Delta Galil Industries Ltd.

2019 Periodic Report

DELTA GALIL
INDUSTRIES LTD.

February 25 2020

Delta Galil Industries Ltd.

2019 Periodic Report

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Introduction

The Company, Delta Galil Industries Ltd., hereby submits the report describing the corporation's business as of December 31st 2019, which reviews the description of the corporation and its business development, during 2019 ("**the Reported Period**"). The report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

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

Glossary

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

"The Company" or "Delta"	Delta Galil Industries Ltd.
"The Group" or "the Delta Group"	Delta Galil Industries Ltd. and its subsidiaries
"Delta USA"	Delta Galil USA Inc.
"Schiesser"	Schiesser Group
"Eminence"	Eminence Group
"Bogart"	Bogart Group
"Dollar"	US dollar

Description of the Corporation’s Business

Chapter A – Description of the Corporation's Business Development

1. The Corporation’s Activity and Description of its Business Development

The following is information on the Corporation’s business, as of February 25th 2020.

1.1 The Company was incorporated in Israel in 1975 as a private company in accordance with the Companies Order. In 1982, the Company went public on the Tel Aviv Stock Exchange Ltd. On March 25th 1999, the Company issued American Depositary Shares (“**ADS**”) in such manner that each ADS represents a single ordinary Company share of 1 NIS par value. ADS may be traded on the U.S. OTC trading exchange, or on the Tel Aviv Stock Exchange Ltd. (subject to their conversion to regular Company shares).

1.2 The Group is engaged in the development, design, production, marketing and sales of intimate apparel, socks, children’s wear, leisurewear and activewear. Following the purchase of V.F. Corporation's Contemporary Brand Coalition Division in 2016, the Group also engages in the development, design, marketing, distribution and sales of branded denim products for men and women, outerwear apparel and accessories.

1.3 In July 2018, the Company acquired the Eminence Group for net €123.3 million (~$144 million, as per the exchange rate at the time). Eminence Group operates in the field of branded intimate apparel for men, women and children under the Eminence, Athena and Liabel brands. The Group's headquarters and development, design and logistics centers are located in France. Eminence holds several subsidiaries throughout Europe (France, Italy, Spain, Belgium and Romania).

1.4 In July 2018, the Company acquired the Bogart Group, a vertical manufacturer engaged in the development and marketing of intimate apparel, mainly brassieres and swimwear, for private labels of leading customers in the upper market segment in the US and Europe. Bogart was established in 1993 and is one of the largest brassiere manufacturers in the world. Bogart Group holds a number of subsidiaries in the Far East (China, Thailand, Myanmar) and owns cutting and sewing factories for the manufacture of apparel products and the manufacture of raw materials (lace and pads) for self-use and for external customers. For details regarding the total acquisition cost, see Note 6 to the Financial Statements included in Part C of this periodic report.

The Bogart Group's results were consolidated in Delta Galil Industries Ltd.'s financial statements as of the third quarter of 2019 and are included within the operating segment of the Global Division Upper Market Segment.

1.5 The Group’s sales are divided as follows:

1.5.1 <u>Sales of Branded Products</u>

Branded product sales are divided as follows:

a. Sale of products bearing brands owned by the Company such as 7 For All Mankind, Splendid, Schiesser, P.J. Salvage, KN Karen Neuburger, Eminence, Athena, Liabel, Delta and Fix.

The products sold within this framework largely consist of intimate apparel, socks, children’s wear, leisurewear, activewear, denim and outerwear.

These products are sold through chain stores owned by the Group as well as to leading retail chains such as Nordstrom, Kaufhof, Galeria, Karstadt, Leclerc and Carrefour.

b. Sale of products bearing brands to which the Company holds a license, such as Maidenform, Converse, Wilson, Tommy Hilfiger, Kenneth Cole, Columbia, Original Penguin, Marc O'Polo, Calvin Klein, Spalding, Disney and more.

The products sold pursuant to license agreements largely consist of intimate apparel, socks, children’s wear, leisurewear and activewear. The Company pays royalties to the licensor in return for use of the brand name.

1.5.2 Sale of Products Bearing the Private Labels of e Customers

Sales of products bearing the customer's private labels are made to leading customers such as Walmart, Target, Victoria's Secret, Marks & Spencer, Primark, Amazon, Macy’s, Kohl's, Hema, Nike, Calvin Klein, Maidenform, Tommy Hilfiger, Spanx, Lululemon, Sportmaster, Under Armour, Australia & Europe Hanes, Jockey, Adore Me, Techstyle Fashion Group, Inditex Clothing Company.

The products sold pursuant to this method mainly consist of intimate apparel, socks and activewear.

These products are sold to the customer who owns the brand, and it sells them to the consumers through its distribution channels.

1.6 Marketing, Development and Manufacturing Activity

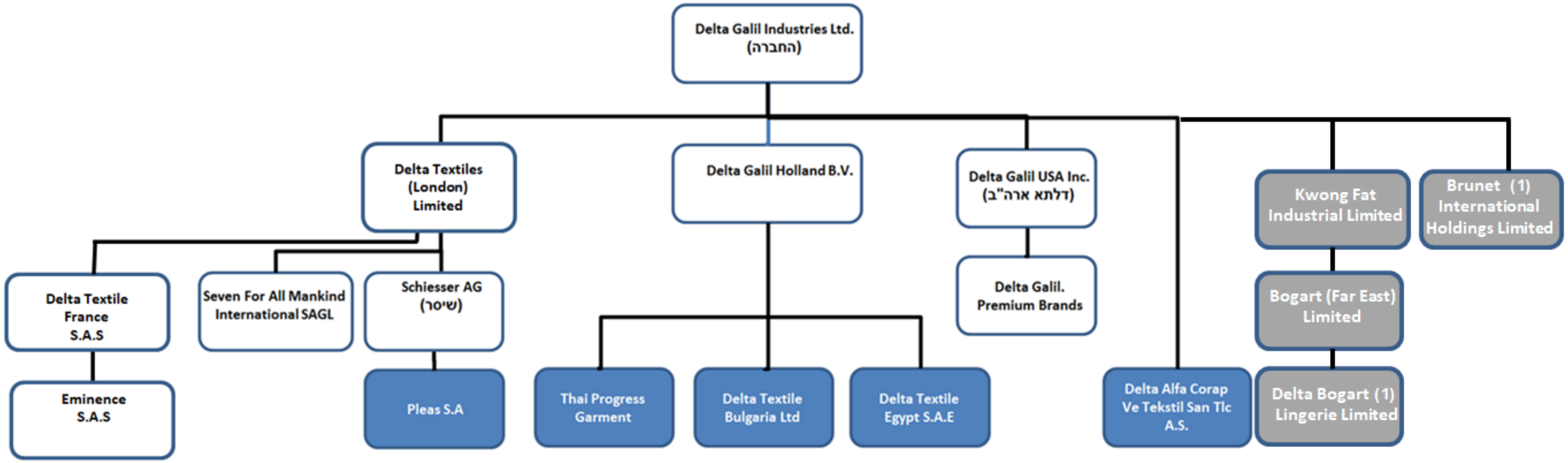
The Company markets its products in the geographic regions in which it is active in retail marketing, through the retail chains in its possession and online – in the United States, Europe and Israel.

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

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

The Bogart Group, which was acquired in July 2019, designs and develops its products in Hong Kong and China and manufactures them in its factories in China, Thailand and Myanmar.

The following is a Company structure chart of holdings in the wholly-owned key companies, as of December 31st 2019.



Some of the companies in the Bogart Group

Manufacturing Companies

(1) These companies have wholly-owned subsidiaries which carry out manufacturing operations in China, Thailand and Myanmar.

2. The Corporation's Operating segment

2.1 The Company has five main operating segments, as reported in its December 31, 2019 Consolidated Financial Statements: (a) Delta USA; (b) Global Upper Market; (c) Delta European Brands; (d) Delta Premium Brands and (e) Delta Israel.

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

2.3 The following is a short description of each of the Company operating segments:

2.3.1 Delta USA

In this operating segment, the Group engages in the development, design and marketing of intimate apparel, socks and activewear, mainly for private labels in the women, men and children categories, sold to the largest retail chains in the United States. It is also engaged in the development, design and marketing of intimate apparel, socks and activewear under labels it licenses and brands owned by it. Furthermore, this operating segment includes the UK intimate apparel activity.

For additional information regarding this operating segment, see sections 7 to 16 below.

2.3.2 Global Upper Market

In this operating segment, the Group mainly engages in the development, design, manufacture and marketing of ladies' and men's intimate apparel, socks and activewear manufactured at the Company's factories and sold to retail chains and leading brands in Europe and the U.S. Most of the sales in this operating segment are to private labels.

As of July 2019, this operating segment also includes the Bogart Group's activities, see section 1.4 above.

For additional information regarding this operating segment, see sections 7 to 16 below.

2.3.3 Delta European Brands

In this operating segment, the Company engages in the development, design, manufacture and marketing of branded intimate apparel for men, women and children as well as activewear. Under the Schiesser brand these products are sold to customers in Germany and in other Western European countries. Since the acquisition of Eminence in July 2018, the Company also sells such products under the brands "Eminence", "Athena" and "Liabel"in France, Italy and other countries in Western Europe. Sales are carried out through wholesale sales to retail chains as well as through the Schiesser and Eminence chain of stores and websites. The products are manufactured at the production sites owned by the Group in the Czech Republic, Slovakia, France and Romania, as well as through subcontractors.

For additional information regarding this operating segment, see sections 17 to 26 below.

2.3.4 Operating segment Delta Premium Brands

In this segment, purchased in August 2016, the Company engages in the development, design, marketing, distribution, sale and the granting of a license for the sale of premium products under the brands: "7 For All Mankind", "Splendid" and "Ella Moss".

The "7 For All Mankind" brand is a leading global denim brand and the brands "Splendid" and "Ella Moss" are leading U.S. clothing brands for women's outerwear and accessories. The products of this operating segment are sold through the Company's retail chain in the United States and in Europe, through its websites and through wholesale sales to retail chains. The activity of the "Ella Moss" brand, which is also included in this operating segment, was converted to a license model during 2018.

For additional information regarding this operating segment, see sections 17 to 26 below.

2.3.5 Delta Israel

Under this segment the Company engages in the development, design and marketing of branded men's and women's intimate apparel, sleepwear, socks, activewear as well as children's wear, mainly under the "Delta", "Fix" and "Puma" brands. These products are distributed via the Company's chain of stores in Israel, its websites and in wholesale activity to Israeli retail chains.

For additional information regarding this operating segment, see sections 17 to 26 below.

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

In the last two years no investments were made in the Corporation's capital and the Corporation is unaware of any other material transaction carried out in the past two years by an interested party in the Corporation and in the Corporation's shares outside the stock exchange.

For details regarding the exercise of options and restricted share units by Company employees, see Note 14 to the Financial Statements in Chapter C of this periodic report.

4. Distribution of Dividends

4.1 As of this periodic report, the Company has no dividend distribution policy. From time to time, the Company's Board of Directors examines the distribution of dividends in accordance with the Company's financial results and financial and other needs, subject to the provisions of the law.

4.2 In 2018, the Company distributed dividends, with no need for court approval, as follows:

Decision Date	Sum Distributed (in USD)	Distribution Date
February 20th 2018	3.5 million	March 13th 2018
May 14th 2018	3.5 million	June 5th 2018
August 14th 2018	3.5 million	August 23rd 2018
November 19th 2018	3.5 million	December 5th 2018

In 2019 the Company distributed dividends, with no need for court approval, as follows:

Decision Date	Sum Distributed (in USD)	Distribution Date
February 19th 2019	3.5 million	March 6th 2019
May 14th 2019	1.5 million	June 5th 2019
August 13th 2019	2.5 million	September 3rd 2019
November 13th 2019	3.5 million	December 3rd 2019

4.3 On February 25, 2020 the Company declared a dividend distribution of 25.5 cents per share or about $6.5 million to be paid on March 17, 2020. Dividends were distributed based on share ownership as of March 4, 2020.

4.4 As of the date of the report, the balance of profits eligible for distribution (unassigned retained earnings less treasury shares), as this term is defined in the Companies Law, 1999 is $360.7 million.

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

Chapter B – Other Information

5. Financial Information Regarding the Corporation’s Operating Segments

For financial information regarding the Corporation's operating segments see explanations in section 2.3.4 of the Board of Directors’ report (Chapter B of this periodic report) and Note 5 to the Financial Statements (Chapter C of this periodic report).

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

6.1 Description of Market Risks to Which the Group is Exposed

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

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

Chapter C – Description of the Corporation's Business by Operating Segments

The following is a detailed description of the Company's operating segments:

Delta USA and Global Upper Market

7. General Information on Operating Segments: Delta USA and Global Upper Market

The following is a description of the operating segments noted in the heading above with similar business characteristics. These operating segments are hereby be referred to, in sections 7 to 16 as **"the Operating Segments"**. Specific subjects that are particular to a certain operating segment shall be clearly noted separately.

7.1 Structure of the Operating Segments and Changes Occurring Therein

7.1.1 Delta USA

Delta USA engages in the development, design and marketing of intimate apparel, socks and sportswear for women, men and children to major U.S. retailers. Sales in this operating segment are primarily to private labels, under licensed brand names (see section 13.3 below) and under brands in its possession, such as P.J. Salvage and Karen Neuburger.

The Company's intimate apparel activity in the UK is also included in this operating segment.

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

7.1.2 Global Upper Market

This operating segment mainly engages in the development, design, manufacture and marketing of men's and women's intimate apparel and socks. Most of the products are manufactured in the Company's factories and the remainder are manufactured by subcontractors. The products are sold to retail chains and leading brands in the U.S. as well as under licensed brand names(see section 13.3 below).

Most of the sales in this operating segment are to private labels.

The development, design, marketing and sales activities for this operating segment are carried out by the Company. The fabric manufacturing activity is carried out by the Company in its factories in Israel. Most of the manufacturing is through subsidiaries operating in Bulgaria, Thailand, Vietnam and Turkey, a joint venture in China and via subcontracting in the Middle East and the Far East.

Beginning in July 2019, this operating segment also includes the Bogart Group's operations which consist of the development and marketing of intimate apparel, mainly brassieres and swimwear for private brands of leading customers in the upper market segment in the US and Europe. The design activities are carried out in Hong Kong and the development activities are carried out in China. Production activities are carried out by subsidiaries in China, Thailand and Myanmar.

7.2 Changes in Scope of Activity and Profitability of Operating Segments

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

7.3 Operating Segment Market Developments or Changes in Customer Characteristics

The primary target markets of the Company's products in the above operating segments are North America and Europe. In recent years there has been a reduction in consumption and pressure to reduce prices in these markets. These economic conditions may impact consumers' consumption habits and levels. In addition, the apparel industry is subject to changes in fashion preferences and consumer fashion trends, which by their nature change even more so today than in the past. This leads to an increase in the number of product collections needed.

7.4 Critical Success Factors in Operating Segments and Changes Occurring Therein

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

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

7.4.2 Maintaining long-term relations with customers.

7.4.3 Fabric development – the Company operates a special fabric development center in Carmiel (Israel), which adds value to its product development capability..

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

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

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

7.4.7 Upholding an independent manufacturing infrastructure through subcontractors, that is robust, reliable, flexible, competitive and able to meet short supply schedules.

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

7.4.9 Using the Company's size as an advantage, both in the terms of purchase orders by customers and in the number of items ordered from each model manufactured thus reducing manufacturing costs.

7.4.10 An efficient operational structure and supply chain providing full support for sales' needs and meeting short supply times.

7.4.11 Due to the high regard held in the industry for the Company's capabilities in developing, manufacturing and designing its core products the Company succeeds in signing licensing agreements.

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

7.5 Main Entry and Exit Barriers in the Operating Segments and Changes Occurring Therein

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

7.5.1 Familiarity and understanding of the fashion industry's requirements and consumer preferences.

7.5.2 Stable, long-term relations with large customers (retail fashion chains and companies owning apparel brands).

7.5.3 Innovation in the development and design of fashion products.

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

7.5.5 The existence of efficient operational structures, supply chain and logistical centers providing full support for sales needs, meeting quality requirements and meeting short supply times.

The Company estimates that there are no material exit barriers from these operating segments.

7.6 Alternatives for Products of the Operating Segments and Changes Occurring Therein

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

8. Customers in Operating Segments: Delta USA and Global Upper Market

8.1 As of the date of this report and during 2019, the Group has no material customers with sales exceeding10% of the Group's total consolidated sales. Until 2018, Walmart was the Company's material customer. However since 2018 the Company has grown including with the acquisition of Bogart in July 2019. In addition since 2018 the Company's sales to Walmart have declined (in this matter see section 2.3.5 of the Board of Directors' report) such that it currently represents less than 10% of the Company's sales. Walmart remains an important customer of the Company. The Company believes that a significant drop in the sales to Walmart may have a materially negative impact on its financial results.

Other important Group customers in Delta U.S.A.'s operating segment include TJX, Target, Kohl's, Ross Stores, Macy's, J.C. Penney, Costco, Nordstrom, Marks & Spencer and Primark.

Other important customers in the Global Upper Market operating segment include Victoria's Secret, Calvin Klein, Tommy Hilfiger, Tommy John, Lululemon, Sportmaster, Nike, Hema, Under Armour, Spanx, Mack Weldon and Wacoal. Other important customers following the acquisition of Bogart include Hanes Europe and Australia, Jockey, MGF, Adore Me, Techstyle Fashion Group and Inditex Clothing Company.

8.2 For a breakdown of sales by geography see Note 5c to the Company's December 31, 2019 Financial Statements, Chapter C of this periodic report and section 2.3.2 of the Board of Directors report, in Chapter B of this report.

8.3 Characteristics of Engagements with Primary Group Customers

The Group maintains long-term relationships with its customers. The relationship between the Group and its primary customers is generally regulated by a general framework agreement and the customer's purchase orders from the Group. The framework agreement includes general provisions pertaining to the relations between the customer and the Group, including the commitments required from the manufacturer to meet compliance requirements, testing the factory's compatibility with the customer's needs, periodic inspections etc.

Merchandise amounts and supply dates to customers are established in the purchase orders and change from order to order.

In most cases the Company's agreements with its customers are carried out on the basis of preparing a product collection for a specific season.

9. Marketing and Distribution in Operating Segments: Delta USA and Global Upper Market

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

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

The Company is not dependent on its marketing channels.

10. Backlog in Operating Segments: Delta U.S.A and Global Upper Market

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

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

Due to the structure of the industry and the method of engagement characterized by ad hoc orders and replenishment type sales, the Company has an order backlog pertaining to a relatively short period. Therefore, the Company believes that the order backlog does not provide a full indication of the actual level of orders.

The following is a breakdown of the Company's backlog in its operating segments, in the coming quarters in which recognition of revenues is expected (in millions of dollars):

10.1 Backlog in Delta USA:

	Backlog as of February 15th 2020	Backlog as of December 31st 2019
First quarter	30.0	39.1
Second quarter	36.4	25.8
Third quarter	10.6	2.1
Fourth quarter	3.0	0.1
Total	80.0	67.1

10.2 Backlog in the Global Upper Market:

	Backlog as of February 15th 2020	Backlog as of December 31st 2019
First quarter	68.9	110.9
Second quarter	64.9	36.0
Third quarter	5.3	3.3
Total	139.1	150.2

11. Competition in Operating Segments: Delta USA and Global Upper Market:

11.1 General

The operating segments in which the Company operates are considered competitive. In recent years, production costs have increased causing product prices for consumers to rise gradually. Competition in the field of intimate apparel is based on three main parameters: product price, product quality and the level of customer service. The Company believes that it has several advantages over its competitors, including, due to the reasons detailed below:

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

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

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

11.2 Competitive Conditions in the Operating Segments

In recent years, retail chains have been decreasing the use of companies to design and develop intimate apparel and instead are entering into direct relationships with production plants so that the production plants manufacture products directly for them thus reducing production product costs. For details see section 39.3.3 below.

11.3 Names of Main Competitors in the Operating Segments and Market Size

The activity in North America and Europe has dozens of competitors, mainly private companies from the U.S. and Far East.

11.3.1 Delta USA

The Company's material competitors in this operating segment include, Ariella Intimates, Saramax Apparel Group Inc., Komar Company, Jockey, Fruit of the Loom, MAS Holdings, Brandix Lanka Limited, Richard Leeds, Tefron and Gelmart.

11.3.2 Global Upper Market

The Company's main competitors in this operating segment include, MAS Holdings, Clover, Regina Miracle, Brandix Lanka Limited, Renfro Corporation, Fillnet, Gildan Active Wear Inc., Tefron, Haiyan Walt and Interloop.

The market relevant to these operating segments consists of different markets and spans different categories, market segments and geographical regions. As a result, the Company is unable to estimate its market share.

11.4 Methods for Dealing with the Competition

The Company invests a great deal of resources in the design and development of its products in order to provide innovation and cutting-edge fashion to its customers. This innovation is what differentiates it from its many competitors. For further information, see also section 31 below.

Furthermore, in order to differentiate and create a competitive edge the Company invests a great deal of resources in increasing the branded segment of its activity by entering into new license agreements. It also works to increase its activewear, brassiere and men's and women's intimate apparel sales to existing customers. In addition, the Company invests in establishing new plants and joint ventures in order to strengthen its connection with its customer and improve its level of service.

12. Production Capabilities in Operating Segments: Delta USA and Global Upper Market

12.1 In the Delta USA operating segment, about 92% of sales are of products purchased from subcontractors. Therefore, production capability is irrelevant.

In the Global Upper Market operating segment, about 26% of sales are of products purchased from subcontractors.

In the event of increased manufacturing needs, the process of entering into agreements with and qualifying existing and additional subcontractors requires preparations. These include approval by the end customer of the new factory, compliance with quality standards defined by the Company regarding product quality, timetables and working conditions. To the best of the Company's estimates, such preparations do not take an extended amount of time in a manner limiting the ability of the Company to increase its scope of activity.

