 31, 2009 (un-audited)** | 19,948 | 21,851 | 101,114 | -,- | 29,024 | (9,700) | 142,289 | 2,899 | 145,188 |
| | | | | | | | | | |
| **Balance As of January 1, 2009 (audited)** | 19,948 | 21,851 | 101,114 | -,- | 33,813 | (9,700) | 147,078 | 2,990 | 150,068 |
| **Movement in 2009:** | | | | | | | | | |
| Comprehensive income (loss) | - | - | - | - | 7,580 | - | 7,580 | (12) | 7,568 |
| Rights allotment | 4,638 | 1,235 | 19,740 | - | - | - | 20,975 | - | 20,975 |
| Dividends to minority interest | - | - | - | - | - | - | - | (433) | (433) |
| Uncollected dividends with respect to previous years | - | - | - | - | 27 | - | 27 | - | 27 |
| Benefit component of options granted | - | - | - | - | 301 | - | 301 | - | 301 |
| **Balance As of December 31, 2009 (audited)** | 24,586 | 23,086 | 120,854 | -,- | 41,721 | (9,700) | 175,961 | 2,545 | 178,506 |

**DELTA Galil Industries Ltd.**

Condensed consolidated cash flow statements
For the three-month period ended March 31, 2010

| | Three months ended March 31 | | Year ended December 31 |
|---|---|---|---|
| | 2010 | 2009 | 2009 |
| | (Un-audited) | | (Audited) |
| | $ in thousands | | |
| **Cash flows from operating activities:** | | | |
| Net income (loss) for period | 3,872 | (4,854) | 7,650 |
| Adjustments required to reflect cash flows from current activities | (2,296) | 8,260 | 35,370 |
| Interest paid in cash | (778) | (646) | (3,817) |
| Taxes on income refunded (paid) in cash, net | (11) | 876 | 1,621 |
| Net cash generated by current activities | 787 | 3,636 | 40,824 |
| **Cash flows from investment activities:** | | | |
| Business combination (see note A) | | - | (8,237) |
| Acquisition of fixed assets and intangible assets | (1,179) | (1,696) | (4,072) |
| Acquisition of trademark | (600) | - | - |
| Proceeds from sale of fixed assets | 38 | 132 | 1,071 |
| Proceeds with respect to grant of options to acquire land | 538 | - | - |
| Repayment of long-term receivables | 44 | 82 | 236 |
| Loans granted to employees | (7) | (4) | (13) |
| Loan repayment by employees | 5 | 11 | 28 |
| Long-term deposits | 16 | (44) | (2) |
| Net cash used in investment activities | (1,145) | (1,519) | (10,989) |
| **Cash flows from financing activities:** | | | |
| Dividends paid to minority interest in a subsidiary | | (121) | (433) |
| Proceeds of long-term loans | | 3,000 | 8,300 |
| Issuance of debentures, net of issuance cost | 30,081 | - | - |
| Proceeds from exercise of employee options | 92 | - | - |
| Repayment of loans and other long-term liabilities | (150) | (800) | (8,746) |
| Short-term credit from banks, net | (23,482) | (4,092) | (25,871) |
| Amounts charged for deferred expenses | | (8) | (371) |
| Proceeds from issuance of rights, net of issuance expenses | | - | 20,975 |
| Net cash provided by (used in) financing activities | 6,541 | (2,021) | (6,146) |
| **Net increase in cash and cash equivalents** | 6,183 | 96 | 23,689 |
| **Loss due to exchange rate differentials on cash and cash equivalents** | (7) | (102) | (20) |
| **Cash and cash equivalents balance at start of period** | 27,893 | 4,224 | 4,224 |
| **Cash and cash equivalents balance at end of period** | 34,069 | 4,218 | 27,893 |

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

**DELTA Galil Industries Ltd.**

Condensed consolidated cash flow statements
For the three-month period ended March 31, 2010