12.2 The Company has manufacturing plants in Egypt, Israel, Thailand, Vietnam, Turkey and Bulgaria, mainly serving its Global Upper Market operating segment. As part of the acquisition of Bogart's operations during July 2019, the Company has added manufacturing plants in China, Thailand and Myanmar.

The Company estimates the Company has the ability to increase its production capabilities in its factories.

13. Intangible Assets in Operating Segments: Delta USA and Global Upper Market

The intangible assets attributed to the operating segments as of December 31, 2019 include primarily \$106.7 million for goodwill, \$65.4 million for customer relations, \$19.8 million for trademarks and brand names and \$34.1 million for agreements for brand licensing rights.

13.1 Goodwill

The Group's intangible assets attributed to the operating segments include goodwill created by the Company over the years, mainly due to the purchase of three American companies in 2000 – 2004, the purchase of P.J. Salvage’s activity in July 2015 and the acquisition of Bogart in July 2019.

The balance of goodwill is not amortized on an ongoing basis. For details, see Note 8 to the financial statements in Chapter C of this periodic report.

In 2019, 2018 and 2017, the Company did not reduce the value of goodwill attributed to these operating segments, following the annual examination.

13.2 Customer Relations

The Company’s customer relations in the operating segments were created over the years upon purchasing Burlen in 2004, which is part of the Delta USA operating segment, and upon the purchase of Gibor’s activity in 2009, which is part of the Global Upper Market Segment. In 2015, customer relations were created for the Company as a result of the purchase of P.J. Salvage’s activity, included under Delta USA, as well as following the purchase of the Turkish sock plant, included under the Global Division Upper Market. In 2019, customer relations were generated to the Company following the acquisition of Bogart's activity, included under the Global Upper Market.

The balance of customer relations amounted to \$65.4 million as of December 31, 2019 and is amortized over a period of 20 years. The original cost amounted to approximately \$80.4 million.

13.3 Licensing Agreements

In the Delta USA operating segment, the Company enters into licensing agreements, from time to time, to receive usage rights for international brands such as: Columbia, Lacoste (until the end of 2019), Marc O'Polo, Converse, Wilson, Tommy Hilfiger, Maidenform, Kenneth Cole, Calvin Klein, Ted Baker and Spalding.

The license agreements are usually for a period of 3 to 4 years and they include the requirement to pay royalties to the licensor of between 5% and 20% of revenues. Generally, the agreement includes a minimum royalty payment based on minimal sales levels over the course of the agreement period.

These agreements regulate the obligations of the Company as licensee to manufacture branded products (hereinafter in this section: **"the Products"**), including in the use of the brand name, the design and development of the Products and provision of annual sales plans to the licensor.

The agreements generally include obligations on behalf of the Company to provide the licensor a prototype and production molds of the Products prior to their manufacture, and an obligation to constantly uphold the quality, reputation and image of the licensor's brand. The licensor has the right to inspect and supervise the manufacture of the products.

Royalty expenses in the operating segments amounted to $17.4, $17.4 and $18.9million in 2019, 2018 and 2017, respectively.

The decrease in royalty expenses in 2018 compared to 2017 is due mainly to the termination of the Avia license agreement.

The Company estimates that licensing rights constitute one of the factors behind the success of the operating segments, and they integrate into the Company's strategy to grow branded part of the business (see section 36.4 below).

14. Raw Materials in the Operating Segments: Delta USA and Global Upper Market

14.1 Primary Raw Materials Used in the Operating Segments

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

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

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

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

14.2 Relations with Vendors

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

14.3 Dependence on Vendors and Products in which Dependence exists on Vendors

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

14.4 Manufacturing Process at the Company's Plants

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

14.4.1 Purchase and Manufacturing of Raw Materials

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

As part of its acquisition of Bogart in July 2019, the Company acquired padding and lace operations used by Bogart in the production of bras. In addition, these raw materials are also sold to external customers. This production activity is carried out in China and Thailand.

14.4.2 Knitting

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

14.4.3 Sock Knitting

The Company operates sock knitting machines in its Turkish, Bulgarian and Vietnam plants and through a Chinese joint venture.

14.4.4 Dyeing

The Company dyes most of the products it manufactures using its dyeing plant in Egypt and Vietnam and through subcontractors.

14.4.5 Cutting

The Company operates computerized cutting equipment in its factories in Egypt, Thailand, China, Myanmar and Vietnam.

14.4.6 Sewing

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

14.4.7 Manufacture of Seamless Clothing

The Company applies a special manufacturing technology through the use of "Santoni" knitting machines for the purpose of manufacturing seamless clothing in the undergarment, shapewear and sportswear categories. The products are manufactured in the Company plant in Vietnam and through subcontractors in China.

14.4.8 Outsourcing

The Company engages subcontractors for the purpose of manufacturing some of its products. The Company has ties with subcontractors in China, Turkey, Pakistan and Bulgaria for the manufacture of socks and in Egypt and a number of Far East countries (mainly in China and Bangladesh) for the manufacture of intimate apparel and seamless clothing for its other operating segments. The Company is not dependent on any of these subcontractors.

14.4.9 Quality Assurance

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

15. Working Capital in Operating Segments: Delta USA and Global Upper Market

15.1 Delta USA

The following are details regarding the average inventory used by the operating segment and inventory days for 2019 and 2018:

	2019	2018
Average inventory (million USD)	85.7	72.1
Inventory days (average)	87	76

15.2 Global Upper Market

The following are details regarding the average inventory used by the operating segment and inventory days for 2019 and 2018:

	2019	2018
Average inventory (million USD)	71.1	30.6
Inventory days (average)	56	44

The increase in the average inventory balance and inventory days in 2019 compared to 2018 was due to the consolidation of Bogart.

For details regarding the Group working capital see section 33 below.

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

16.1 Regulations in the Countries in which the Company is Active

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

16.2 Free Trade Agreements

The Company currently enjoys free trade agreements between Israel and the U.S., Canada and the EU. The trade agreements allow the Company to sell the products manufactured in Israel to the countries in question (according to the terms of the agreement) exempt of customs. The U.S. has expanded the benefits covered by the U.S – Israel free trade agreement to goods processed in the Company's plants in Egypt, such that these products which include Israeli inputs at a certain rate, are exempt from customs and quotas.

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

The sales of these operating segments included in the free trade agreements detailed above constitute about 7% of total sales of the operating segments in question in 2019. The balance of such 93% sales is subject to customs.

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

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

Delta European Brands, Delta Premium Brands and Delta Israel Operating Segments

17. General Information on Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

The following is a description of the operating segments noted in the above heading, in matters in which these operating segments have similar business characteristics, which are different from the characteristics of the Company's other operating segments. The operating segments shall hereby be referred to, in sections 17 to 26 as **"the Operating Segments"**. Topics specific to a certain operating segment shall be clearly noted separately.

17.1 Structure of the Operating Segments and Changes Occurring Therein

17.1.1 Delta European Brands

This operating segment includes the activity of the Schiesser Group and the activity of the Eminence Group which was purchased over the third quarter of 2018.

In this operating segment, the Group markets branded intimate apparel for men, women and children as well as socks, sleepwear, swimwear and sports products. The activities include designing and planning of the collection, purchasing, manufacturing and finishing the items of clothing, and finally to the marketing and distribution of the products.

Schiesser sells most of its products under the core brand – Schiesser, mainly in Germany, as well as other German-speaking countries, such as Switzerland and Austria, and the Benelux countries (Belgium, the Netherlands and Luxembourg). In addition, Schiesser manufactures and markets intimate apparel under the brand names Lacoste, Marc O'Polo and Seidensticker, with whom it has entered into license agreements. In 2019, the Schiesser Group began marketing products under the brand names PJ Salvage and Ted Baker replacing the license agreement with Lacoste that expired at the end of 2019.

Eminence sells most of its products under the Eminence and Athena brands mainly in France and the Liabel brand mainly in Italy.

In the Operating Segment, the Group provides its products to about 9,500 wholesale points of sales in Europe, including unique undergarment and clothing retailers, shop and department store chain operators as well as through the wholesale sales channel. In the retail sector, the operating segment sells its products through 107 Schiesser stores, of which 25 are ordinary stores and 82 are factory outlets and through 8 Eminence stores and 2 Liabel stores (as of December 31st 2019), as well as online.

The Schiesser undergarment products are sold in the high market segment, while ensuring a high level of comfort, durability, and product quality as well as fashion innovation. The Eminence undergarment products under this brand are sold to customers in the upper and mid-market segment while products under the Athena brand are sold to customers in the mid and mass market segments. Products under the Liabel brand are sold to customers in the mass market segment.

About 65% of product sales in the Operating Segment are in the men's intimate apparel category.

In this Operating Segment, approximately 63% of the Company's sales are of products purchased from subcontractors in the Far East, Eastern Europe and North Africa, while the remainder (approximately 37%) is from the production of collections at the Company's production sites in the Czech Republic, Slovakia, France and Romania. In addition, in this Operating Segment the Company operates a buying office in Hong Kong.

17.1.2 Delta Premium Brands

This operating segment, purchased in August 2016, engages in developing, designing, marketing, distributing and selling premium products under the following brands: "7 For All Mankind" and "Splendid”.

The “7 For All Mankind” brand is a leading global denim brand and the “Splendid” brand is a leading U.S. clothing brand for outerwear and accessories. The products of this operating segment are sold both through the Company’s retail chain in the United States and in Europe, through its websites and in wholesale activity to retail marketing chains. The activity of the "Ella Moss" brand was converted to a licensing franchise model during 2018.

In the Delta Premium Brands operating segment, the Group provides its products to about 4,000 wholesale points of sales in the United States and Europe. In the retail sector, the Group sells its products through 92 of its own stores, of which 75 stores are in the United States and 17 stores are in Europe (as of December 31, 2019), as well as online.

About 67% of the Delta Premium Brands operating segment products are for women.

About 82% of the operating segment products are sold under the “7 For All Mankind” brand.

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

In 2019, the Company launched the Jen7 brand, under which quality products are sold at lower prices, directed at the mid-market segment.

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

17.1.3 Delta Israel Operating Segment

In the Delta Israel operating segment, the Company markets a variety of intimate apparel, leisurewear, activewear, socks and footwear. In the retail channel the Company operates through its chain of “Delta” stores, “FIX” stores and “Puma” stores, most of which it operates and some of which are operated by license holders. Furthermore, Company also sell its products through its websites. In the wholesale channel the Company operates through sales to retail chains and private stores.

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

During 2019,the Company opened 6 stores and closed 1 store. As of the reporting date there are 206 stores, including 173 Delta stores, 30 Fix stores and 3 Puma stores. Included in this total number of stores, 160 are operated by the Company and 46 are operated by licensors.

17.2 Changes in the Scope of Activity in the Operating Segment and their Profitability

17.2.1 Delta European Brands Operating Segment

Sales in this Operating Segment are mainly to wholesale customers in Germany and France and neighboring European countries. In recent years. there has been increased competition and a decrease in points of sale in the German and European fashion market. As such, Schiesser developed a growth strategy by expanding the chain of stores in its possession, which in 2018 included opening 9 new stores and closing two stores.

In 2019, Schiesser shifted its, focusing on improving store locations and increasing online sales. As part of this strategy, total number of stores was reduced from 111 at the end of 2018 to 107 at the end 2019.

The target market for the Company's products in the Operating Segments is Western Europe, and Germany and France in particular. The significant challenges in this Operating Segment are due to: 1. The continued process of concentration in these markets, characterized by a reduction in the number of retail chains and the strengthening of those remaining especially highly vertical chains 2. sales to customers of the French public sector which is based primarily on tenders, 3. the strengthening of online sales and 4. the decrease in points of sale.

17.2.2 Delta Premium Brands

Delta Premium Brands markets leading clothing brands in the denim category, outerwear and accessories. The products of this operating segment are sold both through the retail chain located in the United States and in Europe, through its websites and through wholesale sales to retail chains. During 2019, the Company opened 14 stores, 13 in the US and 1 in Europe, and closed 9 stores, 5 in the US and 4 in Europe.

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

17.2.3 Delta Israel

Delta Israel's sales have increased in recent years, due to an increase in sales in same stores ,a wider deployment of stores, an increase in online sales and an expansion of product lines sold under the "Delta" brand stores. In addition, the "Fix" chain was launched in 2015, and its activity has expanded since then, due to a wider deployment of stores and the launch of its website. The Delta Israel activity also expanded in recent years through the launch of the "Puma" brand, both in the wholesale channel and in the retail channel. Recently for commercial reasons, the operating segment management has decided not to renew the "Puma" licensing agreement which is expected to end at the end of 2020.

17.3 Developments in Markets of the Operating Segment or Changes in Customer Characteristics

The primary target markets of the Company's products in the above Operating Segments are North America, Europe and Israel. In recent years these markets have experienced a financial crisis, concerns of continued recession,, reduction in consumption and pressure to reduce prices, may impact consumers' consumption habits and levels. In addition, the apparel industry by its nature is subject to changes in fashion preferences and consumer fashion trends. These changes have increased in recent years thus leading to an increase in the number of product collections needed.

17.4 Critical Success Factors in the Operating Segments and Changes Occurring Therein

The Company estimates that success in the Operating Segments depends on several key factors, as detailed below:

17.4.1 Marketing and reinforcing of the Company brands through constant investment in advertising in order to differentiate the brands and emphasize their advantages, innovation and cutting-edge fashion as well as through the Company's customers' club and its website.

17.4.2 Investing resources in design and development departments while constantly focusing on local and global developments in the field of intimate apparel and customer tastes as well as developing and designing fashion collections with constant innovation.

17.4.3 Engaging in license agreements.

17.4.4 Wide deployment of stores and good store locations.

17.4.5 Maintaining a steadfast, reliable, flexible, cost competitive manufacturing infrastructure through overseas subcontractors.

17.4.6 The existence of an effective product QA system.

17.4.7 The existence of efficient operational structure, supply chains and distribution systems providing full support for sales needs and meeting shortened supply times.

17.5 Main Entry and Exit Barriers in the Operating Segments and Changes Occurring Therein

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

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

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

17.5.3 The need for a critical mass of sales to enable a competitive operational costs structure.

17.5.4 The difficulty in establishing long-term relationships with primary wholesale customers.

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

17.6 Alternatives for the Products of the Operating Segments and Changes Occurring Therein

There are many alternatives to the Company's products in the Operating Segments offered by local manufacturers and importers marketing at a variety of points of sale. The Company works to reinforce and preserve its products' advantage over alternative products, by differentiating itself and making itself more conspicuous in terms of fashion, quality and added value with cutting-edge design, development, competitive pricing, product variety and advertising on various media.

18. Customers in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

18.1 Delta European Brands Operating Segment

The Company's customers in the Operating Segment include wholesale customers and retail customers, through its chain of stores in Western Europe. Sales of the Operating Segments in 2019 amounted to approximately \$308.5 million compared to \$273.3 million in 2018. The increase in sales for the Operating Segment in 2019 is due to the consolidation of Eminence for a full year, compared to the consolidation of its results for period of 6 months in 2018. Approximately 70% of the sales in 2019 were through the wholesale channel including department stores, supermarkets and hypermarkets and 30% of sales were through the retail chain and the Schiesser and Eminence websites. Germany and France constitute the largest markets of the Operating Segment and sales in these countries constitute 56% and 24% out of total sales in 2019, respectively, on a pro-forma basis. The remaining sales were in other Western European countries, mainly Switzerland, Belgium, Italy and the Netherlands.

Important customers in the Delta European Brands operating segment include Karstadt, Galeria, Kaufhof, Leclerc, Carrefour, Amazon and Zalando

18.2 Delta Premium Brands

The Company's customers in Delta Premium Brands includes wholesale customers and retail customers, through its U.S. and European retail chains. The sales of Delta Premium Brands are primarily to the upper market segment. However, the sales of "Jen7" products are to the mid-market segment. Approximately 48% of the products of the Operating Segment are sold to the wholesale channel. 2019 Sales for the Operating Segment amounted to \$274.6 million, of which 73% were in the United States, 21% in Europe and 6% in other areas. In 2018, sales for the Operating Segment amounted to

$281.9 million.

Important customers in the Delta Premium Brands operating segment include: Nordstrom, Bloomingdale's, Neiman Marcus and Saks Fifth Avenue.

18.3 Delta Israel

The Company’s customers in this Operating Segment are divided into retail and wholesale customers, all located in Israel. The Company’s retail customers are the consumers shopping at the "Delta", Puma and "Fix" retail stores and online.

The sales of the Delta Israel Operating Segment are to the mid-market segment.

The Company’s wholesale customers include department stores, supermarkets and fashion chains. The total sales of the Operating Segments in 2019 and 2018 amounted to $214.8 and $194.2 million, respectively. In 2019, 16% of sales were through the wholesale channel including department stores, supermarkets and private stores, and 84% of sales were through the retail channel, including the Company’s stores and its websites.

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

19. Marketing and Distribution in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

The Company markets its products in the Operating Segments through the following two distribution channels: wholesale marketing and marketing through its retail stores.

19.1 Wholesale Distribution

19.1.1 Delta European Brands

A majority of Delta European Brands' sales are through the wholesale channel which represented approximately 70% of its sales in 2019. Customers in this channel include primarily specialty clothing stores, department stores, supermarkets and hypermarkets.

Schiesser and Eminence handle distribution directly in the wholesale sales channel in Germany, France and Italy. Sales in other jurisdictions are mainly carried out by subsidiaries and through external commercial agents.

Schiesser utilizes “shop-in-shops” which are located at their primary customers. This method is not typical for Eminence.

19.1.2 Delta Premium Brands

48% of the products of this operating segment are sold through the wholesale channel. Customers in this channel include primarily specialty clothing stores and department stores offering who sell these products as part of their product offerings. Sales outside the United States and Europe (mainly in Canada, Brazil and China) are carried out by distributors.

19.1.3 Delta Israel

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

For marketing purposes, the Company operates a team of sales agents, account executives, sales attendants and stockers and operates with some of its customers using the consignation method pursuant to which the inventory is owned by the Company until the final sale to the consumer. The Company not only markets its own brands but also manages, manufactures for and markets private brands such as “Life” for Superpharm.

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

19.2 Retail Distribution

19.2.1 Delta European Brands

In the retail sales channel, goods are sold through the Company’s own retail shops, outlets and an online store.

At the end of 2019, Schiesser's chain of stores included 107 stores, including 25 full price stores (of which 22 were in Germany) and 82 outlet stores (of which 66 stores in Germany and 16 in other Western European countries). The Eminence Group included 10 stores (of which 8 are in France and 2 in Italy) near the end of 2019. Retail stores are located in accessible locations in city centers, in malls or in traditional sites and with sales areas of approximately 120 m² each.

Outlets are located in sites visited often by the public, such as business parks or as part of commercial centers. The sales floor area in outlets is generally larger amounting to and even exceeding 350 m² and larger. The outlets sell a significant portion of the collection as well as surplus goods. In addition to brick and mortar sales the Company is focusing on digital sales through third party websites as well as the Company's online stores of the Operating Segment's brands.

For details on same store , see section 2.3.5 of the Board of Directors’ Report in Chapter B of this periodic report.

19.2.2 Delta Premium Brands

Delta Premium Brands' retail distribution is through the Company's brand retail chain of 92 stores in the United States and Europe, as of the end of 2019, see section 17.1.3 above. This retail chain is largely located inside malls and in town centers.

In addition to the above retail chain, the products of the Operating Segment are sold through the Company’s websites.

For details on same store sales, see section 2.3.5 of the Board of Directors’ Report in Chapter B of this periodic report

19.2.3 Delta Israel

Delta Israel distributes its products in this channel through its website and 206 brand shops which, as of this periodic report. The stores are located inside malls, in town centers and in "Power Centers" throughout the country.

For details on same store sales, see section 2.3.5 of the Board of Directors’ Report in Chapter B of this periodic report.

19.2.4 Logistics Delta European Brands

This Operating Segment's distribution centers are located in Radolfzell, Germany (for Schiesser) and in Aimargues, France (for Eminence), where most of the finished products of the Operating Segment are stored.

19.2.5 Delta Premium Brands

The Delta Premium Brands U.S. distribution center is located in Los Angeles.

The distribution center used by the Operating Segment in Europe is in the Netherlands and is managed by a third party.

19.2.6 Delta Israel

The Company’s products are stored in the Company’s logistics center in Caesarea and with subcontractors, from which they are distributed to stores, to wholesale customers and to those making purchases on the website. The orders for the retail chain, the websites and the department stores are made via a computerized system, while the orders for private customers are made by field agents that are sent to the logistics warehouse.

20. Backlog in Operating Segments: Delta European Brands, Delta Premium Brands, Delta Israel

20.1 Delta European Brands

Backlog is not a precise indicator of the anticipated volume of sales in this Operating Segment due to the fact that a significant portion of wholesale customers do not order products from the Company far in advance. In addition, a portion of the sales in this Operating Segment is to retail customers through the chain of stores and websites.

20.2 Delta Premium Brands

Backlog is not a precise indicator of the anticipated volume of sales in this Operating Segment due to the fact that a significant portion of the sales in this Operating Segment is to retail customers through the chain of stores and websites and to wholesale customers who do not order products from the Company far in advance.

20.3 Delta Israel

Backlog is not a precise indicator of the anticipated volume of sales in this Operating Segment due to the fact that a significant portion of the sales in this Operating Segment is to retail customers through the chain of stores and websites and to wholesale customers who do not order products from the Company far in advance.

21. Competition in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

21.1 Delta European Brands

The primary activity of this Operating Segment is in the intimate apparel market, in which the Company competes against various competitors operating in the industry. The chief competitors in the various male, female and child brands are Hugo Boss, Mey, Triumph, Calida, Sanetta, Hunkemöller, Esprit, H&M, Cotonella, France Freegun, Pompea, Hom, DIM and private labels of department stores and purchase groups. Most of the competitors are active both in the retail and wholesale markets.

There are various markets, geographies and categories relevant to this Operating Segment. Due to the above, and in the absence of relevant market research, the Company is unable to assess its market share.

In order to face the competition, the Company is increasing its chain of stores, investing in its online activities and in deepening sales relationships with customers operating via the Internet, as detailed in section 19.2.2 above.

21.2 Delta Premium Brands

The Delta Premium Brands Operating Segment's primary activity is in the denim category, in which the Company faces many competitors competition. Primary competitors in this category include: Paige, Diesel, AG, True Religion, Hudson, J BRAND. Splendid's primary competitors in the women's outerwear premium brands category include: Free People and Vince.

21.3 Delta Israel

Strong competition exists in the Israeli intimate apparel category between branded chains and private retailers. According to the Company's estimates, in recent years, national chains have strengthened (e.g. Jack Kuba, Aphrodite, Intima and Castro) at the expense of local retail shops as well as international chains (e.g. American Eagle, Aerie, H&M and Etam). Additional competitors include Triumph, Go-Under, Hamashbir Latzarchan, H&O and Srigamish.

The children's wear category is fiercely competitive and includes many competitors, such as: Golf, Fox Kids, GAP, H&M, Shilav, Zara, Carter's, Mango, Castro and others. In addition, Israel has hundreds of private shops marketing intimate apparel and socks.

The apparel and sportswear category is fiercely competitive and includes many competitors such as Nike, Adidas, Reebok and others.

There are various market and categories relevant to this Operating Segment. Due to the above, and in the absence of relevant market research, the Company is unable to assess its market share.

Competition in the market compels the Company to set competitive prices and invest significant amounts in marketing, advertising and sales promotions.

22. Manufacturing Capabilities in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

22.1 Delta European Brands

38% of the products sold in this Operating Segment are manufactured in factories owned by the Group in the Czech Republic, Slovakia, Romania and France. The remaining products are purchased from various sources in Asia, Eastern Europe and North Africa. The Company estimates that nothing is restricting it from increasing its production capabilities in its factories.

22.2 Delta Premium Brands

The Operating Segment's products are sold in the United States and Europe and are manufactured by a number of subcontractors. The Company estimates that it is not dependent on any of its suppliers. In addition, this Operating Segment has no manufacturing limits such that it will make it difficult to supply products in the event of increased demand.

22.3 Delta Israel

Most of the products in Delta Israel are manufactured by suppliers located in the Far East. The Company estimates that there are no manufacturing capability restrictions in this Operating Segment.

23. Intangible Assets in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

23.1 Delta European Brands

The intangible assets of the Delta European Brands Operating Segment include Goodwill, generated by the Company by the acquisition of Eminence amounting to approximately $40 million, customer relations and franchise agreement created by the acquisition of Eminence and brand names created as part of the acquisition of Schiesser and Eminence.

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

Eminence owns the intellectual property rights to the Eminence, Athena, and Liabel brands.

The balance of the above brands in the Company’s books amounts to $55.3 million as of December 31, 2019.

The various brands' life span is not defined and is examined each year for impairment (see Note 2f in Chapter C of this periodic report). The brands' importance is material to this Operating Segment and they constitute a significant success factor and an entrance barrier to the activity in the field. Furthermore, the Company estimates that the brands create and preserve the Company’s business differentiation.

The Group also holds a license for the "Seidensticker", "Marc O’Polo" and "Lacoste" (up to the end of 2019) brands, and licenses serving motifs in children's products, such as "Lilifree", "Capt’n Shark'y" and "EMOJY".

As of December 31, 2019, the customer relations balance of this Operating Segment in the Company's books amounted to approximately $26.5 million.

23.2 Delta Premium Brands

As of December 31, 2019 the balance of Delta Premium Brands' in the Company’s books amounted to $44.6 million. The brands' life span is not defined and is examined each year for impairment. The “7 For All Mankind”, “Splendid” and “Ella Moss” brands are material to this Operating Segment and constitutes a significant success factor and an entrance barrier to the activity. The Company estimates that the “7 For All Mankind” brand creates and preserves the Company’s business differentiation. As of December 31, 2019 the customer relations balance within this Operating Segment in the Company’s books amounted to $3.6 million.

23.3 Delta Israel

The Company owns the following brands: "Delta", "Yodfat", "Matchtonim", "Fix" and others which are listed in the Israeli trademarks registry. These brands have no cost on the Company’s books.

In addition, the Company signed license agreements with Disney, Keds, Wilson, NBA and other brands, which it uses in the intimate apparel, socks and children categories.

The license agreements are generally for a period of 2-3 years and include the payment of royalties to licensor of between 5% and 14% of sales. As a result of the relatively short term, the balance of the amortized cost of the license agreements in question is not material.

The Company estimates that the brands and license agreements are integral for this Operating Segment and they constitute a material success factor and entrance barriers for activity in the field. In addition, the Company estimates that the brands and license agreements provide a relative advantage that helps differentiate the Company.

23.4 In 2019, royalty expenses at Delta Israel and Delta European Brands amounted to $8.1 million, compared to $ 7.1 and $ 5.8 million in 2018 and 2017, respectively.

The increase in royalty expenses from 2018 was due to an increase in sales under the license agreements.

24. Raw Materials and Vendors in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

As noted above, 37% of the Delta European Brands sales are manufactured by Company owned factories. The raw materials and accessories utilized in production are purchased from subcontractors and suppliers (similar to the details presented in section 14 above).

25. Working Capital in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

25.1 Delta European Brands

The following are details regarding the average inventory used by the Operating Segment and inventory days in 2019 and 2018 in the division’s operating currency:

	2019	2018
Average inventory (million euro)	84.0	87.1
Inventory days (average)	224	244

The decrease in inventory balance and inventory days in 2019 versus 2018 is due to improved inventory management and surplus inventory sales.

25.2 Delta Premium Brands

The following are details regarding the average inventory used by the operating segment and inventory days for 2019 compared with 2018:

	2019	2018
Average inventory (million USD)	71.6	68.3
Inventory days (average)	222	207

The increase in the average inventory days in 2019 compared with 2018 was due mainly to the decrease in sales, see section 2.3.5 of the Board of Directors' report.

25.3 Delta Israel

The following are details regarding the average inventory used by the Operating Segment and inventory days in 2019 and 2018 in the division's operating currency:

	2019	2018
Average inventory (million NIS)	161.0	189.0
Inventory days (average)	163	218

The decrease in average inventory and inventory days in 2019 compared with 2018 was due to improvement in inventory management and the sale of old inventory.

26. Restrictions and Supervision of the Corporation's Activity in Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel

26.1 Delta European Brands

26.1.1 As a large portion of the Operating Segment's business activity is carried out in Germany and France, through companies incorporated in these countries, the Operating Segment is mainly influenced by the legal and taxation environment in these countries, including in the matter of corporations, antitrust law, product liability, product marking, prohibition of unfair business activity, trademarks and consumer protection. EU laws also apply to the Operating Segment's organizational and business activity.

26.1.2 Approximately 63% of the products sold in the Operating Segment are purchased from countries outside the EU. Therefore, foreign trade and customs conditions have a material impact on its business activity. Imports and exports inside the European economic area are largely exempt from customs. The Operating Segment is also affected by all anti-dumping measures the EU may apply in accordance with its laws.

26.1.3 Other laws which apply to the product include criminal regulations that prevent, among other things, the use of certain chemical materials, for instance, in the case of textile dyeing.

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

26.2 Delta Premium Brands

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

As most of the products sold under the Operating Segment are purchased from countries outside the U.S. and the European market, foreign trade and customs conditions have a material impact on the Operating Segment's business activity.

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

26.3 Delta Israel

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

Furthermore, all of the Company's products are subject to legal restrictions regarding price marking, indication of components and laundry instructions in accordance with the Commodities and Services Control Law, 1957 and the orders promulgated thereunder, and in accordance with the Consumer Protection Law, 1981 and the orders promulgated thereunder.

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

Chapter D – Additional Information at the Corporate Level

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

27. General Information on the Operating Segments

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

The Company keeps regular track of relevant technological developments in its Operating Segments and applies these technologies, when possible, to its production processes. Technological developments pertaining to the threads from which the fabric is woven have an indirect impact on the Operating Segments through the production of innovative finished products such as products enabling more comfortable movement, high levels of ventilation etc. Such technological developments provide a distinct competitive advantage and reduce the possibility of price pressure by customers.

27.2 Changes in the Vendor Structure and Raw Materials

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

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

28. Company's Products

28.1 Women's Intimate Apparel and Activewear

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

28.2 Men's Undergarments and Activewear

The Company manufactures basic and designer undergarments for men.

28.3 Socks

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

28.4 Children

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

28.5 Denim, Outerwear and Accessories

The Company manufactures denim clothing under the "7 For All Mankind" and "Jen7" brands as well as women's outerwear such as shirts, dresses, jackets, pants, tops, swimwear and associated products under the "Splendid" brand.

29. Seasonality

The Company's revenues fluctuate primarily from seasonality in consumer purchases. The Company's revenues in the second half of the year generally exceed its revenues in the first half due to increased consumer purchases in the "back to school" period and during the holiday period.

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

	Q1	Q2	Q3	Q4	Total
2019 sales* - $	**365,375**	**373,886**	**446,139**	**504,764**	**1,690,164**
2019 sales* - %	**21.6%**	**22.1%**	**26.4%**	**29.9%**	**100%**
2018 sales - $**	**334,487**	**338,907**	***370,763**	**454,264**	**1,498,421**
2018 sales - %**	**22.3%**	**22.6%**	**24.8%**	**30.3%**	**100%**
2017 sales - $	**315,681**	**340,461**	**340,301**	**371,637**	**1,368,080**
2017 sales - %	**23.1%**	**24.9%**	**24.9%**	**27.1%**	**100%**

* The data includes the sales of Bogart, consolidated for the first time in the Q3 2019.

** The data includes sales of Eminence, consolidated for the first time in Q3 2018.

29.2 The following is a breakdown of the Group's pro-forma sales on a quarterly basis in 2019 and 2018, which include the revenues of the companies that were purchased for the entire year (in thousands of dollars):

	Q1	Q2	Q3	Q4	Total
2019 sales - $	**409,161**	**415,174**	**446,139**	**504,764**	**1,775,239**
2019 sales - %	**23.1%**	**23.4%**	**25.1%**	**28.4%**	**100%**
2018 sales - $	**363,511**	**360,598**	**370,763**	**454,264**	**1,549,136**
2018 sales - %	**23.5%**	**23.3%**	**23.9%**	**29.3%**	**100%**

30. Fixed Assets, Real Estate and Facilities

30.1 Real Estate and Facilities

The Group has manufacturing facilities in Egypt, Bulgaria, Thailand, Vietnam, the Czech Republic, Turkey, Slovakia, France and Romania. Through the acquisition of the Bogart Group in July 2019, the Group acquired production plants in China and Myanmar.

As of this periodic report, the Company owns real estate in Israel used for manufacturing and as a fabric development center. Furthermore, the Company rents additional properties in Israel which are utilized for warehouses, offices and stores. The rental agreements for the properties, including option periods for their extension, end between 2020 and 2035. In general, the Company believes that according to current market conditions, it will be capable of renewing most of these rental agreements under terms not inferior to those in effect today.

The Company rents manufacturing and storage facilities in Egypt. This rental period is expected to expire in 2022.

The Company rents warehouses and offices in the U.S., Europe and China. The rental periods in these agreements are expected to expire between 2020 and 2034. In general, the Company believes that according to current market conditions, it will be capable of renewing these rental agreements under terms not inferior to those in effect today.

The above information pertaining to the Company’s estimates regarding the extension of its rental agreements constitutes forward-looking information as defined in the Securities Law, 5728 – 1968. There is no certainty in respect of the Company’s estimate, primarily because this estimate is based on information existing as of this periodic report and its realization is dependent on factors external to the Company such as: market conditions, agreements with landlords etc.

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

The Company owns a logistical center in Hungary which is intended for sale. However, due to the low probability that it will be sold it was included under fixed assets and not in current assets asunder assets available for sale.

30.2 Real Estate Assets Intended for Sale

As of the date of this report, with the exception of the property in Hungary mentioned in the previous section, the Company has no real estate assets designated for sale.

30.3 The following is a table concentrating material real estate properties owned by the Group or rented by it as of this periodic report*:

Country	Town	Area in sqm	Primary use	Rented/ owned	Amortized Cost in the Financial Statements as of December 31, 2019 In Millions of Dollars	Annual rental fees in 2019 In Millions of Dollars
Israel	Carmiel	14,014 structure 24,000 land	Fabric development and dyeing, offices and warehouses	Ownership	5.2	
	Caesarea	~9,500	Logistics center	Rental	1.9	1.0
		~5,000	Offices	Rental	10.6	0.8
	Chain with 160 stores*	~26,000	Delta stores –national retail chain	Rental	8.8	13.0
Egypt	Cairo	35,300	Knitting, cutting and sewing plant, offices and warehouses	Rental	2.4	0.3
	El-Meina	19,000 land	Knitting, cutting and sewing plant, offices and warehouses	Ownership	7.8	
	Khanka City - Qalyubia Governorate	4,500	Dyeing plant	Ownership	2.1	
Turkey	Duzce	9,400	Sock manufacturing plant	Rental	1.0	0.3
Vietnam	Phuong Thao	43,700	Intimate apparel and sock manufacturing plant	Ownership	13.3	
USA	New Jersey	2,000	Offices	Rental	0.5	0.4
	New York	4,400	Offices	Rental	2.5	1.9

Country	Town	Area in sqm	Primary use	Rented/ owned	Amortized Cost in the Financial Statements as of December 31, 2019 In Millions of Dollars	Annual rental fees in 2019 In Millions of Dollars
	New York	1,180	Show Room 7 FAM	Rental		0.9
	Williamsport, Pennsylvania	22,480	Warehouse, logistics center and offices	Ownership	0.8	
	Tifton, Georgia	46,000	Warehouse, logistics center and offices	Ownership	1.9	
	Los Angeles	8,000	Offices	Rental	2.0	1.8
	Los Angeles Fontana	29,600	Distribution center	Rental	4.5	1.8
	Chain consisting of 75 stores (including 2 stores in Canada) (7 FAM/ SEM)	15,700	Retail chain	Rental	8.0	16.0
Hungary	Tizalok	About 12,000	Logistics center. Not used and intended for sale	Ownership	1.6	
Bulgaria	Rousse	8,640	Socks manufacturing plant	Ownership and rental	1.8	0.1
Czech Republic	Havirska	148,000	Knitting, cutting and sewing plant, warehouses and offices	Ownership	7.5	
Switzerland	Mendrisio	1,000	Offices	Rental	1.4	0.3
Slovakia	Slovakia	28,700	Sewing workshop	Ownership	2.0	
Germany	Radolfzell	64,000	Warehouse, logistics center and offices	Ownership and rental	0.4	0.9

Country	Town	Area in sqm	Primary use	Rented/ owned	Amortized Cost in the Financial Statements as of December 31, 2019 In Millions of Dollars	Annual rental fees in 2019 In Millions of Dollars
		4,540	Investment property	Ownership	3.42	
	Chain consisting of 88 Schiesser stores	38,094	Retail chain	Rental	3.3	9.2
	Chain consisting of 5 "7 for All Mankind" stores	789	Retail chain	Rental	-	0.7
France (Eminence)	Aimargues & Sauve	27,975	Sewing, cutting plant, warehouses, offices and a logistics center	Ownership	3.5	
	Chain consisting of 8 stores	729	Retail chain	Rental and ownership		0.3
England	London	About 500	Offices	Rental	0.5	0.5
Romania	Deva	4,016	Sewing plant	Ownership	0.1	
Italy	Biella	16,745	Offices and warehouses	Ownership	1.1	
Western Europe	The 7 For All Mankind chain consisting of 12 stores and Schiesser consisting of 21 stores in Belgium, the Netherlands, Switzerland, Denmark, France, Italy, UK and Austria	About 10,000	Stores	Rental	1.4	2.4
Thailand	Ayutaya	1,700	cutting and sewing plant	Ownership	0.7	
	Samut (Bogart)	40,000	Plant, offices and warehouses	Ownership	4.2	

Country	Town	Area in sqm	Primary use	Rented/ owned	Amortized Cost in the Financial Statements as of December 31, 2019 In Millions of Dollars	Annual rental fees in 2019 In Millions of Dollars
China	Panyu/Shenzhen (Bogart)	192,000	Offices and plant	Rental	0.3	1.4
Myanmar	Yangon (Bogart)	21,800	Plant	Rental	1.0	0.2
Hong Kong	Kowloon (Bogart)	1,800	Offices	Rental	0.5	0.5

* Excluding stores operated by franchises that the Company does not rent.

30.4 Equipment

The Company operates equipment and machinery in its possession in its various plants and it estimates that there are no restrictions preventing it from operating them at full capacity.

31. Research and Development

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

The Company’s development and design teams mainly reside in Israel, Germany, the U.S., Switzerland, France, Hong Kong and China.

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

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

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

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

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

Development and design costs amounted to $58 million and $54 million in 2019 and 2018, respectively. The increase in development and design costs in 2019 was due in part to the consolidation of the results of Bogart as of the acquisition date, in July 2019.

Development and design costs for 2020 are expected to amount to about $61 million, and constitute about 3.5% of expected sales.[1]

32. Human Capital

32.1 Description of the Organizational Structure

The following is a description of Group management’s organizational structure and its operating segments:

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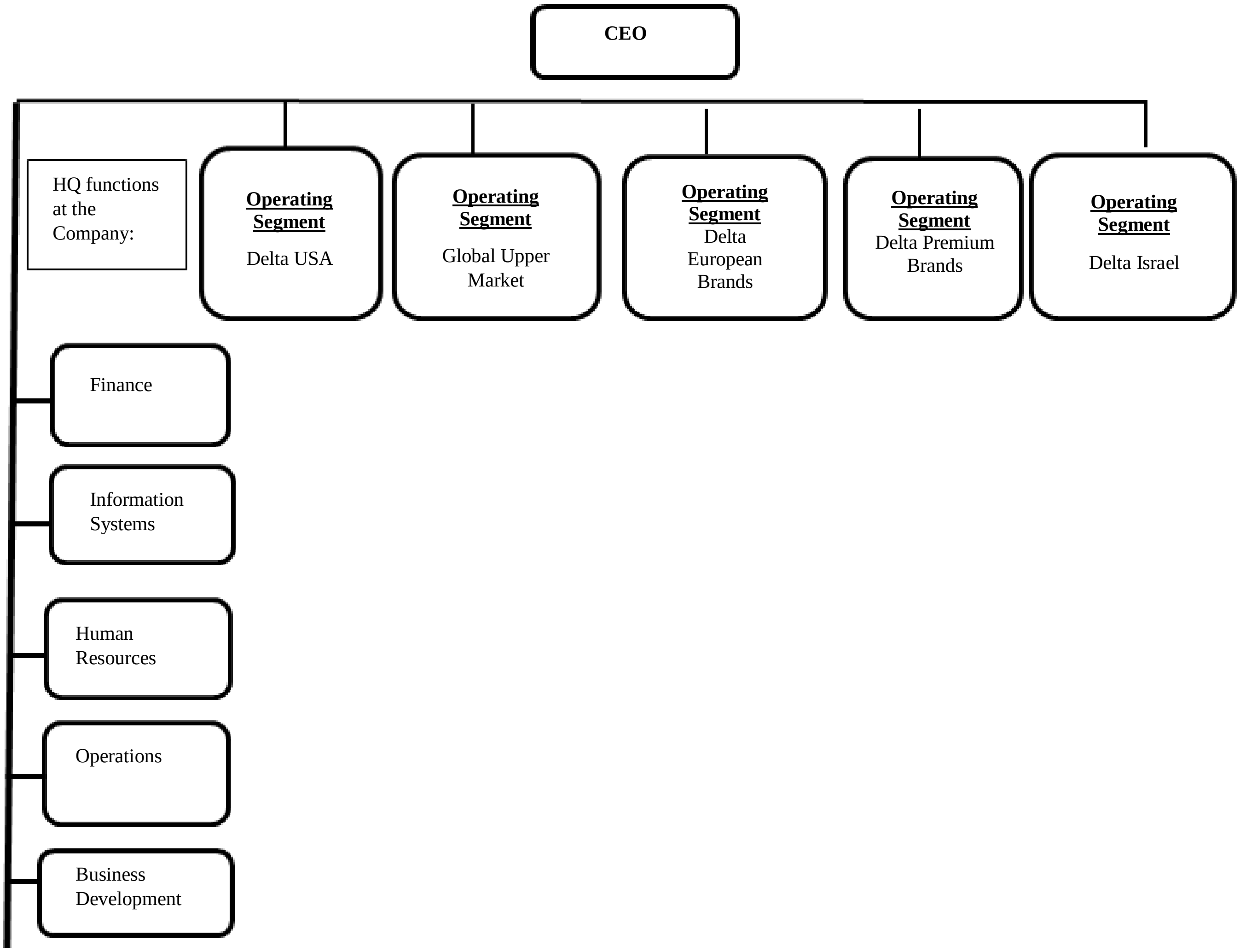
1 The above is an estimate only and forward-looking information, which may or may not materialize or may differ from Company estimates and forecasts, due to circumstances outside of the Company's control, and due to being based on information available as of the report date, including Company estimates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


CEO
HQ functions at the Company:
Operating Segment
Delta USA
Operating Segment
Global Upper Market
Operating Segment
Delta European Brands
Operating Segment
Delta Premium Brands
Operating Segment
Delta Israel
Finance
Information Systems
Human Resources
Operations
Business Development

32.3 The following is a breakdown of the employees by country and operating segment in which they are employed:

	As of December 31, 2019	As of December 31, 2018
China (Upper Market Segment)	5,000	90
Thailand (Upper Market Segment)	4,520	1,000
Vietnam (Upper Market Segment)	2,375	2,070
Myanmar (Upper Market Segment)	2,800	-
Egypt (Upper Market Segment)	3,870	3,430
U.S.A (Delta USA and Delta Premium Brands)	1,900	1,720
Israel (Upper Market Segment, Delta Israel and HQ)	1,325	1,385
Germany (mainly Delta European Brands)	930	1,017
Czech Republic (Delta European Brands)	600	650
France (Delta European Brands)	485	485
Bulgaria (Upper Market Segment)	585	600
Turkey (Upper Market Segment)	540	540
Slovakia (Delta European Brands)	230	250
Romania (Delta European Brands)	130	150
Others	395	388
Total employees	25,685	13,775

32.4 As of December 31, 2019, 16,700 employees are employed in manufacturing activity and 9,050 employees are employed in development, logistics, marketing, sales and administrative activities.