**Note A:**

**Business combination:**

| | Year ended On December 31 2009 |
|---|---|
| | (Audited) |
| | $ thousands |
| Accounts receivable | (79) |
| Inventory | (2,568) |
| Fixed assets | (3,638) |
| Intangible assets | (2,064) |
| Trade payables | 31 |
| Other payables | 81 |
| | (8,237) |

**DELTA Galil Industries Ltd.**

Condensed consolidated cash flow statements
For the three-month period ended March 31, 2010

| | Three months ended March 31 | | Year ended December 31 |
|---|---|---|---|
| | 2010 | 2009 | 2009 |
| | (Un-audited) | | (Audited) |
| | $ in thousands | | |
| **Adjustments required to reflect cash flows from operating activities** | | | |
| **From current operations** | | | |
| Revenues and expenses not involving cash flow: | | | |
| Depreciation | 2,414 | 2,731 | 11,366 |
| Amortization | 433 | 382 | 1,936 |
| Impairment of fixed assets | - | - | 1,945 |
| Capital loss from a subsidiary held for sale | 666 | - | - |
| Company share of income of associate | - | - | (41) |
| Net cash erosion | 7 | 102 | 20 |
| Interest paid in cash | 778 | 646 | 3,817 |
| Taxes on income paid (refunded) in cash, net | 11 | (876) | (1,621) |
| Deferred taxes on income, net | (70) | (150) | 1,702 |
| Severance pay liability, net | 5 | (74) | (79) |
| Restructuring expenses | 485 | - | 429 |
| Interest expenses with respect to debentures | 410 | - | - |
| Capital gain from realized assets | (26) | (72) | (375) |
| Change in benefit component of options granted to employees | 281 | 68 | 301 |
| Gain from change in fair value of current financial derivatives | (385) | 140 | (448) |
| Long-term pre-paid expenses | (8) | 6 | (4) |
| Others | 50 | (46) | (137) |
| | 5,051 | 2,857 | 18,811 |
| Changes to operating assets and liabilities: | | | |
| Decrease (increase) in trade receivables | 919 | 5,064 | (13,546) |
| Decrease (increase) in other receivables | (23) | 654 | 2,166 |
| Increase (decrease) in trade payables | 3,010 | (10,495) | (411) |
| Decrease in other payables | (3,207) | (5,755) | (5,691) |
| Decrease (increase) in inventory | (8,046) | 15,935 | 34,041 |
| | (7,347) | 5,403 | 16,559 |
| | (2,296) | 8,260 | 35,370 |

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

| | | | |
|---|---|---|---|
| Trade payables with respect to fixed assets and other non-cash assets | (441) | (143) | 196 |
| Receivables with respect to non-cash fixed assets | (35) | (93) | (508) |
| Liability for minimum royalty payments | 3,050 | 2,598 | 4,843 |
| Liability for payment with respect to acquisition of operations | | | 32 |

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

## 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 underwear in three major operating segments – USA mass market, DELTA Israel and DELTA Marketing Israel. Information on major operating segments is presented in Note 3.

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

## Note 2 – Significant Accounting Policies

**a. Overview**

Following de-listing of Company shares from NASDAQ (March 2008), the Company started reporting to the stock exchange pursuant to provisions of Chapter F of the Securities Act, and to compile its financial statements, starting with the 2007 annual report, pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970.

**b. Preparation basis of condensed financial statements**

The Group's condensed consolidated financial information as of March 31, 2010 and for the three-month interim period then ended ("the financial information for the interim period") has been prepared in accordance with IAS 34 "Financial reporting for interim periods" ("IAS 34"), and includes the supplementary disclosure required in accordance with Securities Regulations (Periodic and immediate reports), 1970. The financial information for the interim period should be perused along with the 2009 annual financial statements and notes there to, which have been compiled in accordance with IFRS, and included the supplementary disclosure required in accordance with Securities Regulations (Major annual financial statements), 2010.
The financial information for the interim period is reviewed and not audited.

**c. Significant accounting policies**

Significant accounting policies and calculation methods applied in preparation of the financial information for the interim period are consistent with those used in preparation of the 2009 annual financial statements, except as described below.