32.5 Material Changes to the Workforce

The increase in the number of employees as of December 31, 2019 compared to December 31' 2018 was due mainly to the acquisition of Bogart during the third quarter of 2019. Bogart employs about 11,000 employees, most of whom are employed in the manufacturing activity in the Company factories in Thailand, Myanmar and China.

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

For details regarding the remuneration plans for Company employees see Note 14b to the Financial Statements, in Chapter C of this periodic report.

32.7 Plans for Human Capital Development

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

32.8 Benefits and the Nature of Employment Agreements

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

The workers employed by Schiesser in Germany and by Eminence in France are employed under a collective agreement signed between the Company and the Commerce

Branch Committee in that country. Employees of Schiesser subsidiaries in the Czech Republic and Slovakia are also employed under similar collective agreements.

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

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

32.9.1 Agreements with Senior Executives (Excluding Internal Auditor)

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

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

32.9.2 Group Executive Remuneration Plan – Payment for Performance

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

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

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

32.9.3 Senior Executive Remuneration Policy

The Company's remuneration policy was ratified by the General Meeting of the Company's shareholders on December 2018. For details see the immediate report on the convening of the meeting of October 29, 2018 and the report on the results of the meeting of December 5' 2018 (ref. no. 2018-01-102015 and 2018-01-112150, respectively), included in this report by way of reference.

32.9.4 Severance Pay Liability

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

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

Rights for Schiesser workers in Germany and Eminence workers in France, and for their subsidiaries are covered by ongoing provisions.

33. Working Capital

The following is the breakdown of net working capital as of December 31, 2019 and 2018 on a consolidated basis, in millions of dollars:

	2019	2018
Current assets *	578.5	561.2
Current liabilities **	297.1	262.4
Working capital, net	281.4	298.8
% of sales – as reported	16.6%	19.9%
% of sales – on a pro forma basis, see section 29.2. above	**15.9%**	**19.3%**

* Including accounts receivables, other debtors, income tax receivable and inventory.

** Including supplier balances, other payables and income tax payable.

The decrease in the level of working capital as % of sales as of December 31, 2019 compared to December 31, 2018 was mainly due to the consolidation of Bogart, which hasa lower working capital level than the average in the Delta Group, as well as improvement in inventory management in the Delta European Brands and Delta Israel operating segments.

33.1 Raw Material Inventory Holding Policy

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

33.2 Finished Product Inventory Holding Policy

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

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

34. Financing

34.1 Financial Covenants

For details regarding financial covenants connected to agreements with banks, see Note 19d to the financial statements, in Chapter C of this periodic report.

For details regarding financial covenants included in deeds of trust for debentures (Series A, B, E and F), see Note 10a(3) to the financial statements, in Chapter C of this periodic report.

34.2 The Corporation's Credit Facilities and Terms and Unused Credit Balances as of the Report Date

For details regarding the Group's credit facilities, see Note 19d to the financial statements, in Chapter C of this periodic report.

34.3 The Corporation's Credit Rating

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

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

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

34.5 Bank Liabilities

34.5.1 From time to time the Company incurs bank liabilities mainly to finance working capital and investments in fixed assets as well as occasionally for acquisitions. These liabilities are guaranteed by liens on assets of the Company and some of its subsidiaries.

The Company's credit facilities permit short-term loans and the receipt of documentary credit, and issuing guarantees. The Company’s short-term loans reach have redemption periods of up to one year. The redemption date of some of the loans is shorter, in order to provide flexibility in financial management.

In addition, the Company took a long-term bank loan the acquisition of Eminence. For more details see Note 19e to the financial statements, in Chapter C of this periodic report.

34.5.2 The Company has credit facilities from a number of banks that are renewable for a period of up to one year. The banks have floating liens on the Company's assets including its stock capital and goodwill. The interest for these credit facilities is set from time to time in negotiations between the Company and each of the separate banks. The banks have entered into a pari passu agreement among themselves regarding the manner in which this collateral is realized.

34.6 Liabilities to Debenture Holders

For further details regarding liabilities to debenture holders and the cash flow swap agreements for debentures, see Note 10 to the financial statements in Chapter C of this periodic report.

35. Taxation

For details regarding tax laws applicable to the Company, see Note 15 to the financial statements in Chapter C of this periodic report.

36. Goals and Business Strategy

This paragraph, pertaining to the Company’s goals, its strategy and its expectations of further growth and development in the coming year, constitutes forward-looking information. Forward-looking information is uncertain information regarding the future, based on information existing at the Company on the periodic report date and includes Company estimates or intents as of the periodic report taking into account past experience, various estimates regarding the state of the economies in which the Company operates and depends on many external factors not under the Company’s control. Therefore, no certainty exists that the below will in fact be realized and results in practice may be materially different from the results estimated or implied from this information, among other things in the event of deterioration, new or additional, in the state of the economies in which the Company is active, if the risk factors relevant to the Company are realized and more.

36.1 General

The Company’s main strategic goal is to grow its business both with existing and new customers, through a broad selection of products and entry into new categories.

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

36.2 Strategic Acquisitions

As noted, in order to achieve growth, the Company, from time to time, considers making strategic acquisitions that will complement its product lines and improve its relations with customers and allow penetration to new markets and customers. For example, the acquisition of Bogart in July 2019 completed the Company's product lines (mainly in the field of brassieres) and allowed it access to new customers.

In evaluating potential acquisitions, the Company focuses on increasing the scope of its branded activity.

Due to the size of the U.S. market, the Company has identified this market as a strategic target that can have a significant contribution to the Company's growth and profitability. By way of a series of acquisitions made by the Group in the U.S. market in the early 2000s and the acquisition of Bogart in July this year, its presence has increased significantly in the U.S. market. In 1998, Company US sales amounted to $47 million, which constituted 16% of the Company's 1998 sales. In 2019, the Company's US sales amounted to $846 million, constituting 50% of the Company's 2019 sales.

In addition, the Company has targeted the European market as having large expansion potential, as expressed in the purchase of Schiesser in July 2012, the purchase of the Delta Premium Brands operating segment in August 2016 and the purchase of Eminence in July 2018. European sales increased from $162 million or 24% of total sales in 2011 to $510 million or 30% of total sales in 2019.

36.3 Customers

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

36.3.1 Increasing Sales to Existing Customers

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

36.3.2 Maintaining Relationships with Company Customers

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

36.3.3 Developing Relations with New Customers

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

36.3.4 Innovation and Investment in Research and Development

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

36.3.5 Streamlining Production Processes and the Chain of Supply

The Company is constantly working to streamline its production processes, by continuing to transfer manufacturing processes requiring significant manpower to countries offering cheaper labor automate its manufacturing processes and present new technologies.

The Company invests in the development of its supply chain as this an important part of guaranteeing high standards of service to its customers.

36.4 Branding

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

In addition, the Company enters into license agreements to market male and female intimate apparel, socks and activewear under leading brands names (see section 1.2 above). Accordingly, the Company intends to continue to act to acquire licenses for marketing under additional brand names, thus strengthening its position with the end customer (the consumer).

36.5 Reinforcing and Expanding Branded Retail Activity

The Company aims to reinforce the branded retail activity segment with an emphasis on the online channel of its business, including expanding existing Delta European Brands, Delta Premium Brands and Delta Israel activity and by making new strategic purchases in order to strengthen its competitive positioning.

36.6 Reinforcing and Expanding the Company's Innovation by Automating the Value Chain and Reinforcing E-Commerce Areas

The Company aims to be at the forefront of technology in its areas of activity including implementing automation throughout its business value chain and strengthening its trading sites. To this end, in 2019 the Company engaged a retail innovation consulting firm and with its assistance mapped and communicated with start-ups with the potential to help the Company with major challenges in its areas of operation. Subsequently, in 2020, the Company launched an innovation program under which the Company will accompany a number of start-ups with relevant technologies for efficiency and automation as well as companies with innovative e-commerce technologies from the proof of concept stage to the scale-up stage. In addition, as part of an activity to strengthen e-commerce, in February 2020 the Company acquired Brayola, a company which has developed a technology platform for the sale of brassieres on the Internet.

37. Projected Developments in the Coming Year

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

37.1 The Company's Forecasts and Estimates Regarding its Business in 2020

The following is the Company's guidance for 2020, before the impact of non-recurring items, based on current market conditions and on an exchange rate of $1.10 per EUR and 3.45 NIS per USD, in millions of dollars:

	2020	2019	% Increase in 2020 compared with 2019
Sales	1,740-1,770	1,690	5%-3%
Operating Profit	107-113	106	7%-1%
EBITDA	197-203	196	4%-1%
Net profit	57-62	60	(5%)-3%
Diluted earnings per share (in $ per share)	2.23-2.42	2.36	(5%)-3%

According to information currently in its hands, the Company estimates that operating profit in the first half of 2020 and 2020 will be adversely affected by the Corona effect by about $5 to $7 million. This estimate is included in the forecast above. For further details, see Section 1.3.7 b of the Board of Directors' Report in Chapter B of this periodic report.

The Company estimates that the permanent tax rate that will apply to its profits before non-recurring items net of tax in the coming year will be about 18%.

37.2 Forecast of Material Acquisition of Fixed Assets and the Company's Production Capability after Making the Purchases in Question

From time to time, the Company invests in the purchase of fixed assets, such as knitting, dyeing and sewing machines and other equipment based on requirements and needs at various production sites. In addition, the Company invests from time to time in the upgrade and expansion of its retail chain in Israel, Europe and the US, and in technology investments to reinforce the websites it operates.

The Company estimates that its capital investments in 2020 will amount to approximately $30 million.

38. Financial Data on Geographic Regions

The Company does not report based on geographical regions in its financial statements thus reporting according to geographical regions on the basis of the data in the financial statements is impractical.

Details on sales and asset balances that are not current are included in Note 5c to the financial statements in Chapter C of this periodic report.

39. Discussion of Risk Factors

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

39.1 Macro-Economic Risk Factors

39.1.1 Increased Costs of Purchasing Finished Products from Far East Manufacturers

The Company purchases and manufactures a significant portion of the products it sells from subcontractors or at its factories located in Far East countries. Increases in the costs of purchase of finished products and manufacturing costs, due to an increase in raw material prices, an increase in salaries and other inputs due to a result of the strengthening of local currencies vs. the USD or for other reasons, may erode the Company’s gross profits.

39.1.2 Exchange Rate Fluctuations

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

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

At the same time, these hedging agreements will not protect the Company if the depreciation of these currencies against the USD continues after the end of the future contracts period. For further details, see section 3.3 of the Board of Directors' Report, Chapter B of this periodic report.

39.1.3 Free Trade Agreements

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

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

39.1.4 Economic Situation in Target Markets

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

39.1.5 Security and Political Situation

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

In light of the Company's activities in Egypt and Turkey, the deterioration of the security situation between Israel and the region's states in general and with these countries in particular, as well as the deterioration of the internal political conditions in these countries, may impact the Company's activities and production capabilities in these countries. Activity in Egypt is responsible for supplying 4% of the Company's sales in 2019. A worsening of the political, economic and social instability in Egypt may impact the Company's activity. Products manufactured in Turkey constitute 3% of the Company's sales in 2019.

39.1.6. Health-related emergencies

Health-related emergencies can affect consumers' habits level of consumption in the operating segments. In addition, it may affect the Company's ability to purchase raw materials and products, prices of raw materials and finished goods and the Company's ability to produce and sell products regularly.

It should be noted that on February 3, 2020, the Company announced that according to media reports and information received from its subcontractors, the local government in China ordered the extension of local holiday leave until February 9, 2020 due to the spread of the Corona virus. On February 11, 2020, the Company updated that, in accordance with information received from its factories, suppliers and subcontractors, only a partial return to the activity has begun and full return will take several weeks. The Company has a global and diversified supply chain outside of China. The Company is working to divert some of its procurement and manufacturing activities to areas outside of China to the extent possible.

In the Board of Directors' report, the Company updated the effect of the Corona virus on its operations as of the date of this report. For further details, see section 1.3.7 b of the Board of Directors' report, in Chapter B of this periodic report.

The continued uncertainty as to when China's operations will return to normal at full capacity affects the Company's ability to assess the impact of a continued disruption of China's manufacturing operations on its results. As the shutdown of the Company's manufacturing plants or its subcontractors and suppliers continues, or if the factories' return to regular work at full output is delayed – this could have a negative impact on its future results.

39.2 Industry Risk Factors

39.2.1 Competition

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

39.2.2 Seasonality

As a result of seasonal fluctuations, the results of the Company's activity on a quarterly basis might not reflect the Company's future performance. In light of seasonal consumer purchases, the Company's revenues underwent quarterly fluctuations in its operating results such that the Company’s revenues in the last two quarters of 2019 exceeded the Company’s revenues in the first two quarters due to holiday and back-to-school purchases. In light of this variability, the results of the Company's activity on a quarterly basis might not reflect the Company's future performance. The above variability may make it harder for investors to properly estimate the Company's future performance.

39.2.3 Changes in Fashion Preferences

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

39.2.4 Online Trade

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

The Company operates a number of websites of its own where some f its branded products can be purchased in Israel, Europe and the United States, in the Delta Israel, Delta European Brands and Delta Premium Brands operating segments. The products are sold mainly under the Delta, Fix, Schiesser, 7 For All Mankind, Splendid, Eminence, Athena and Liabel brands.

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

39.2.5 Changes in Raw Material Costs and Shipping Prices

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

39.2.6 Regulatory Developments

As the Company is active in the international market, it is exposed to changes in foreign laws, export restrictions, protective tariffs, trade barriers, tax laws, and environmental protection laws. In addition, the Company is potentially exposed to difficulties in hiring appropriate personnel and management of international operations, social, political and economic changes as well as other risks inherent to international business activity, any of which may have a significant impact on the Company's financial results. Any of the above factors may have a negative impact on the Company's ability to provide or receive merchandise under competitive conditions and according to appropriate timetables and may have a negative impact on its operating results.

39.3 Risk Factors Unique to the Company

39.3.1 Dependence on Major Customers

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

39.3.2 Completion of Integration and Operation Proceedings with Subsidiaries

In recent years, the Group has purchased a number of companies and/or activities, the integration of which has not been completed and which require administrative resources. Thus, for example, in August 2016 the Company purchased the activity of the Delta Premium Brands and in July 2018 it purchased the Eminence Group. In addition, integration processes and administrative resources are also invested in the activity of the new factory established in Vietnam. The possibility exists that the Company will not successfully complete said integration and operation proceedings. The Company is continuing with the integration process of these purchases, with the aim of merging and combining the facilities, IT systems and personnel of the subsidiaries purchased in the Company and improve the operation level of the factory in Vietnam. The Company utilizes significant amount of senior management's day-to-day activities in the United States and Europe for the purposes of this integration and as a result, a significant work load is created for the Company's management team. Completion of the integration process may be negatively influenced by economic conditions, by failure to integrate economic and operational systems, by reactions from competitors or customers or by regulatory developments, if any. The Company's inability to successfully complete integration may have a negative impact on the Company.

39.3.3 Direct Engagement by Retailers with Far East Manufacturers

In recent years, a number of large retailers have been trying to work directly with factories, instead of working with companies designing, and developing undergarment brands. The Company believes that this phenomenon largely occurs with basic products intended for the general market, where the design element is less significant. The Company's sales may be impacted in the event that this trend continues to grow.

39.3.4 Reduction in the Market Share of Company Customers

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

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

	Degree of Impact of Risk Factor on the Company		
	Major impact	Medium impact	Minor impact
Macro-economic risks			
Increased Costs of Purchasing Finished Products from East Asian Manufacturers	X		
Exchange Rate Fluctuations		X	
Free Trade Agreements	X		
Economic Situation in Target Markets	X		
Security and Political Situation	X		
Health-related emergencies		X	
Industry Risk Factors			
Competition	X		
Seasonality			X
Changes in Fashion Preferences		X	
Online Trade		X	
Changes in Raw Material Costs and Shipping Prices	X		
Regulatory Developments		X	
Risk Factors Unique to the Company			
Dependence on Major Customers	X		
Completion of Integration and Operation Proceedings with Subsidiaries	X		
Direct Engagement by Retailers with Far East Manufacturers	X		
Reduction in the Market Share of Company Customers		X	

Delta Galil Industries Ltd.

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

As of December 31, 2019

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

For the period ending on December 31st 2019

We hereby present to you the report of the Board of Directors of Delta Galil Industries Ltd. (hereinafter: **"the Company"** or **"Delta")** in reference to the Consolidated Financial Statements of the Company and its subsidiaries in Israel and overseas (hereinafter: **"the Group"**) for the year ending December 31, 2019 (hereinafter: **"the Reporting Period"**), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. The Board of Directors' Report is an integral part of the Periodic Report, on all of its parts, and the Periodic Report in its entirety must be read as a whole.

1. Summary Description of the Corporation and its Business Environment

1.1 General

The Group is engaged in the development, design, production, marketing and sales of intimate apparel, socks, childrens' wear, leisurewear and activewear. In addition, the Group engages in the development, design, marketing, distribution and sales of branded denim products, outerwear and accessories.

The Groups' sales are divided as follows:

1.1.1 Branded Product Sales

Branded product sales are divided as follows:

a. Sale of brands owned by the Company such as: 7 For All Mankind, Splendid, Schiesser, Eminence, Athena, Liabel, P.J. Salvage, KN Karen Neuburger, Delta and Fix. The products sold under these brandsinclude intimate apparel, socks, childrens' wear, leisurewear, activewear, denim and outerwear. These products are sold through retail stores owned by the Company as well as to leading retail chains such as Nordstrom's, Leclerc, Kaufhof, Karstadt, Galeria and Carrefour.

b. The Company licenses the following brands- Maidenform, Converse, Wilson, Tommy Hilfiger, Kenneth Cole, Columbia, Original Penguin, Marc O'Polo, Calvin Klein, Disney and more. The products sold under these licensesinclude primarily intimate apparel, socks, children's wear, leisurewear and activewear. The Company pays the licensor royalties in return for use of the brand name.

1.1.2 Sale of Products for Customer Private Labels

Sales of private label products include to the following leading customers: Walmart, Target, Victoria's Secret, Marks & Spencer, Primark, Amazon, Macy's, Kohl's, Hema, Nike, Calvin Klein, Maidenform, Tommy Hilfiger, Spanx, Lululemon, Sportmaster, Under Armour, Australia & Europe Hanes, Jockey, Techstyle Fashion Group, MGF, Adore Me, Inditex Clothing Group etc. The products sold under these private labels include primarily intimate apparel, socks, swimwear and activewear.

1.2 Marketing, Development and Manufacturing Activity

The Company markets its products in the geographic regions in which it is active in retail marketing, through the retail chains in its possession and through the internet – in the United States, Europe and Israel. The Company designs and develops its products primarily in Israel, Germany, Switzerland and the US. The Company manufactures the products it sells both via subcontracting and in its own factories in the Middle East, Europe, Central America and the Far East.

The Bogart Group, whose acquisition was completed on July 2, 2019 (see section 1.3.5 below), designs and develops its products in Hong Kong and China and manufactures them in its factories in China, Thailand and Myanmar.

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

1.3.1 Dividend Distribution

Declaration date	Distribution amount (in cents per share)	(in millions of dollars)	Distribution date	Immediate Report Containing Additional Details (Presented on an inclusive basis by way of reference)
February 19, 2019	13.9	~3.5	March 6, 2019	February 9, 2019 (2019-01-014773)
May 15, 2019	5.9	~1.5	June 5, 2019	May 23, 2019 (2019-01-046405)
August 13, 2019	9.8	~2.5	September 3, 2019	August 21, 2019 (2019-01-084193)
November 13, 2019	13.9	~3.5	December 3, 2019	November 13, 2019 (2019-01-097716)

1.3.2 Declaration of Dividends Distributed Subsequent to the Balance Sheet Date

Declaration date	Distribution amount (in cents per share)	(in millions of dollars)	Determining Date/ X Date	Distribution date
February 25, 2020	25.5	~6.5	March 4, 2020	March 17, 2020

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

1.3.3 Midroog Ltd. Rating Report

On March 10, 2019 the Company announced that Midroog Ltd. reapproved the A1 stable outlook rating for the debentures (Series A, B, E and F) issued by the Company. In addition, Midroog approved an A1 stable outlook rating for debentures issued by the Company, under the expansion of Series F, of up to $70 million (NIS 253.47 million par value). For further information, see the immediate report on the rating of debentures dated March 10, 2019 and the report dated March 11, 2019 (ref. no. 2019-01-020527 and 2019-01-020986), included herein by way of reference.

On December 18, 2019 the Company announced that Midroog Ltd. reapproved the A1 stable outlook rating for the debentures (Series A, B, E and F) issued by the Company. In addition, Midroog approved in advance an A1 stable outlook rating for debentures issued by the Company following Midroog's approval (on December 23, 2019), under the expansion of Series A, in the amount of NIS 245 million par value. For further information, see the immediate report on the rating of debentures of December 18, 2019 (ref. no. 2019-01-111165), included herein by way of reference.

1.3.4 Expanding debentures series

On March 13, 2019, the Company issued NIS 253,470,000 par value debentures (Series F) of NIS 1 par value. Each issuance was a follow on to a traded series, according to a shelf offering report dated March 12, 2019 and the shelf prospectus.

The gross proceeds for the debentures (Series F) allocated according to the shelf offering report amounted to approximately NIS 251.7 million (or approximately $70 million).

For more details, see the shelf offering report and the report on the issuance results dated March 12, 2019 and March 13, 2019 (ref. no. 2019-01-021544, 2019-01-022072), included herein by way of reference.

On December 23, 2019, the Company issued NIS 245,000,000 par value debentures (Series A) of NIS 1 par value. Each issuance was a follow on to a traded series, according to a shelf offering report dated December 22, 2019 and the shelf prospectus. The gross proceeds for the debentures (Series A) issued according to the shelf offering report amounted to approximately NIS 282.5 million (or approximately $81 million). For more details, see the shelf offering report and the report on the issuance results dated December 22, 2019 and December 23, 2019 (ref. no. 2019-01-112227, 2019-01-112806), included herein by way of reference.

1.3.5 Completion of the Acquisition of the Bogart Group

On July 2,[d] 2019, the Company completed the acquisition of the Bogart Group from the selling shareholder, following the fulfilment of the preconditions required to complete the transaction. In this matter, see the immediate report dated July 2, 2019 (ref. no. 2019-01-067072), included herein by way of reference.

The Bogart Group is a vertical manufacturer engaged in the development and marketing of intimate apparel, mainly brassieres and swimwear for private brands of leading customers in the upper market segment in the US and Europe. Bogart was established in 1993 and is one of the largest brassiere manufacturers in the world. The Group has a number of subsidiaries in the Far East (China, Thailand, Myanmar) and owns cutting and sewing factories for the manufacture of apparel products and the manufacture of raw materials (lace and pads) for self-use and for external customers.

The Company included expenses in connection with the acquisition in the amount of $3.3 million in the financial statements for 2019. These expensesh are included in the financial statements under the section General and Administrative Expenses, see section 2.3.3.2 below.

The results of the Bogart Group were consolidated in the financial statements of Delta Galil Industries Ltd. and included within the operating segment of the Global Upper Market Segment.

For more details, see reports dated February 19, 2019, March 31, 2019 and June 10, 2019 (ref. no. 2019-01-014521, 2019-01-029638 and 2019-01-056923 respectively), included herein by way of reference.

1.3.6 Receipt of a Tax Assessment for 2014

On January 10, 2020, the Company announced that the Company's auditors had received a tax assessment based on judgment for 2014, and according to the assessment the maximum amount of additional tax the Company will be required to pay for 2014, should all of its arguments be denied, amounts to $10 million before linkage and interest adjustments,as of the reporting date. The Company disagrees with the Tax Authority's position and has filed an appeal in the matter. For more details, see the immediate report dated January 10, 2020 (ref. no. 2020-01-004072), included herein by way of reference.

1.3.7 The Company's Operations in China following the Corona virus

a. On February 3, 2020, the Company announced that according to media reports and information received from its subcontractors, the local government in China had ordered the extension of local holiday leave until February 9, 2020 due to the spread of the Corona virus. On February 11, 2020, the Company updated that, in accordance with information received from its factories, suppliers and subcontractors, only a partial return to the activity has begun, which should take several weeks. The Company has a global and diversified supply chain outside of China. The Company works with its factories, subcontractors and suppliers in countries other than China to divert to them part of its manufacturing and procurement activities, to the extent possible.

   For more details, see the immediate report dated February 3. 2020 and February 11, 2020 (ref. no. 2020-01-012606 and 2020-01-015180), included herein by way of reference.

b. As of the date of this report, the Group's factories in China (a total of 5 factories, some wholly owned and some partially owned as part of a joint-venture), as well as most of the Company's major subcontractors and suppliers, returned to work after the extended holiday break. Return to activity is gradual, as each day more employees return. The Company projects that, as of the date of this report, there will be a return to regular work levelswithin a few weeks.

The Company intends to increase its production in the coming weeks and use the diversified production and sourcing options available to it to complete the production gaps and minimize the impact on its financial results, to the extent possible.

However, extending the leave, ceasing production, and the gradual return to work have had a cumulative effect on the Company's manufacturing operations and on its subcontractors and suppliers.

According to the Company's estimates, as of the date of this report, these disruptions in production in the Group's factories will result in a decrease in operating profit in the first quarter in the amount of $4-6 million, due to a decrease in production volume and due to additional costs incurred due to said disruptions (e.g., deliveries on flights to customers).

In addition, the Company estimates that the expected impact of postponing order delivery times from Q1 to Q2, and expected revenues therefrom, due to the disruptions to its factories and subcontractors, – will be approximately $15 million (shift). This will reduce the operating profit for Q1 by approximately $3 million. The Company estimates that most of the impact is expected to be offset and positively impact the results of Q2, following the late delivery of orders.

In accordance with the foregoing, the Company estimates the non-recurring adverse effect to the operating profit in Q1to be in the range of $7-9 million. The Company estimates that part of the impact will be offset in Q2, such that the cumulative impact in the first half of the year will amount to between $5-7 million.

This assessment is based on the assumption that there will be a regular return to work in the coming weeks.[1]

1.3.8 <u>Shareholders' Meetings</u>

On April 8, 2019, a special annual general meeting was held of the Company’s shareholders. Its agenda included a resolution for approval of the terms of employment of Ms. Gloria Dabah, daughter of the controlling shareholder in the Company, in her capacity as President, Splendid Ladies, Men & Kids. Her terms of employment were approved by the general meeting in said meeting. For further information, see the immediate report on the convening of the meeting of February 28, 2019 (ref. no. 2019-01-017968) and the immediate report on the results of the meeting of April 8, 2019 (ref. no. 2019-01-034849), included herein by way of reference

On December 26, 2019, an annual general meeting was held of the Company’s shareholders. Its agenda included: (a) the reappointment of directors serving in the Company (who are not external directors), Messrs. Noam Lautman, Isaac Dabah, Itzhak Weinstock, Tzippah Carmon, Israel Baum, Rinat Gazit and Richard Hunter, for an additional period up to the end of the first annual general meeting following the appointment; (b) the reappointment of the of PWC Israel accounting firm (Kesselman and Kesselman) as the Company’s auditing accountant up to the date of the next annual general meeting of the Company; (c) a discussion of the Company’s Financial Statements and Board of Directors’ Report for the year ending December 31, 2019. For further information, see the immediate report on the convening of the meeting of November 19, 2019 (ref. no. 2019-01-09985) and the immediate report on the results of the meeting of December 26, 2019 (ref. no. 2019-01-114396), included herein by way of reference.

1.3.9 <u>Changes in the Company’s Management</u>

In June 2019, the Company announced that Mr. Jacob Heen, Chief Financial Officer, will end

[1] To clarify, the information in this section constitutes forward-looking information as defined in the Securities Law, 5728 – 1968, based on the information available at the Company at the reporting date and based on the Company's plans and assessments at the reporting date. The fulfillment of the plans and assessments presented in this section is uncertain and is not under the Company's control. This exceptional and dynamic event is not under the Company's control. The continued spread or stopping of the virus, decisions by relevant countries and authorities in the country or around the world concerning their preparation in the matter, customer and consumer behavior as a result of the situation, and further changes arising from the above – may impact the Company and its results in a different manner than the Company currently estimates.

his employment with the Company on October 15, 2019. On September 2,, the Company announced that Mr. Heen will continue to serve as Chief Financial Officer until October 22, 2019 and that Mr. Asaf Alperovitz will be appointed in his place as of that date. On October 22, 2019, Mr. Alperovitz began serving as Chief Financial Officer.

Mr. Maurice Resnick, President of Delta USA and CEO of Women's Activities in Delta USA, ended his employment with the Company on August 9, 2019.

On July 11, 2019, the Company appointed Mr. Steve Moore as President of the Mass Market Division at Delta USA. Mr. Moore is employed with the subsidiary Delta Galil USA Inc. and took responsibility over a significant part of the duties that were under Mr. Maurice Resnick's purview.

Ms. Victoria Vandegriff was promoted and appointed as Manager of the Brands Division in Delta USA.

1.3.10 Publication of shelf prospectus

On February 23, 2020, the Company issued a shelf prospectus based on its financial statements as of September 30m 2019. For more details, see the shelf prospectus published on February 23, 2020 (ref. no. 2020-01-018345).

Board of Directors' Explanation of the Corporate State of Affairs

2. Analysis of Financial Position

2.1 Statement of Financial Position

The following are explanations regarding developments occurring in statement of financial position items, in millions of dollars (some of the data in the table were rounded up):

Item	December 31, 2019	December 31, 2018	Explanation of the key changes
Cash and Cash Equivalents and Restricted Cash	**109.2**	**74.0**	The increase in cash balance as of December 31, 2019 mainly derives from the positive cash flow from current activities in 2019 and from the consideration for the issue of debentures Series A carried out in Q4in 2019 in the amount of approximately $81 million, net the costs of acquisition of Bogart and amounts used for the repayment of bank credit.
Current Assets	**688.7**	**635.2**	The increase in the balance of the current assets as of December 31, 2019 compared to December 31, 2018 mainly derives from an increase in trade receivables, receivables and inventory in the amount of $55.5 million due to consolidation with Bogart.
Non-Current Assets	**899.1**	**570.7**	The increase in the balance of the non-current assets as of December 31, 2019 compared to December 31, 2018 mainly derives from the inclusion of intangible assets in respect of financing lease contracts in the amount of approximately $207.6 million, due to the effect of standard IFRS16 and due to an increase in intangible assets and fixed assets in the amount of $114.0 million, following the consolidation with Bogart.
Balance Sheet Total	**1,587.8**	**1,205.9**	The increase in the balance sheet total as of December 31, 2019 compared to December 31st 2018 derives from the consolidation with Bogart and the implementation of standard IFRS16, as detailed above.
Current Liabilities	**401.8**	**372.8**	The increase in the balance of current liabilities as of December 31st 2019 compared to December 31st 2018 mainly derives from an increase in financing lease contracts liabilities in the amount of approximately $ 53 million due to the effect of standard IFRS16 and an increase of approximately $ 59.2 in accounts payable due to the consolidation with Bogart, which were partly offset by the repayment of the remainder of the short-term credit from banks in the amount of approximately $ 78 million, due to the expansion of the debentures series.
Non-Current Liabilities	**679.0**	**365.2**	The increase in the balance of the non-current liabilities as of December 31, 2019 compared to December 31, 2018 mainly derives from the inclusion of obligations in respect of financing lease contracts in the amount of approximately $179.2 million due to the effect of standard IFRS16 and due to the follow on issuances of the debenture series in March and December 2019 in the amount of approximately $70 million and $81 million, respectively, see section 1.3.4 above. These amounts were partly offset by the repayment of the debentures. In addition, the non-current liabilities increased due to an increase in the long-term bank and accounts payable and from contingent consideration to the selling Bogart shareholder, due to the consolidation with Bogart.
Equity	**506.9**	**467.9**	The increase in the equity balance as of December 31, 2019 compared to December 31, 2018 mainly derives from the consolidated profit earned in 2019 in the amount of $59.3 million, less adjustment of retained earnings due to the implementation of standard IFRS16 in the amount of $10 million and due to dividends distributed to shareholders in the amount of $11 million.
Total equity and liabilities	**1,587.8**	**1,205.9**	The increase in the equity and liabilities as of December 31, 2019 compared to December 31, 2018 mainly derives from the consolidation of Bogart and the implementation of standard IFRS16, as detailed above.

2.2 **Operating Results**

The following is a summary of the Group's profit and loss statements for 2019 and 2018 on a quarterly basis for 2019 and for the fourth quarter of 2018, where certain sections therein are sorted differently than in the financial statements, in order to allow analysis and comparison with corresponding reporting periods. An adaptation of the net profit before non-recurring items, is presented in 2.2.2 below. The data is presented in $ thousands (excluding profit per share data):

	Year			Quarterly Breakdown			
	2019	2018	Q4.2019	Q3.2019	Q2.2019	Q1.2019	Q4.2018
	Audited			Unaudited			
Sales	**1,690,164**	1,498,421	**504,764**	446,139	373,886	365,375	**454,264**
Cost of sales	**1,086,005**	931,981	**317,468**	293,812	239,733	234,992	**280,365**
Gross profit	**604,159**	566,440	**187,296**	152,327	134,153	130,383	**173,899**
% of sales	**35.7%**	37.8%	**37.1%**	34.1%	35.9%	35.7%	**38.3%**
Selling and marketing expenses	**429,705**	406,132	**117,196**	106,496	102,724	103,289	**114,093**
% of sales	**25.4%**	27.1%	**23.2%**	23.9%	27.5%	28.3%	**25.1%**
Administrative and general expenses	**73,177**	65,163	**20,163**	19,051	15,992	17,971	**18,456**
% of sales	**4.3%**	4.3%	**4.0%**	4.3%	4.3%	4.9%	**4.1%**
Other Income (expenses), net	**(3,739)**	(2,468)	**(972)**	(95)	(1,384)	(1,288)	**(684)**
Share in the profits of associated company using the equity method	**950**	392	**316**	265	336	33	**110**
Operating Profit Before Non-Recurring Items	**105,966**	98,005	**51,225**	27,140	17,157	10,444	**42,144**
% of sales	**6.3%**	6.5%	**10.1%**	6.1%	4.6%	2.9%	**9.3%**
Non-recurring items, net	**2,286**	17,330	**(987)**	431	2,842		**3,776**
Operating profit	**103,680**	80,675	**52,212**	26,709	14,315	10,444	**38,368**
Financing expenses, net	**36,065**	21,352	**10,630**	10,119	7,365	7,951	**5,448**
Profit before tax on income	**67,615**	59,323	**41,582**	16,590	6,950	2,493	**32,920**
Tax on income	**9,915**	11,146	**6,013**	2,556	1,882	(536)	**8,242**
Net profit for the period	**57,700**	48,177	**35,569**	14,034	5,068	3,029	**24,678**
Net profit before inclusion of non-recurring items, net of tax for the period, see section 2.2.3	**60,213**	60,451	**34,809**	14,465	7,910	3,029	**27,207**

	Year			Quarterly Breakdown			
	2019	2018	Q4.2019	Q3.2019	Q2.2019	Q1.2019	Q4.2018
	Audited			**Unaudited**			
Attribution of net income for the period:							
To the Company shareholders	**57,898**	48,539	**35,721**	14,080	5,068	3,029	**24,685**
To holders of non-controlling interests	**(198)**	(362)	**(152)**	(46)			**(7)**
	57,700	48,177	**35,569**	14,034	5,068	3,029	**24,678**
Net profit attributes to the shareholders before non-recurring items, net of tax for the period	**60,411**	60,596	**34,961**	14,511	7,910	3,029	**27,214**
Diluted profit per share attributable to Company shareholders – in USD	**2.26**	1.90	**1.40**	0.55	0.20	0.12	**0.97**
Diluted profit per share before non-recurring items net of tax, attributable to Company shareholders – in USD	**2.36**	2.37	**1.37**	0.57	0.31	0.12	**1.07**

2.2.1 The following is a table for key data in millions of dollars:

	Fourth quarter		Year	
	2019	**2018**	**2019**	**2018**
Sales	**504.8**	454.3	**1,690.2**	1,498.4
Operating Profit before non-recurrent items	**51.2**	42.1	**106.0**	98.0
Operating Profit	**52.2**	38.4	**103.7**	80.7
EBITDA	**76.1**	50.2	**195.6**	129.8
Net profit before non-recurring items net of tax	**34.8**	27.2	**60.2**	60.5
Net profit before non-recurring items net of tax attributed to Company shareholders	**35.0**	27.2	**60.4**	60.6
Net profit attributed to company shareholders	**35.7**	24.7	**57.9**	48.5
Cash flow from current activity	**112.2**	56.5	**155.0**	22.4

EBITDA Calculation[(1)] in $ millions:

	Fourth quarter		Year	
	2019	**2018**	**2019**	**2018**
Net earnings for the period - as reported	**35.6**	24.7	**57.7**	48.2
Taxes on income	**6.0**	8.2	**9.9**	11.1
Net financing expenses	**10.6**	5.4	**36.1**	21.4
Non-recurring items:				
Bogart acquisition expenses	-	-	**3.3**	-
Eminence acquisition expenses	-	-	-	4.3
Adjustment of inventory and order backlog due to acquisition of Eminence	-	3.8	-	7.6
Restructuring expenses	**(1.0)**	-	**(1.0)**	5.4
Depreciation and amortization	**25.0**	8.1	**89.7**	31.8
EBITDA	**76.1**	50.2	**195.6**	129.8

(1) EBITDA is a benchmark which is not in accordance with GAAP, used by the Company to measure its results from continued operations; and to the best of the Company's knowledge this is a benchmark commonly used by other companies in the Company's operating sectors.

EBITDA is calculated as follows: net income plus taxes on income, net financing expenses, depreciation and amortization, and neutralizing of non-recurring items.

2.2.2 The following is a table for key data presenting the effect of IFRS16 in millions of dollars*:

	Fourth quarter ending on December 31st		Year ending on December 31st	
	Without the effects of IFRS16	As reported	Without the effects of IFRS16	As reported
Operating Profit	**49.9**	**52.2**	**95.6**	**103.7**
Operating Profit before non-recurrent items	**48.9**	**51.2**	**97.9**	**106.0**
EBITDA	**60.8**	**76.1**	**137.7**	**195.6**
Financing expenses	**8.5**	**10.6**	**27.5**	**36.1**
Net profit	**35.4**	**35.6**	**58.0**	**57.7**
Net profit before non-recurring items	**34.5**	**35.0**	**60.5**	**60.4**
Cash flow from current activity	**96.8**	**112.2**	**97.1**	**155.0**

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

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

	Fourth quarter		Year	
	2019	2018	2019	2018
Net earnings for the period - as reported	**35.6**	24.7	**57.7**	48.2
Plus:				
Bogart acquisition expenses	-	-	**3.3**	-
Eminence acquisition expenses	-	-	-	4.3
Adjustment of inventory and order backlog due to acquisition of Eminence	-	3.8	-	7.6
Restructuring expenses (income)	**(1.0)**	-	**(1.0)**	5.4
Minus tax effect due to non-recurring items	**0.2**	(1.2)	**0.2**	(5.1)
Net profit for the period before non-recurring items net of tax	**34.8**	27.2	**60.2**	60.5

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

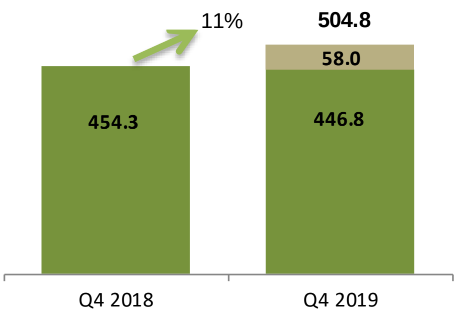
2.3 **<u>Analysis of Operating Results (as Shown in Table 2.2.1 Above)</u>**

2.3.1 Sales

The Group's sales for the Q4 2019 and for 2019 increased by approximately 11% and 13%, respectively, compared to the corresponding reporting periods last year.