Taxes on income for interim periods are recognized based on management's best estimate with regard to the average tax rate which would apply to total expected annual income.

Standards in effect and binding for reporting periods starting on January 1, 2010:

1) IAS 27 (Revised) "Consolidated and separate financial statements" ("IAS 27R") (effective for annual reporting periods starting on or after July 1, 2009).
IAS 27R stipulates that the impact of all transactions with non-controlling interest and which do not result in change in control be recognized in equity, and therefore such transactions would no longer result in goodwill or in profit and loss. IAS 27R also discusses the accounting treatment upon loss of control of an investee. The value of remaining ownership interest in the entity upon loss of control there of, is re-measured at fair value, and the resulting gain or loss is recognized on the income statement.

**Note 2 – Significant Accounting Policies (continued):**

The Group applies IAS 27R prospectively to all transactions with non-controlling interest conducted starting on January 1, 2010, and expects said application to have no material impact on its major financial statements.

2) IFRS 3 (Revised) "Business combinations" ("IFRS 3R") (effective for annual reporting periods starting on or after July 1, 2009). IFRS 3R maintains use of the acquisition method for treatment of business combinations, albeit with several significant changes. For example, all payments for acquisition of a business should be measured at fair value upon acquisition, with contingent payments classified as liabilities subsequently measured via profit or loss. A choice is available, for each acquisition separately, whereby non controlling interest in the acquired business may be measured at fair value or pro-rata to the share of non-controlling interest out of net assets of the acquired business. All cost attributable to the acquisition transaction must be recognized on profit or loss. The Group applies IFRS 3R prospectively to all business combinations effective starting on January 1, 2010, and expects said application to have no material impact on its major financial statements.

3) Revision to IAS 17 "Leases" ("IAS 17"). The aforementioned revision is part of the IASB annual improvement project published in April 2009. This revision eliminates specific guidelines with regard to classification of land leases, in order to eliminate inconsistency with general guidelines with regard to lease classification. The revision eliminates the previous definitive statement in IAS 17, whereby land lease in which ownership of the land is not expected to pass to the lessee at the end of the lease should be classified as an operating lease. In accordance with the revision, an entity should assess the classification of the land lease as a financing lease or operating lease, using the general guidelines for lease classification provided by IAS 17. This revision applies retroactively for annual periods starting on or after January 1, 2010. The Group applies the aforementioned revision to IAS 17 retroactively starting on January 1, 2010, and expects said application to have no material impact on its major financial statements.

As set forth in the Group's annual financial statements as of December 31, 2009 and for the year then ended, other standards, revisions and interpretations of existing standards became effective and binding for reporting periods starting on January 1, 2010, but their initial application has no material impact on the Group's financial statements.

**Note 3 – Segment reporting**

| | DELTA USA – mass market | DELTA Israel | DELTA Marketing Israel | Reconciliation to Consolidated | Total |
|---|---|---|---|---|---|
| | | | $ in thousands | | |
| **For the three-month period ended March 31, 2010:** | | | | | |
| Sales to external customers | 64,647 | 60,323 | 18,087 | (2,516) | 140,541 |
| Inter-segment | | 2,284 | | (2,284) | - |
| Total sales, net | 64,647 | 62,607 | 18,087 | (4,800) | 140,541 |
| Segment income before re-structuring expenses and capital loss from subsidiary held for sale | 1,382 | 2,904 | 2,331 | 696 | 7,313 |
| Restructuring expenses | | 485 | | | 485 |
| Loss from a subsidiary held for sale | | 666 | | | 666 |
| Segment income | 1,382 | 1,753 | 2,331 | 696 | 6,162 |
| Finance expenses, net | | | | 2,040 | 2,040 |
| Profit before income tax | | | | | 4,122 |

| | DELTA USA – mass market | DELTA Israel | DELTA Marketing Israel | Reconciliation to Consolidated | Total |
|---|---|---|---|---|---|
| | | | $ in thousands | | |
| **For the three-month period ended March 31, 2009:** | | | | | |
| Sales to external customers | 62,532 | 44,647 | 15,643 | 604 | 123,426 |
| Inter-segment | 9 | 667 | - | (676) | - |
| Total sales, net | 62,541 | 45,314 | 15,643 | (72) | 123,426 |
| Segment income (loss) | 453 | (4,573) | 651 | 202 | (3,267) |
| Finance expenses, net | | | | 1,767 | 1,767 |
| Loss before tax benefit | | | | | (5,034) |