The graph below presents the change in the Company's sales during the reporting period compared to the corresponding reporting periods, while distinguishing between the contribution of Bogart sales that was consolidated as of the third quarter of 2019, the and Eminence sales that were consolidated as of the third quarter of 2018 and the organic increase in the Company's sales, in millions of dollars:

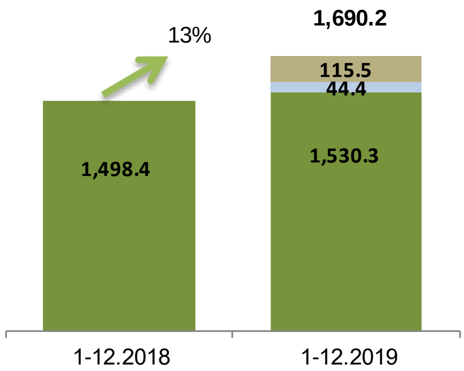
Fourth quarter



% of change net of Bogart -2%

% of change in original currency net of Bogart -2%

Year



% of change net of Bogart and in the first half net of Eminence 2%

% of change in original currency net of Bogart and in the first half net of Eminence 3%

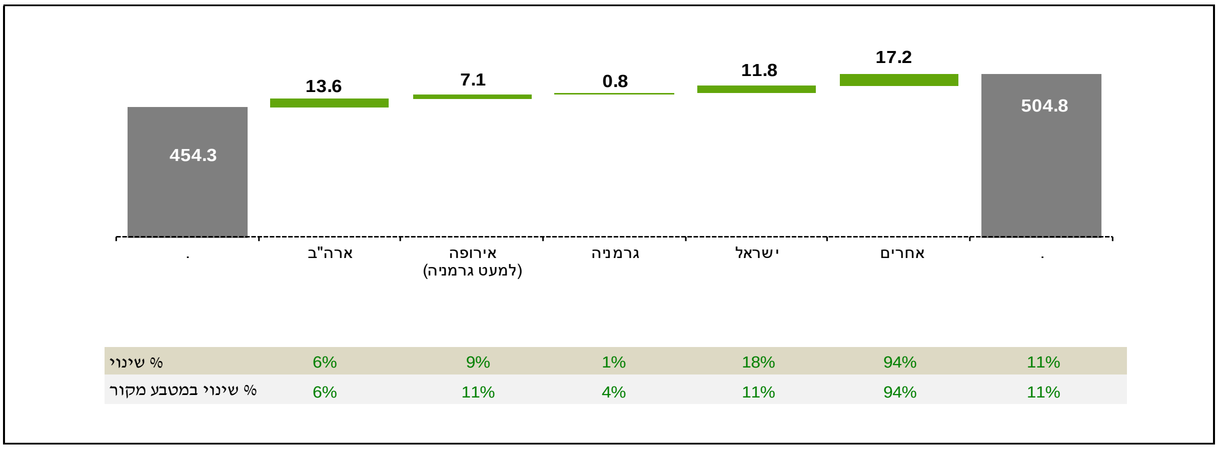
2.3.2 The following is the distribution of Company sales by geograpy, in millions of dollars*:

	Fourth Quarter						Year					
	% of change in original currency	% of change	2019	% of total	2018	% of total	% of change in original currency	% of change	2019	% of total	2018	% of total
USA	*6*	*6*	**251.0**	*50*	237.4	*52*	*7*	*7*	**846.1**	*50*	794.3	*53*
Europe (excluding Germany)	*11*	*9*	**84.7**	*17*	77.6	*17*	*27*	*24*	**312.1**	*18*	251.8	*17*
Germany	*4*	*1*	**56.7**	*11*	55.9	*12*	*7*	*2*	**198.2**	*12*	194.4	*13*
Israel	*11*	*19*	**76.7**	*15*	64.9	*14*	*10*	*11*	**215.7**	*13*	194.2	*13*
Others	*94*	*94*	**35.6**	*7*	18.4	*4*	*85*	*85*	**118.1**	*7*	63.7	*4*
Total	*11*	*11*	**504.8**	*100%*	454.3	*100%*	*14*	*13*	**1,690.2**	*100%*	1,498.4	*100%*

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

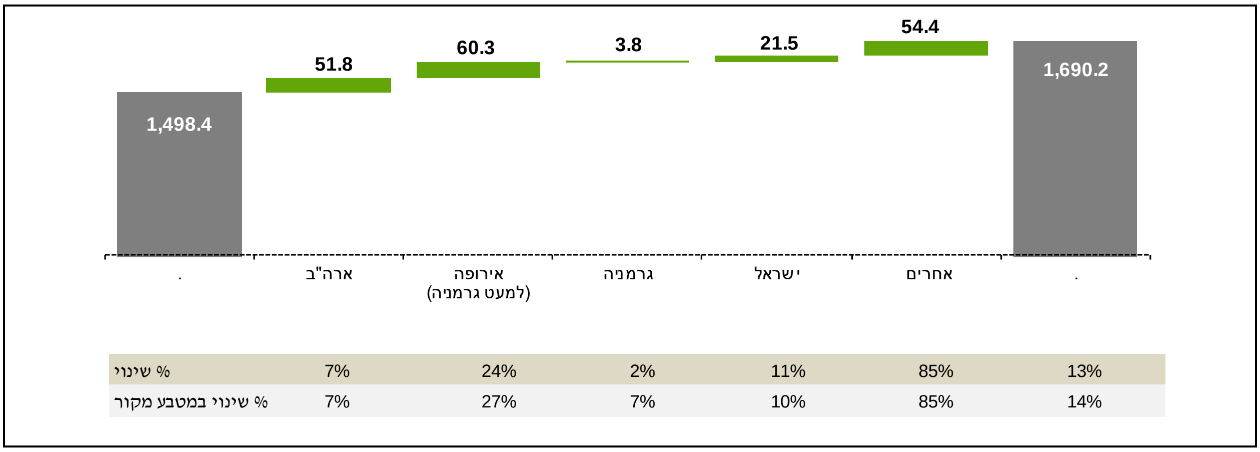
The figures in the graph below show the change in the Company's sales in the various geographic regions in the fourth quarter and in 2019 compared to corresponding reporting periods last year.

Fourth Quarter



	USA	Europe (*) (Excluding Germany)	Germany	Israel	Others	
% of change	6%	9%	1%	18%	94%	11%
% in original currency	6%	11%	4%	11%	94%	11%

Year



	USA	Europe (Excluding Germany)	Germany	Israel	Others	
% of change	7%	24%	2%	11%	85%	13%
% in original currency	7%	27%	7%	10%	85%	14%

USA

The increase in sales in the US in 2019 compared to 2018, resulted from the consolidation of Bogart and from an increase in sales in the Global Upper Market operating segment, without Bogart, which was partially offset by a decrease in Delta USA sales, see section 2.3.5 below.

In the fourth quarter of 2019, the increase in sales in the US was due to the consolidation of Bogart, which was partially offset by a decrease in sales in the activity of the Global Upper Market and Delta USA.

Europe (excluding Germany)

The increase in sales in Europe (excluding Germany) in the fourth quarter of 2019 compared to the corresponding quarter last year, is due mainly to the consolidation of Bogart. Net of Bogart sales, sales in Europe increased by 2% compared to the corresponding quarter last year.

The increase in sales in Europe (excluding Germany) in 2019 compared to 2018 was due to the consolidation of Bogart and the consolidation of Eminence sales over the entire period, compared to a period of only 6 months in 2018. Net of Bogart sales and Eminence sales in the first half of 2019 due to the above, sales increased by approximately 1.5%.

Germany

The increase in sales in Germany in the original currency during the report period of 2019 compared with the corresponding report periods last year was due to an increase in Schiesser sales and in sales of the Delta Premium Brands operating segment.

Israel

The increase in sales in Israel in the reporting periods of 2019 compared to the corresponding reporting periods last year was due mainly to the increase in same store sales, an increase in the sales of the Fix brand and due to an increase in online sales, see section 2.3.5 below.

Others

The increase in sales in other areas during the reporting periods of 2019 was mainly due to consolidation of Bogart and the increase in sales in the Global Upper Market operating segment, excluding Bogart.

2.3.3 Analysis of Operating Results (in thousands of dollars):

		Fourth Quarter		Explanation of key changes
		2019	2018	
	% increase	**Audited**		
Gross profit	*8%*	**187,296**	173,899	The increase in the gross profit in Q4 of 2019 compared to the corresponding quarter last year stemmed from an increase in sales and due to the consolidation of Bogart. Erosion in the gross profit rate from sales in Q4 of 2019 compared to the corresponding quarter last year stemmed in part from the consolidation of Bogart whose activity is characterized by a gross profit rate acceptable to a manufacturer of private label but is relatively low compared to the average gross profit rate at Delta. Furthermore, the decline in the gross profit rate stemmed from the change in the sales mix.
% of sales		*37.1%*	*38.3%*	
Selling and marketing expenses	*3%*	**117,196**	114,093	The increase in expenses in the Q4 of 2019 compared to the corresponding quarter last year is due mainly to the consolidation of Bogart results.
% of sales		23.2%	25.1%	The decrease in the percentage selling and marketing expenses from sales in 2019 was mainly due to the consolidation of Bogart that is characterized by selling and marketing expenses relatively lower than the Delta average.
Administrative and general expenses	*9%*	**20,163**	18,456	The increase in expenses in Q4 of 2019 was mainly due to the consolidation of the Bogart results.
Other expenses (income), net		**(972)**	(684)	Other income in Q4 of 2019 included mainly compensation for the end of a licensing agreement in the amount of $1.0 million versusprofits from the revaluation of hedging transactions in the corresponding quarter last year.
Share in the profits of a held company treated according to the book value method		**316**	110	
Profit from transactions before non-recurring items	*22%*	**51,225**	42,144	The increase in the operating profit in Q4 of 2019 compared to the corresponding quarter last year was due mainly to the increase in the gross profit as explained above, which was offset in part by the increase in the selling, marketing, administrative and general expenses. In addition, the increase in the operating profit in Q4 of 2019 was due to the effect of IFRS16 in the amount of $2.3 million, not included in the corresponding quarter last year.

		Fourth Quarter		Explanation of key changes
		2019	**2018**	
	% increase	**Audited**		
Non-recurring items		**(987)**	3,776	See detailing in section 2.3.3.2
Operating profit		**52,212**	**38,368**	
Financing expenses, net	*95%*	**10,630**	5,448	See detailing in section 2.3.3.3
Profit before tax		**41,582**	32,920	
Tax on income		**6,013**	8,242	The decrease in tax expenditure and the effective tax rate in Q4 of 2019 compared to the corresponding quarter last year, stemmed from a changed in the profit for tax mix between the different countries.
Net profit for the period		**35,569**	24,678	
Net profit before non-recurring items, net of tax	*28%*	**34,809**	27,207	The increase in the net profit before non-recurring items in Q4 of 2019, was due to an increase in the operational profit, which was offset by an increase in financing expenses.
Gross profit	*7%*	**604,159**	566,440	The increase in the gross profit in 2019 stemmed from an increase in sales and due to the consolidation of Bogart results as well s the consolidation of Eminence results for a full year versus 6 month consolidation in 2018. Erosion in the percentage gross profit rate from sales in 2019 compared to 2018 stemmed from the consolidation of Bogart whose activity is characterized by a gross profit rate that is acceptable to a manufacturer of private label but that is relatively low compared to the average gross profit rate at Delta. Furthermore, the decline in the gross profit rate stemmed from the change in the sales mix and the erosion in the euro to dollar exchange rate.
% of sales		*35.7%*	*37.8%*	
Selling and marketing expenses	*6%*	**429,705**	406,132	The increase in expenses stemmed from the consolidation of Bogart for the first time and of Eminence that was consolidated over the entire period this year, compared to 6 months only last year.
% of sales		*25.4%*	*27.1%*	The decrease in the selling and marketing expenses from sales in 2019 was mainly due to the consolidation of Bogart that is characterized by selling and marketing expenses relatively lower than the Delta average.
Administrative and general expenses	*12%*	**73,177**	65,163	The increase in administrative and general expenses stemmed from the consolidation of Bogart and of Eminence that was consolidated over the entire period this year, compared to 6 months only last

		Fourth Quarter		Explanation of key changes
		2019	2018	
	% increase	**Audited**		
				year.
Other expenses (income), net		**(3,739)**	(2,468)	Other income in 2019 included compensation for the termination of a license agreement in the amount of $3.0 million and profits from the revaluation of currency transactions for $0.7 million. Other income last year included compensation for the termination of a license agreement in the amount of $1.0 million and profits from the revaluation of currency transactions for $1.5 million.
Share in the profits of a held company treated according to the book value method		**950**	392	
Operating profit before non-recurring items	*8%*	**105,966**	98,005	The increase in the operating profit before non-recurring items was due to the increase in the gross profit, which was offset in part by the increase in the selling, marketing, administrative and general expenses, as stated above. The increase in the operating profit before non-recurring items was also due to the effect of IFRS16 for $8.1 million, not included in the corresponding quarter last year.
Non-recurring items, net		**2,286**	17,330	See detailing in section 2.3.3.2
Operating profit		**103,680**	80,675	
Financing expenses, net	*69%*	**36,065**	21,352	See detailing in section 2.3.3.3
Profit before tax		**67,615**	59,323	
Tax on income		**9,915**	11,146	The decrease in tax expenditure and the effective tax rate, stemmed from a changed in the profit for tax mix between the different countries in 2019, compared to 2018.
Net profit per period		**57,700**	48,177	
Net profit before non-recurring items, net of tax	*(0%)*	**60,213**	60,451	

2.3.3.1 Analysis of Selling and Marketing Expenses by Operating Segment

The following is a table showing the distribution of selling and marketing expenses between Delta Israel, Delta European Brands and Delta Premium Brands Operating Segments, compared to other Group Operating Segments, in millions of dollars (some of the data in the table were rounded up):

	Fourth Quarter		Year	
	2019	**2018**	**2019**	**2018**
Delta Israel	**28.6**	25.8	**90.8**	86.9
% of total Delta Israel sales	**37.7%**	39.7%	**42.3%**	44.7%
Delta European Brands	**29.2**	32.3	**115.2**	111.0
% of total Delta European Brands sales	**33.8%**	37.1%	**37.3%**	40.6%
Delta Premium Brands	**35.2**	33.5	**131.5**	122.5
% of total Delta Premium Brands sales	**42.2%**	38.9%	**47.9%**	43.5%
Other operating segments	**24.2**	22.5	**92.2**	85.7
% of total sales of other areas of activity	**9.3%**	10.4%	**10.3%**	11.4%
Total selling and marketing expenses	**117.2**	114.1	**429.7**	406.1
% of selling and marketing expenses out of total sales	**23.2%**	25.1%	**25.4%**	27.1%

The decrease in the percentage of selling and marketing expenses out of the total sales in the Delta Israel Operating Segment in the reporting periods of 2019 is mainly due to an increase in same store sales..

In the Delta European Brands operating segment, selling and marketing expenses increased in 2019 compared to the corresponding report period last year due to the consolidation of Eminence, which was consolidated over 6 months only in 2018. The decrease in expenses in the operating segment in the fourth quarter of the year was mainly due to a decrease in advertising expenses due to an erosion in the euro – dollar exchange rate by about 3% compared to the average rate in the corresponding quarter last year.

The increase in the percentage sales and marketing expenses out of the total sales of the Delta Premium Brands Operating Segment during the 2019 reporting periods was mainly due to a decrease in US sales, see section 2.3.5 below, and an increase in expenses due to the expansion of the retail chain in the US.

The increase in expenses in other operating segments during the reporting periods of 2019 compared with the reporting periods of 2018 was mainly due to the consolidation of Bogart. The decrease in the percentage of sales and marketing expenses out of total sales in other operating segments in the 2019 reporting periods was due to the consolidation of Bogart, which is characterized by selling and marketing expenses relatively lower that the average expense rate in other operating segments.

2.3.3.2 Non-Recurring Items

The following are details of non-recurring items in 2019 and 2018 *:

Nature of Expense	Fourth Quarter		Year	
	2019	2018	2019	2018
	$ Millions		$ Millions	
Restructuring expenses/ (cancelation of expense	**(1.0)**	-	**(1.0)**	5.4
Adjustment of inventory and order backlog due to the acquisition of Eminence	-	3.8	-	7.6
Eminence acquisition expenses	-	-	-	4.3
Bogart acquisition expenses	-	-	**3.3**	-
Total non-recurring items, net	**(1.0)**	3.8	**2.3**	17.3

* Some of the data in the table were rounded up.

2.3.3.3 Financing Expenses, Net

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

	Fourth Quarter		Year	
	2019	2018	2019	2018
Interest and commission expenses, net	**6.7**	5.6	**23.3**	18.9
Exchange rate expenses (income)	**0.7**	(0.6)	**0.7**	(0.6)
Capitalization component of assets and liabilities	**1.3**	0.5	**3.7**	3.1
Effect of IFRS16	**2.1**	-	**8.5**	-
Total financing expenses	**10.7**	5.4	**36.1**	21.4

The increase in financing expenses in the fourth quarter and in 2019 compared to the corresponding reporting periods last year was mainly due to the inclusion of the capitalization component due to the effect of the implementation of standard IFRS16 in the amount of $2.1 million and $8.5 million, respectively, and due to the increase in interest expenses due to the increase in loans used for the acquisition of Eminence and Bogart.

2.3.4 The following is a summary of the Company's consolidated business results, divided into the five accounting segments in its financial statements for Q4 of 2019 and for 2019 and 2018, in thousands of dollars:

Fourth Quarter ending on December 31st								
Audited								
	Sales				Operating profit (loss) before non-recurring items		Non-recurring items	
	2019	2018	% change	% change in original currency	2019	2018	2019	2018
Delta USA	**128,630**	139,019	*(7%)*	*(7%)*	**10,614**	12,600		
% of sales					*8%*	*9%*		
Global Upper Market	**140,837**	85,909	*64%*	*64%*	**11,153**	5,595	**(187)**	
% of sales					*13%*	*7%*		
Delta European Brands	**86,144**	86,976	*(1%)*	*2%*	**11,262**	9,559		3,776
% of sales					*13%*	*11%*		
Delta Premium Brands	**83,427**	86,181	*(3%)*	*(3%)*	**8,924**	8,511		
% of sales					*11%*	*10%*		
Delta Israel	**75,981**	64,933	*17%*	*10%*	**10,833**	7,520		
% of sales					*14%*	*12%*		
Cancellation of Inter-segment sales	**(10,255)**	(8,754)						
Other adjustments					**(1,561)**	(1,642)	**(800)**	
Total from sales and operating profit before non-recurring items	**504,764**	454,264	11%	11%	**51,225**	42,144	**(987)**	3,776
Non-recurring items:								
Restructuring income					**(987)**			
Adjustments due to inventory and order backlog due to the acquisition of Eminence						3,776		
Total operating profit					**52,212**	38,368		

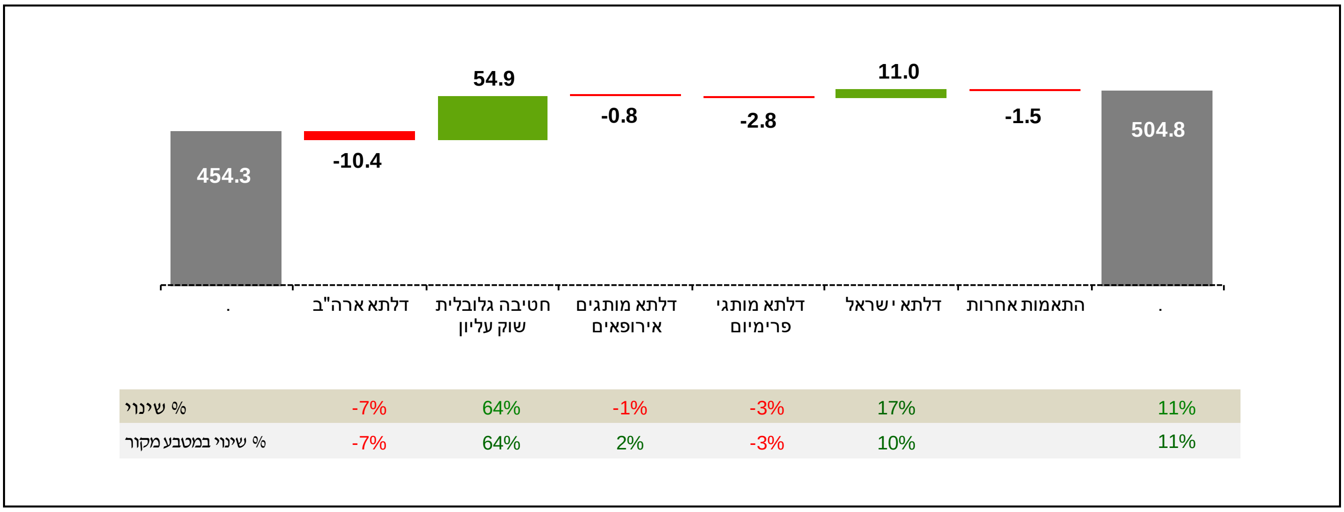
* Some of the data in the table above were rounded.

Fourth Quarter ending on December 31st								
Audited								
	Sales				Operating profit (loss) before non-recurring items		Non-recurring items	
	2019	2018	% of change	% of change in original currency	2019	2018	2019	2018
Delta USA	**461,608**	469,321	*(2%)*	*(2%)*	**23,166**	32,988		(144)
% of sales					*5%*	*7%*		
Global Upper Market	**460,683**	308,365	*49%*	*49%*	**40,333**	21,023	**3,086**	4,563
% of sales					*9%*	*7%*		
Delta European Brands	**308,526**	273,253	*13%*	*19%*	**25,683**	21,073		11,908
% of sales					*8%*	*8%*		
Delta Premium Brands	**274,648**	281,931	*(3%)*	*(1%)*	**5,405**	16,952		(297)
% of sales					*2%*	*6%*		
Delta Israel	**214,836**	194,198	*11%*	*9%*	**15,922**	10,962		
% of sales					*7%*	*6%*		
Cancellation of Inter-segment sales	**(30,137)**	(28,647)						
Other adjustments					**(4,543)**	(4,993)	**(800)**	1,300
Total from sales and operating profit before non-recurring items	**1,690,164**	1,498,421	13%	14%	**105,966**	98,005	**2,286**	17,330
Non-recurring items:								
Restructuring expenses (income)					**987**	5,422		
Adjustment of inventory and order backlog due to the acquisition of Eminence						7,625		
Bogart acquisition expenses					**3,273**			
Eminence acquisition expenses						4,283		
Total operating profit					**103,680**	80,675		

2.3.5 **<u>Analysis of Business Results by Operating Segment</u>**

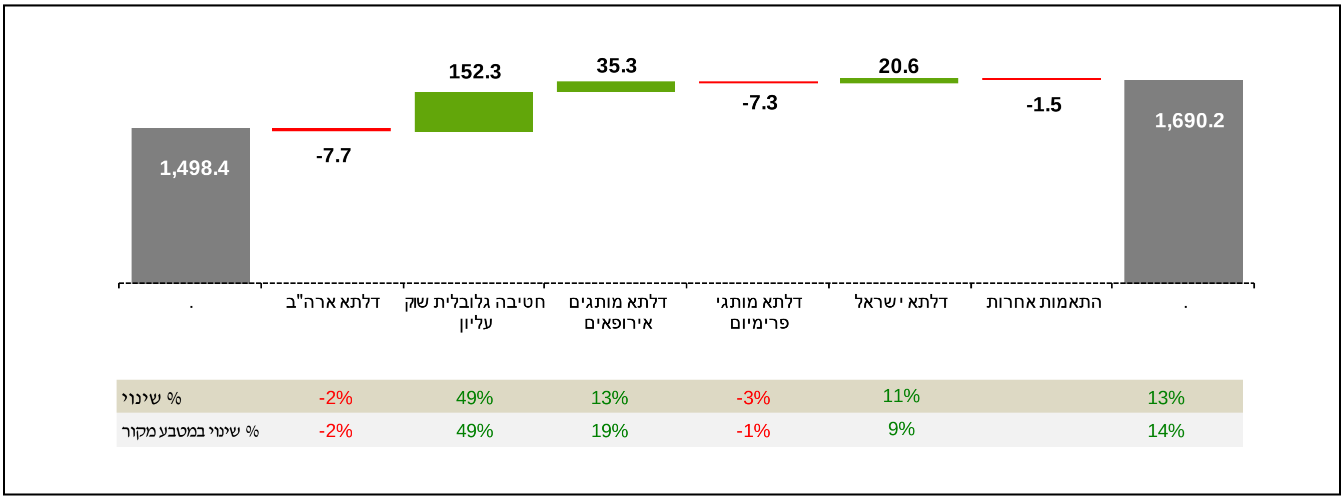
The following table presents the change in sales in Q4 2019 and in 2019 compared to the corresponding periods last year, according to the various areas of activity, in USD millions:

<u>Fourth Quarter</u>



	Delta USA	Global Upper Market	Delta European Brands	Delta Premium Brands	Delta Israel	Other Adjustments	
% of change	-7%	64%	-1%	-3%	17%		11%
% in original currency	-7%	64%	2%	-3%	10%		11%

<u>Year</u>



	Delta USA	Global Upper Market	Delta European Brands	Delta Premium Brands	Delta Israel	Other Adjustments	
% of change	-2%	49%	13%	-3%	11%		13%
% in original currency	-2%	49%	19%	-1%	9%		14%

Delta USA Operating Segment

The decrease in sales in Q4 2019 and in 2019 compared to the corresponding periods last year was due mainly to a decrease in sales of intimate apparel and activewear to a major client of this operating segment.

The decrease in the operating profit in the reporting periods of 2019 compared to the corresponding periods last year, was due mainly to a decrease in sales, and an erosion in gross profit due to a change in product mix and sales of old stocks at a relatively low profit rate. In addition, operating income during the reporting periods was lower due to an increase in sales and marketing expenses, mainly due to an increase in transport and storage costs, due to delays in supplies and a relatively high inventory level.

Global Upper Market Operating Segment

As of the third quarter of 2019, the results of this operating segment include the results of Bogart's activity, whose acquisition was completed on July 2, 2019, see section 1.3.5 above.

The increase in the Operating Segment's sales in Q4 2019 r and in 2019 compared to the corresponding reporting periods last year was mainly due to the aforementioned consolidation of Bogart, whose sales in the 2019 reporting periods totaled $58.2 and $115.7 million, respectively.

The Operating Segment's sales net of Bogart decreased by 4% in Q4 r of 2019 compared to the corresponding quarter last year.

Net of Bogart sales, sales in the operating segment in 2019 increased by about 12% compared to 2018.

The increase in operating profit in the fourth quarter compared to the corresponding reporting period last year was mainly due to the consolidation of Bogart and the improvement in the efficiency and output of the factories.

The increase in operating profit in 2019 compared to 2018 was due to the same reasons and the increase in sales as mentioned above.

Delta European Brands Operating Segment

The decrease in sales in Q4 2019 was due to the weakening of the euro by about 3% compared to the average exchange rate in the corresponding quarter last year. In euro terms, sales in the quarter rose by about 2%, compared with the corresponding quarter last year.

The increase in sales in the operating segment in 2019 compared with 2018 was due to the consolidation of Eminence over a full year compared to a period of 6 months in which its results were consolidated last year. Net of the difference of the Eminence consolidation period, sales of the operating segment increased by 1.5% in euro terms due to an increase in sales of Schiesser products and products under license.

The increase in operating profit in 2019 compared to 2018 was mainly due to the difference in the consolidation period of the Eminence results as explained above, as well as the increase in sales and the reduction of sales and marketing expenses.

Below are same store sales data in the operating segment excluding Eminence, whose sales do not relate to full and continuous reporting periods:

	Growth Rate in Sales at Same Stores	Year ending on December 31st In thousand euro 2019	2018	Growth Rate in Sales at Same Stores	Year ending on December 31st In thousand euro 2018	2017
Sales (1) (2)	(0.3%)	68,154	68,338	1.3%	69,684	68,790
Number of stores (3)		105			95	

1) Same Stores Sales data also include online sales.

2) The sales data used for the calculation include the total means of payment received at the stores, less VAT and all discounts and offers recorded in the cash registers.

3) The stores that were used to calculate the sales are stores that operated continuously and regularly during said years andno change occurred in their size or in the nature of their activity. The website operated by the Company is included in the number of stores.

The decrease in same store sales in the Delta European Brands operating segment (0.3%) as noted above, is better than the overall figure relating to sales of apparel products in the German market *, which was minus 2%.

* According to data from Textile wirtschaft - weekly news, Business & Fashion magazine.

Delta Premium Brands Operating Segment

The decrease in sales in the reporting periods of 2019 compared to the corresponding reporting periods last year was mainly due to a decrease in wholesale sales of the Splendid brand in the US, which was partially offset by an increase in sales under the Seven For All Mankind brand in the US and Europe.

The decrease in the operating profit in 2019 compared to 2018 was due to a decrease in the gross profit due to a decrease in sales, as stated above, and an increase in sales and marketing expenses due to the expansion of the retail chain in the US, an increase in advertising expenses and due to expenses related to the transfer of the supporting functions from the Company offices in Los Angeles to New York and New Jersey

Below are sales data in same stores in the operating segment:

	Growth Rate in Sales at Same Stores	Year ending on December 31st In thousand dollars 2019	2018	Growth Rate in Sales at Same Stores	Year ending on December 31st In thousand dollars 2018	2017
Sales (1) (2)	0.6%	129,963	129,194	3.2%	127,265	123,268
Number of stores (3)		97			90	

1) Same Stores Sales data also include online sales. Online sales figures in 2016 are calculated on a pro-forma basis retroactively since the beginning of the year.

2) The sales data used for the calculation include the total means of payment received at the stores, less all discounts and offers recorded in the cash registers.

3) The stores that were used to calculate the sales are stores that operated continuously and regularly during said years and no change occurred in their size or in the nature of their activity. The websites operated by the Company are included in the number of stores.

Delta Israel Operating Segment

Sales in NIS in the fourth quarter of 2019 increased by 10% and totaled NIS 265.0 million, compared with NIS 240.7 million in the corresponding quarter last year.

Sales in NIS in 2019 increased by 9% and amounted to NIS 763.1 million compared to NIS 700.6 million last year.

The increase in Delta Israel's sales in NIS in the reporting periods of 2019 compared to the corresponding reporting periods last year was due mainly to an increase in same stores sales, in Delta and Fix retail stores, which was a result of improvement in the product collections and an increase in online sales.

The increase in the operating profit in the reporting periods of 2019 compared with the corresponding reporting periods last year was mainly due to an increase in the gross profit due to an increase in sales.

Below are same store sales data in the operating segment:

	Growth Rate in Sales at Same Stores	Year ending on December 31st (In thousand NIS) 2019	2018	Growth Rate in Sales at Same Stores	Year ending on December 31st (In thousand NIS) 2018	2017
Sales (1) (2)	7.9%	582,316	539,490	16.8%	509,940	436,421
Number of stores (3)		169			158	

1) Same Stores Sales data in "Delta" and "Fix" chains also include online sales.

2) The sales data used for the calculation include the total means of payment received at the stores, less VAT and all discounts and offers recorded in the cash registers.

3) The stores that were used to calculate the sales are stores that operated continuously and regularly during said years and no change occurred in their size or in the nature of their activity. The website operated by the Company is included in the number of stores.

The increase in same store sales, in the Delta Israel operating segment as noted above, is on an opposite trend to the same store sales in the Israeli market during the reporting periods (2019 vs. 2018 and 2018 vs. 2017), which was negative at (2.8%) and (2.7%), respectively, as published by RIS.[2]

2.4 **Company's Guidance Regarding 2020 Business Results**

For details regarding the Company's 2020 Guidance see Section 37.1 of the Description of Corporate Business, Chapter A of this periodic report.

3. **Liquidity and Financing Sources**

Condensed cash flow statements, in millions of dollars*:

	Fourth Quarter Ending on December 31st		Year Ending on December 31st	
	2019	**2018**	**2019**	**2018**
Net cash generated from operating activities	**112.2**	56.5	**155.0**	22.4
Net cash used in investment activities, without the acquisition of Eminence and the grant of a loan	**(9.7)**	(11.5)	**(26.0)**	(45.4)
Net cash used in the acquisition of Eminence net of cash in the purchased activity's funds	**(0.0)**	(1.0)	**(0.4)**	(136.4)
Net cash used for the grant of a loan and the acquisition of the Bogart Group (see section 1.3.5 above)	**(0.0)**	(13.8)	**(44.5)**	(13.8)
Net cash generated from (used in) financing activity	**(47.2)**	(17.4)	**(47.7)**	107.9
Increase (decrease) in cash and cash equivalents	**55.3**	12.8	**36.4**	(65.3)

* Some of the data in the table above were rounded up

.

[2] RIS engages in the analysis of activity in the retail market in Israel and specializes in providing comparative business information to retail chains and malls.

The Company finances its operations from cash flows from operating activities, bank credit lines and from issuances of debentures.

The improvement in cash flows from operating activities in the fourth quarter and in 2019 compared to corresponding reporting periods last year stems from a relatively high customer balance collection that was due at the end of 2018 and due to the effect of the implementation of IFRS16.

Following are some financial indicators for the fourth quarter of 2019 and the years 2019, 2018 and 2017:

	2019	2018	2017
Current Ratio *	**1.71**	1.70	2.25
Quick Ratio *	**0.90**	0.87	1.21
Customer Credit Days (on a quarterly basis) **	**38**	44	36
Supplier Credit Days (on a quarterly basis)	**41**	45	45
Inventory Days (on a quarterly basis) **	**93**	99	107
Operating cash flow (in millions of dollars) – fourth quarter	**112.2**	56.5	55.0
Operating cash flow (in millions of dollars) – year	**155.0**	22.4	74.7
EBITDA (in millions of dollars) – fourth quarter	**76.1**	50.2	40.0
EBITDA (in millions of dollars) – year	**195.6**	129.8	115.9
Net financial debt (millions of dollars) ***	**334.5**	326.7	125.6
Net financial debt coverage ratio to standardized EBITDA (on the basis of the last 12 months) ****	**2.5**	2.4	1.1
Equity/balance sheet total *	***31.9%***	*38.8%*	*44.2%*
Equity (in millions of dollars)	**506.9**	467.9	451.3
Net financial debt to CAP *****	***33.5%***	*36.5%*	*17.4%*

Financial debt ratio to EBITDA and financial debt ratio to CAP are calculated without the effect of IFRS16 as the changes following the adoption of the standard do not affect the Company's debt repayment ability.

* The decrease in current ratio, quick ratio and equity/ total balance ratio in 2019 compared to corresponding reporting periods is mainly due to the implementation of the provisions of standard IFRS16.

** The decrease in the customer credit and inventory in 2019 compared to the corresponding periods is due in part to the consolidation of Bogart which is characterized by receivable and inventory days shorter than customary in Delta.

*** Net financial debt includes loans from banks, debentures and interest payable less cash and cash equivalents, and the value of the financial derivative relating to the debentures issued, as detailed in the table below.

**** For the aforementioned ratio, the positive effect on EBITDA resulting from the implementation of IFRS16 has been neutralized, see Table 2.2.2 above. Also, in light of Bogart's acquisition on July 2, 2019, the ratio is calculated on a pro forma basis when Bogart's EBITDA is included in the 6 months preceding July 2019.

***** CAP as defined in the deeds of trust for the Debentures – financial debt, plus equity in the balance sheet (including minority rights) plus long-term deferred taxes.

The definition of net financial debt as stated in the deeds of trust of the Company's debentures series includes, *inter alia*, liabilities in respect of operating leases and/or financing leases.

In light of the implementation of IFRS16, the Company included in its financial statements as of December 31, 2019, rent liabilities for a total amount of approximately $226.3 million, as well as assets for use rights of approximately $ 207.6 million, see Note 2 to the financial statements.

The Company does not consider the aforementioned liabilities in respect of lease, a financial debt (see table below).

For the sake of caution and in light of the definition of the term "financial debt" in the deeds of trust, the Company clarifies that even considering these liabilities, it meets the financial criteria.

The following are the financial indicators given those liabilities – the net financial debt amounts to $560.8 million (compared to $334.5 million as listed in the table), the net financial debt to EBITDA ratio is 2.9 (compared to 2.5 as listed in the table) and the net financial debt to CAP ratio is 46.1% (compared to 33.5% as listed in the table).

It should be emphasized that the deed of trust of the Series F debentures allows the Company to discount changes in accounting standards compared to those in effect at the time of issue of the series, in order to calculate compliance with the criteria set in the deed.

Below is a table detailing the net financial debt structure, in millions of dollars *:

	December 31st 2019	December 31st 2018	December 31st 2017
Debentures, bank debt and financial lease	**461.4**	400.7	287.1
Minus cash and cash equivalents and restricted cash	**(108.3)**	(74.0)	(138.9)
Total financial debt before financial derivative	**353.1**	326.7	148.2
Financial derivative	**(18.6)**	-	(22.6)
Total net financial debt	**334.5**	326.7	125.6

* Some of the data in the table above were rounded up.

The total net financial debt as of December 31, 2019 was $334.5 million, compared to $326.7 million as of December 31, 2018, and $125.6 million as of December 31, 2017.

The increase in the net financial debt as of December 31, 2019 compared with December 31, 2018 was mainly due to loans used for the acquisition of Bogart as well as to cash flow used for the investment activity and the payment of dividends to the shareholders, which was partially offset by the cash flow stemming from ongoing operations.

Market Risk Exposure and Management

3.1 The person responsible for market risk management at the Company

The Company's risk management is based on a risk management policy set by the Company's Board of Directors and senior management.

Mr. Isaac Dabah, Company CEO, is the person responsible for market risk management at the Company. For details regarding Mr. Dabah, see details in accordance with Regulation 26 in the Report on Other Details on by the Company, Chapter D of this periodic report.

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

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

3.2 Description of Market Risks

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

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

3.3 Company Policy with Regard to Market Risk Management

Volatility of Exchange Rates of the Euro vs. the USD

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

In 2020, the Company’s receipts surplus in euros is expected to amount to approximately $70 million.

As part of the Company’s preparations for 2019, the Company has executed currency transactions to hedge against devaluation of the euro exchange rate against the dollar, in the amount of $18 million at an average rate of $1.148 per 1 euro.

Volatility of Exchange Rates of the NIS vs. the USD

In 2020, the Company's surplus in receipts in shekels is expected to total approximately$70 million.

As part of the Company’s preparations for 2020, the Company has executed currency transactions to hedge against devaluation of the NIS exchange rate against the dollar, that are open as of the date of this report, in the amount of $34 million at an average rate of NIS 3.463 per $ 1.

3.4 Supervision of Market Risk Management Policy and its Implementation

The Company's Board of Directors discusses the issue of currency exposures in the course of approval of the annual budget.

Aspects of Corporate Governance

4. **Charitable Donations**

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

The total donations the Company (including subsidiaries abroad) has donated to educational and cultural institutions amounted to approximately $575,000 in 2019. The Company has undertaken to give donations amounting to approximately $270,000 for each of the years 2020 – 2021.

5. **Auditing Accountant’s Fee**

The Company’s independent CPA is the Kesselman and Kesselman – PwC Accounting Firm.

The auditing accountant's’ fees for auditing services, auditing-related tax services and others at the Company and the subsidiaries amounted to $1.4 million in 2019 compared to $1.1 million in 2018, detailed as follows:

	2019	2018
	Thousand dollars	
Audit services	957	767
Tax services and others	463	329
Total	1,420	1,096

The increase in fees for audit services in respect of 2019 compared with 2018 was due mainly to the audit of the Bogart Group's reports on the acquisition date and the consolidation of Eminence over an entire year, compared to a period of 6 months last year.

The scope of employment and salary of the Company’s accountant for 2019 was examined by the Financial Statements Examination Committee, which received from Company management details regarding the scope of work and regarding its compatibility with the Company’s needs. The Committee recommended that the Company Board of Directors approve the scope of work and found that the fee is reasonable and acceptable with respect to the Company’s nature and the scope of its activity. The Company Board of Directors approved the recommendation.

6. **Disclosure Regarding the Company Internal Auditor**

Details of Internal Auditor:

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

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

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

To the best of the Company’s knowledge, in accordance with an inquiry it conducted with the Internal Auditor, the Internal Auditor has no material business relationships or other material relationships with the Company or with its affiliated entities. The Internal Auditor is not an employee of the Corporation. The internal audit services are provided by the Auditor, as a personal appointment, via an accounting firm that employs staff with various skills, including internal auditing skills.

Method of Appointment:

The appointment of Mr. Moshe Cohen as Internal Auditor was approved by the Audit Committee and by the Board of Directors in January 2013. The Internal Auditor’s appointment was approved after the Audit Committee checked a number of potential candidates and interviewed some of them. The Audit Committee received an opinion regarding the final candidates who passed the initial screening stage. The Audit Committee was favorably impressed by Mr. Cohen's education and years of experience after a meeting held with him. In addition, the Company management also shared their positive impressions of Mr. Cohen. The Audit Committee found Mr. Cohen fit to serve as the Company's Internal Auditor taking into account the size of the Company, the scope and complexity of its activity, as well as the scope of activity required from the Internal Auditor and his experience.

Identity of the internal auditor's supervisor:

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

Work Plan:

The Internal Auditor's work plan is annual and is approved by the Audit Committee. The annual work plan followed by the Internal Auditor in 2019 was decided, *inter alia*, based on:

- Proposals by members of the Audit Committee and the Company Board of Directors based, *inter alia*, on proposals of the Internal Auditor and recommendations of Company management according to a risk survey conducted in 2016.
- The scope of the Company's activity, its organizational structure and the nature of its business activities.

The annual work plan contains no restrictions on deviating therefrom. The Internal Auditor may propose replacing and/or adding topics, subject to approval by the Audit Committee. The 2019 annual work plan included audits of the Company in Israel and of corporations fully owned by the Company overseas.

Scope of employment:

In 2019, the Internal Auditor spent about 1,045 hours in practice on internal auditing, divided as follows:

	Audit in the Company itself	Audit in subsidiaries
Activity in Israel	45	
Activity outside of Israel		1,000

In addition to the audit work performed by the Internal Auditor, the Company employs an Internal Audit Manager who performs internal auditing works on a regular and full-time basis. In 2019 the Internal Audit Manager performed about 2,000 hours of internal auditing of which about 1,250 hours were for activities in Israel and the balance of about 750 hours was for activity abroad.

Conducting the audit:

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

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

Access to information:

The Internal Auditor was granted free access to the Company's documents and information systems, including its financial data, all provided for the purpose of carrying out his duties, as set forth in section 9 of the Internal Audit Law, 5752 – 1992. In the course of the audits conducted by the Internal Auditor abroad, he was given free access to the subsidiary sites.

Internal Auditor's Report:

Reports of the Internal Auditor were submitted in writing to the Chairman and members of the Audit Committee and to Company management. The Audit Committee convened for 5 meetings in the course of 2019, 3 of which involved internal audit reports: on February 6, 2019, May 1, 2019 and July 15, 2019. The audit reports referring to the above meetings were submitted on: February 3, 2019, April 29, 2019 and July 10, 2019, respectively.

Board of Directors' assessment of the Internal Auditor's activities:

The Board of Directors believes that the Internal Auditor’s actual scope of work in 2019 as set forth above, as well as the nature and continuity of his activity and his work plan are reasonable under the circumstances and achieve the Company’s internal auditing objectives.

Compensation:

In return for his work during the reported period and as agreed with him, the Internal Auditor's fee amounted to a total of approximately 230,000 NIS (~ $65,000).

No securities were granted to the Internal Auditor as part of the terms of his employment.

The Company’s Board of Directors believes that this compensation is reasonable and should not affect the Internal Auditor’s professional judgment.

7. **Directors with Accounting and Financial Capabilities**

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

As of this report, the Board members determined by the Board of Directors to have accounting and financial expertise (who are not Company employees) are Messrs. Shlomo Sharf, Rinat Gazit and Shuki Gold. For further information, see details in accordance with Regulation 26 in the Report on Other Details on by the Company, Chapter D of this periodic report.