**Note 3 – Segment reporting (continued)**

| | DELTA USA – mass market | DELTA Israel | DELTA Marketing Israel | Reconciliation to Consolidated | Total |
|---|---|---|---|---|---|
| | | | $ in thousands | | |
| **For the year ended December 31, 2009:** | | | | | |
| Sales to external customers | 268,465 | 228,804 | 72,804 | 2,461 | 572,534 |
| Inter-segment | 101 | 14,772 | 18 | (14,891) | - |
| Total sales, net | 268,566 | 243,576 | 72,822 | (12,430) | 572,534 |
| Segment income (loss) before re-structuring expenses and impairment of fixed assets | 5,927 | 1,428 | 10,464 | (1,653) | 16,166 |
| Restructuring expenses (revenues), Net | 474 | (1,805) | - | - | (1,331) |
| Impairment of fixed assets | - | 1,945 | - | - | 1,945 |
| Segment income (loss) after re-structuring expenses and impairment of fixed assets | 5,453 | 1,288 | 10,464 | (1,653) | 15,552 |
| Finance expenses, net | | | | 6,369 | 6,369 |
| Company share of income of associate | | | | 41 | 41 |
| Profit excluding income tax | | | | | 9,224 |

**Note 4 - Capital**

**Employee stock options**

On January 14, 2010, the Company Board of Directors resolved to allot, out of options available for allotment under the 2006 program, 40,000 options to 7 employees at an exercise price of $6.93 per option.

On April 21, 2010, the Company Board of Directors resolved to allot 115,000 options at an exercise price of $8.98 per option as follows:
65,000 options out of the 2006 non-US employee stock option plan.
50,000 options out of the 2009 US employee stock option plan.

The exercise price is equal to the average share price on the 30 trading days preceding the grant date.

**Note 5 – Debentures**

On January 2010 the Company issued NIS debentures in a total amount of 113,000,000 NIS.
The debentures subjects fixed nominal NIS interest in the amount of 7% and will be paid in 5 equal annual payments starting from July 2012. The interest payments are semi annual and will be paid on January and July each year, starting from July 2010. The debentures in the financial statement for the period of March 31$^{st}$ 2010 are presented in the long term obligations, in deduction of issuence expenses in the amount of 1.5 million NIS.
At the same date the Company was engaged with banking corporation in NIS SWAP with obligation to a payment to debentures owners, in USD cash flow. The USD interest in the transaction will be 6.08%.

**Note 6 – Real estate purchasing option**

On march 2010 the Company signed an agreement with a group of buyers in which the Company gave the option to buy real estate it owns in Nahariya, in a period of 4 months. For this option the Company received 2 million NIS that will not be paid back to the buyer's even if will decide not to implement the option. The option fee mentioned was included in the balance sheet as of March 31, 2010 in the current liabilities. If the buyers will choose to implement the purchasing option and sign the agreement, in those 4 months, the buyers will pay the Company 24 million USD in payments over 3 years starting from signing date.

**Note 7 – Functional currency**

Starting 2010, most of the parameters affecting operations of Delta marketing Israel segment are measured in NIS hence the Company's management has decided to change the functional currency of this segment from USD to NIS.

The effect of said change on results in the first quarter of 2010 is not material.

**Note 8 – Subsequent event**

On May 23, 2010 the Company announced a dividend grant in the amount of 1.5 million USD which are 6.41 cent per share that will be paid on June 16, 2010 according to the USD exchange rate published by the bank of Israel on the day prior to the payment day.
The record date will be June 2, 2010 and ex-date will be June 3, 2010