8. **Disclosure Regarding the Rate of Independent Directors**

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

Special Disclosure for Debenture Holders

9. **Outstanding Obligatory Notes**

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

Series	E	A	B	F
Issue Date and Scope of Debentures Issued on the Issue Date (in NIS)	192,909,000 NIS par value debentures listed for trade on April 5th 2012 pursuant to the shelf offering report published by the Company on April 4th 2012 by virtue of the Company's shelf prospectus dated November 22nd 2010, as revised in the prospectus revision of April 14th 2011 and as revised in the prospectus revision of April 2nd 2012.	178,543,000 NIS par value debentures listed for trade on August 12th 2013 pursuant to the shelf offering report published by the Company on August 8th 2013 by virtue of the Company's shelf prospectus dated May 27th 2013, as revised in the prospectus revision from August 5th 2013 ("**the Shelf Prospectus**"). 21,457,000 NIS par value debentures listed for trade on October 27th 2013 pursuant to a private offering report. 161,734,000 NIS par value debentures listed for trade on May 15th 2014 pursuant to the shelf offering report published by the Company on May 13th 2014 by virtue of the Company's shelf prospectus. 38,266,000 NIS par value debentures listed for trade on June 2nd 2014 pursuant to the shelf offering report published by the Company on June 1st 2014 by virtue of the Company's shelf prospectus. 245,000,000 NIS par value debentures listed for trade on December 24th 2019 pursuant to the shelf offering report published by the Company on December 22nd 2019 by virtue of the Company's shelf prospectus.	168,423,000 NIS par value debentures listed for trade on September 22nd 2014 pursuant to the shelf offering report published by the Company on September 17th 2014 by virtue of the Company's shelf prospectus. 31,577,000 NIS par value debentures listed for trade on November 20th 2014 pursuant to a private offering report. 159,577,000 NIS par value debentures listed for trade on May 24th 2015 pursuant to a shelf offering report published by the Company on May 21st 2015.	208,877,000 NIS par value debentures listed for trade on March 30th 2017 pursuant to the shelf offering report published by the Company on March 27th 2017 by virtue of the Company's shelf prospectus dated January 18th 2017. 253,470,000 NIS par value debentures listed for trade on March 13th 2019 pursuant to the shelf offering report published by the Company on March 3rd 2019.
Scope of debentures par value as of December 31st 2019 in NIS	48,227,250	502,143,000	359,577,000	384,254,345

Series	E	A	B	F
Start Date of Principal Repayment and the Manner of its Repayment	Starting December 31st 2014, in annual installments on December 31st of each year through December 31st 2021	Starting August 31st 2015, in annual installments on August 31st of each year through August 31st 2028 (inclusive)	In a single payment on October 1st 2014	Starting December 31st 2018, in annual installments on December 31st of each year through December 31st 2026 (inclusive)
Interest accrued as of December 31st 2019	-	~NIS 8.4 million	~NIS 2.1 million	-
Value as included in the December 31st 2019 Financial Statements	~NIS 47.9 million	~NIS 537.6 million	~NIS 356.2 million	~NIS 361.9 million
Market value on stock exchange on December 31st 2019	~NIS 53 million	~NIS 583 million	~NIS 371 million	~ NIS 413 million
Interest type	Fixed – 7.6%	Fixed – 5.0%	Variable – 2.1% above Telbor, 3 months	Fixed – 3.85%
Interest payment dates	Semi-annual installments on June 30th and on December 31st of each of the years from 2012 through 2021, starting December 31st 2012 and ending December 31st 2021	Semi-annual installments on February 28th and on August 31st of each of the years from 2014 through 2028	Semi-annual installments on April 1st and on October 1st of each of the years from 2015 through 2024	Semi-annual installments on June 30th and on December 31st of each of the years from 2019 through 2026, starting December 31st 2017 and ending December 31st 2026
Linkage type	Unlinked	Unlinked	Unlinked	Linked to the USD
Conversion rights	Non-convertible debentures	Non-convertible debentures	Non-convertible debentures	Non-convertible debentures
Right to early redemption or forced conversion	Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall not allow early redemption of debentures due to said de-listing. The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the debentures (Series E) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 7 to Addendum 1 to the deed of trust of the debentures (Series E).	Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall perform early redemption of debentures due to said de-listing. The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the debentures (Series A) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the deed of trust and Section 7 to Addendum 1 to the	Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall perform early redemption of debentures due to said de-listing. The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the debentures (Series B) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the combined wording of the deed of trust with Addendum 2.	Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall perform early redemption of debentures due to said de-listing. The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the debentures (Series F) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the deed of trust of the debentures (Series F).

Series	E	A	B	F
		deed of trust of the debentures (Series A).		
Liability payment guarantee and other securities	Not guaranteed	Not guaranteed	Not guaranteed	Not guaranteed
Rating company	Midroog Ltd.	Midroog Ltd.	Midroog Ltd.	Midroog Ltd.
Rating upon issue of the series	A3 with a positive outlook	A2 with a stable outlook	A1 with a stable outlook	A1 with a stable outlook
Rating as of December 31st 2019 [see report of December 18th 2019 (ref. no. 2019-01-111165)]	A1 with a stable outlook	A1 with a stable outlook	A1 with a stable outlook	A1 with a stable outlook
Additional ratings	a. On March 11th 2019: A1 with a stable outlook b. On March 12th 2018: A1 with a stable outlook c. On March 12th 2017: A1 with a stable outlook d. On July 10th 2016: A1 with a stable outlook e. On March 31st 2016: A1 with a stable outlook f. On May 18th 2015: A1 with a stable outlook g. On September 2nd 2014: A1 with a stable outlook h. On March 30th 2014: A1 with a stable outlook i. On December 24th 2012: A2 with a stable outlook j. On May 7th 2012: A3 with a positive outlook	a. On March 11th 2019: A1 with a stable outlook b. On March 12th 2018: A1 with a stable outlook c. On March 12th 2017: A1 with a stable outlook d. On July 10th 2016: A1 with a stable outlook e. On March 31st 2016: A1 with a stable outlook f. On May 18th 2015: A1 with a stable outlook g. On September 2nd 2014: A1 with a stable outlook h. On March 30th 2014: A1 with a stable outlook	a. On March 11th 2019: A1 with a stable outlook b. On March 12th 2018: A1 with a stable outlook c. On March 12th 2017: A1 with a stable outlook d. On July 10th 2016: A1 with a stable outlook e. On March 31st 2016: A1 with a stable outlook f. On May 18th 2015: A1 with a stable outlook g. On September 2nd 2014: A1 with a stable outlook	a. On March 11th 2019: A1 with a stable outlook b. On March 12th 2018: A1 with a stable outlook c. On March 12th 2017: A1 with a stable outlook
Details and Contact Information of the Trustee	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv (phone no.: 03-5544553 fax: 03-5271736). The contact at the trustee is Mr. Dan Avnon, email: Avnon@hermetic.co.il	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv (phone no.: 03-5544553 fax: 03-5271736). The contact at the trustee is Mr. Dan Avnon, email: Avnon@hermetic.co.il	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv (phone no.: 03-5544553 fax: 03-5271736). The contact at the trustee is Mr. Dan Avnon, email: Avnon@hermetic.co.il	Hermetic Trusteeship (1975) Ltd. 113 Hayarkon St., Tel Aviv (phone no.: 03-5544553 fax: 03-5271736). The contact at the trustee is Mr. Dan Avnon, email: Avnon@hermetic.co.il

Series	E	A	B	F
Materiality (over 5% of the Company's total liabilities)	No	Yes	Yes	Yes

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

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

Signed: February 25th 2020.

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

DELTA GALIL INDUSTRIES LTD.

2019 Annual Report

Delta Galil Industries Ltd.

2019 Financial Report

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Report of the Auditing Accountant

To the Shareholders of

Delta Galil Industries Ltd.

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

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

(Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Delta Galil Industries Ltd. and subsidiaries (hereinafter jointly - "the Company") as at December 31, 2019. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and the assessment of the effectiveness of the components of the internal control over financial reporting included in the accompanying periodic report for the said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting, based on our audit.

The components of internal control over financial reporting that were audited by us were determined in conformity with Auditing Standard 911 (Israel) of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard 911 (Israel)"). These components consist of: (1) Controls on the organizational level, including controls over the preparation and closing of the financial reporting and general controls over the information systems; (2) controls over the purchasing and inventory process; (3) controls over the sales process; (all of these components will hereinafter jointly be called "the audited control components").

As noted in the evaluation of the effectiveness of the Board of Directors and management, this assessment does not refer to the internal control components of the financial reporting of the Bogart Group (hereinafter: "Bogart"), which was acquired on July 2nd 2019 and which is fully controlled by the Company and its assets and revenues included in the consolidation constitute approximately 6.6% and 6.8%, respectively, of total assets and revenues in the consolidated financial statements as of December 31st 2019 and for the year then ended. Accordingly, our audit did not address internal control components over the financial reporting of Bogart.

We conducted our audit in accordance with Auditing Standard 911 (Israel). That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of those audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures that we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole and specifically the components therein, may not prevent or disclose a misleading presentation. Furthermore, drawing conclusions regarding the future on the basis of any present effectiveness is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company has effectively maintained, in all material aspects, the audited control components as at December 31st 2019.

We also audited, in accordance with generally accepted auditing standards in Israel, The Company's consolidated financial statements as at December 31st 2019 and 2018 and for each of the three years in the period ended December 31st 2019, and our report, dated February 25th 2020, included an unqualified report on those financial statements based on our audit and the reports of other auditors.

Tel-Aviv	Kesselman & Kesselman
February 25th 2020	Certified Public Accountants
	A Member Firm of PricewaterhouseCoopers International Limited

Kesselman & Kesselman, The Trade Tower, 25 Ha'Mered Street, Tel-Aviv 68125208, Israel, P.O. Box 50005, Tel-Aviv 6150001
Telephone: +972-3-7954555, Fax: +972-3-7954556, www.pwc.com/il

Auditors' Report

To the Shareholders of

Delta Galil Industries Ltd.

We have audited the accompanying consolidated statements of financial position of Delta Galil Industries Ltd. (hereinafter – the Company) as at December 31, 2019 and 2018 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the three years for the period ended December 31, 2019. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of subsidiaries which have been consolidated, whose assets included in the consolidation comprise 8% and 1.7% of total consolidated assets as at December 31, 2019 and 2018, respectively, and whose revenues included in the consolidation comprise 6.9%, 0% and 0% of total consolidated revenues for the years ended December 31, 2019, 2018 and 2017, respectively. The financial statements of these companies were audited by other auditors, whose reports have been furnished to us, and our opinion, to the extent that it relates to the amounts included for these companies, is based on the reports of the other auditors.

Our audit was made in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and Management as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the said financial statements present fairly, in all material respects, the financial position of the Company and its consolidated companies as at December 31, 2019 and 2018 and the results of their operations, the changes in their equity and their cash flows for each of the three years for the period ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS), and the provisions of the Securities Regulations (Annual Financial Statements) – 2010.

We also audited, in accordance with Auditing Standard 911 (Israel) of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", components of internal control over financial reporting of the Company as at December 31, 2019, and our report dated February 25th 2020, included an unqualified report on the effective existence of those components.

Tel-Aviv	Kesselman & Kesselman
February 25th 2020	Certified Public Accountants
	A Member Firm of PricewaterhouseCoopers International Limited

Delta Galil Industries Ltd.

Consolidated Balance Sheets

	Note	As at December 31	
		2019	**2018**
		US$ thousands	
Assets:			
Current assets:			
Cash and cash equivalents	2M, 19A	**108,294**	70,534
Restricted cash		**933**	3,494
Other receivables:	19B		
Trade receivables		**212,311**	224,019
Income tax receivable		**2,867**	881
Other receivables		**35,200**	26,395
Derivative financial instrument	12	**971**	273
Inventory	19C	**328,108**	309,645
Total current assets		**688,684**	635,241
Non-current assets:			
Investments treated according to the book value method and other long-term receivables	10	**14,367**	29,401
Investment property		**3,228**	3,424
Fixed assets, less accumulated depreciation	7	**213,210**	191,738
Goodwill	8	**148,001**	110,955
Intangible assets, less accumulated amortization	8	**273,318**	221,669
Assets with respect to rights of use	9	**207,651**	-
Deferred tax assets	15E	**19,678**	9,285
Derivative financial assets	12	**19,677**	4,216
Total non-current assets		**899,130**	570,688
Total assets		**1,587,814**	1,205,929

Noam Lautman
Chairman of the Board of Directors

Isaac Dabah
Chief Executive Officer

Asaf Alperovitz
Chief Financial officer

Date of the approval of the financial statements by the Company's Board of Directors: February 25, 2020

The attached notes constitute an integral part of these Financial Statements

Delta Galil Industries Ltd.

Consolidated Balance Sheets

	Note	As at December 31	
		2019	2018
		US$ thousands	
Liabilities and equity			
Current liabilities:			
Short-term credit from banking corporations	19D	**1,868**	79,987
Current maturity of long-term loan from a banking corporation	19E	**10,588**	8,015
Current maturities of debentures	11	**36,803**	19,514
Derivative financial instrument	12	**2,070**	2,935
Current maturities of liabilities in respect of leases	9	**53,401**	-
Payables:			
Trade payables		**140,475**	139,591
Income tax payable		**16,392**	10,481
Other payables	19F	**140,237**	112,326
Total current liabilities		**401,833**	372,849
Non-current liabilities:			
Loan from a banking corporation	19E	**68,337**	70,134
Liabilities in respect of the termination of employee-employer relationships less plan assets		**10,155**	8,886
Liabilities in respect of leases	9	**172,903**	-
Other non-current liabilities	13	**47,899**	35,833
Debentures	11	**340,376**	222,975
Provision for deferred taxes	15E	**39,368**	25,798
Derivative financial instrument	12	**-**	1,603
Total non-current liabilities		**679,038**	365,229
Total liabilities		**1,080,871**	738,078
Equity:	14		
Equity attributed to shareholders in the parent company:			
Share capital		**23,714**	23,714
Share premium		**130,237**	130,667
Other capital reserves		**(7,962)**	(10,503)
Retained earnings		**376,763**	339,922
Treasury shares		**(16,093)**	(16,523)
		506,659	467,277
Non-controlling interests		**284**	574
Total equity		**506,943**	467,851
Total liabilities and equity		**1,587,814**	1,205,929

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

Delta Galil Industries Ltd.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Note	2019	2018	2017
		For the year ended December 31		
		US$ thousands		
Revenues	5C-D	**1,690,164**	1,498,421	1,368,080
Cost of sales	19I	**1,086,005**	939,606	855,268
Gross profit		**604,159**	558,815	512,812
Selling and marketing expenses	19J	**429,705**	406,132	360,506
Administrative and general expenses	19J	**76,450**	69,446	65,393
Other income, net	19L	**3,739**	2,468	50
Share of profits of investee companies that are treated at equity method	10	**950**	392	427
Restructuring expenses	19G	**(987)**	5,422	2,832
Operating profit		**103,680**	80,675	84,558
Financing expenses, net	19M	**36,065**	21,352	18,848
Profit before taxes		**67,615**	59,323	65,710
Taxes on income	15	**9,915**	11,146	16,751
Net profit for the year		**57,700**	48,177	48,959
Other comprehensive income:				
Items that will never be reclassified to profit or loss:				
Re-measurement of liabilities in respect of the termination of employee-employer relationships		**(1,624)**	(349)	(159)
Impact of taxes on income		**451**	68	79
Adjustment of deferred tax balances following a change in the tax rate		**-**	-	(207)
		(1,173)	(281)	(287)
Items that may be reclassified to profit or loss:				
Hedging of cash flows	12	**2,378**	(6,001)	830
Translation differences on financial statements prepared in foreign currency		**710**	(13,711)	23,027
Impact of taxes on income		**(547)**	1,375	(199)
		2,541	(18,377)	23,658
Total comprehensive income for the year		**59,068**	29,599	72,330
Attribution of the net income for the year:				
To shareholders in the parent company		**57,898**	48,539	48,839
To non-controlling interests		**(198)**	(362)	120
Total net income for the year		**57,700**	48,177	48,959
Attribution of the total comprehensive income for the year:				
To shareholders in the parent company		**59,266**	29,921	72,210
To non-controlling interests		**(198)**	(362)	120
Total net income for the year		**59,068**	29,559	72,330
Earnings per share for the shareholders in the parent company (in Dollars)	2V, 16			
Basic		**2.27**	1.91	1.92
Diluted		**2.26**	1.90	1.91

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

Delta Galil Industries Ltd.

Consolidated Statements of Changes in Equity

	Attributed to shareholders in the company										
	Regular share capital										
	Number of shares	Amount	Share premium	Capital reserve on translation differences	Capital reserve on cash flow hedging	Components of the re-measurement of liabilities in respect of the termination of employee-employer relationships	Retained earnings	Treasury shares	Total	Non-controlling interests	Total
	Thousands	US$ thousands									
Balance as at January 1, 2017	26,859	23,696	130,901	(23,491)	7,667	(2,799)	271,016	(17,474)	389,516	1,116	390,632
Movements in 2017											
Comprehensive income (loss)	-	-	-	23,027	631	(287)	48,839	-	72,210	120	72,330
Consideration from the exercise of options	43	12	(110)	-	-	-	-	560	462	-	462
Distribution of a dividend	-	-	-	-	-	-	(14,055)	-	(14,055)	-	(14,055)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(120)	(120)
Benefit component of option and restricted share units granted	-	-	-	-	-	-	2,074	-	2,074	-	2,074
Balance as at December 31, 2018	26,902	23,708	130,791	(464)	8,298	(3,086)	307,874	(16,914)	450,207	1,116	451,323
Balance as at January 1, 2018	26,902	23,708	130,791	(464)	8,298	(3,086)	307,874	(16,914)	450,207	1,116	451,323
Movements in 2018											
Comprehensive income (loss)	-	-	-	(13,711)	(4,626)	(281)	48,539	-	29,921	(362)	29,559
Consideration from the exercise of options	18	6	(124)	-	-	-	-	391	273	-	273
Distribution of a dividend	-	-	-	-	-	-	(14,070)	-	(14,070)	-	(14,070)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(180)	(180)
Benefit component of option and restricted share units granted	-	-	-	-	-	-	946	-	946	-	946
Balance as at December 31, 2018	26,920	23,714	130,667	(14,175)	3,672	(3,367)	343,289	(16,523)	467,277	574	467,851
Balance as at January 1, 2019	26,920	23,714	130,667	(14,175)	3,672	(3,367)	343,289	(16,523)	467,277	574	467,851
Effect of the application for the first time of Lease Accounting Standard (see Note 2X)	-	-	-	-	-	-	(10,000)	-	(10,000)	-	(10,000)
Balance as at January 1, 2019 (restated)	26,920	23,714	130,667	(14,175)	3,672	(3,367)	333,289	(16,523)	457,277	574	457,851
Movements in 2019											
Comprehensive income (loss)	-	-	-	710	1,831	(1,173)	57,898	-	59,266	(198)	59,068
Consideration from the exercise of options	3	-	(430)	-	-	-	-	430	-	-	-
Establishment of subsidiary	-	-	-	-	-	-	-	-	-	254	254
Distribution of a dividend	-	-	-	-	-	-	(11,084)	-	(11,084)	-	(11,084)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(346)	(346)
Benefit component of option and restricted share units granted	-	-	-	-	-	-	1,200	-	1,200	-	1,200
Balance as at December 31, 2019	26,923	23,714	130,237	(13,465)	5,503	(4,540)	381,303	(16,093)	506,659	284	506,943

(Continued) – 1

Delta Galil Industries Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2019	2018	2017
	US$ thousands		
Cash flows from operating activities:			
Net income for the year	**57,700**	48,177	48,959
Reconciliations required to present cash flows generated by operating activities:	**127,228**	(4,730)	47,876
Interest paid in cash	**(22,161)**	(16,798)	(14,144)
Interest received in cash	**440**	398	292
Taxes on income paid in cash, net	**(8,159)**	(4,678)	(8,315)
Net cash generated from operating activities	**155,048**	22,369	74,668
Cash flows from investment activities:			
Purchase of fixed assets and intangible assets	**(30,069)**	(41,854)	(30,754)
Payments under the acquisition of a subsidiary (see Note 6A), less cash in the acquired company	**(26,370)**	-	-
Release (deposit) of restricted cash	**2,561**	(433)	337
Payment of conditional consideration on the purchase of activity	**-**	(2,250)	(1,500)
Granting of long-term loans	**(18,102)**	(13,800)	-
Acquisition of company less cash in the acquired activity (see Note 6B)	**(441)**	(136,341)	-
Consideration from the sale of fixed assets and assets designated for sale	**479**	1,789	28,696
Others	**979**	(2,687)	(1,431)
Net cash used for investment activities	**(70,963)**	(195,576)	(4,652)
Cash flows from financing activities:			
Dividend paid to non-controlling interests in a consolidated company	**(346)**	(180)	(120)
Payment of long-term supplier credit in connection with the purchase of fixed assets	**(3,503)**	(3,649)	(3,308)
Repayment of liabilities in respect of leases	**(57,912)**	-	-
Repayment of the principal of debentures	**(29,748)**	(20,920)	(20,919)
Receipt from a financial institution	**-**	(6,413)	6,413
Dividend paid	**(11,084)**	(14,070)	(14,055)
Receipt of a long-term loan from a banking corporation	**-**	81,480	-
Repayment of loans and other long-term liabilities	**(8,844)**	(2,014)	-
Short-term credit from banking corporations, net	**(82,907)**	73,415	(44,960)
Consideration from the issuance of debentures, net of issuance expenses	**150,137**	-	57,152
Release of a deposit in a banking corporation that served as collateral for a derivative financial instrument	**-**	-	1,545
Repayment of long-term loans in the course of the agreement for the acquisition of the subsidiary	**(3,350)**	-	-
Consideration received on the exercise of options for employees	**-**	273	451
Net cash generated (used) from financing activities	**(47,657)**	107,922	(17,801)
Increase (decrease) in cash and cash equivalents	**36,428**	(65,285)	52,215
Exchange gains (losses) on balances of cash and cash equivalents	**(536)**	(1,651)	3,308
Balance of cash and cash equivalents at the beginning of the period	**70,534**	137,470	81,947
Balance of cash and cash equivalents at the end of the period	**106,426**	70,534	137,470

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

(Continued) – 2

Delta Galil Industries Ltd.

Consolidated Cash Flow Report

	For the year ended December 31		
	2019	2018	2017
		US$ thousands	
Adjustments required to reflect cash flows From current operations:			
Revenues and expenses not involving cash flow:			
Depreciation	**30,631**	26,818	23,918
Amortization	**59,193**	5,498	4,582
Erosion of cash, net	**(219)**	324	(598)
Interest paid in cash	**22,161**	16,798	14,144
Interest received in cash	**(440)**	(398)	(292)
Taxes on income paid in cash, net	**8,159**	4,678	8,315
Deferred taxes on income, net	**58**	(463)	5,112
Interest expenses recognized in respect of lease agreements	**8,474**	-	-
Severance pay liability, net	**(250)**	(121)	381
Restructuring expenses and impairment of intangible assets	**(987)**	2,947	2,832
Capital Loss (gain) from the sale of fixed assets and assets designated for sale, net	**(86)**	99	(4,332)
Benefit component of options and restricted share units granted	**1,200**	946	2,074
Share in losses (profits) of associated companies treated using the equity method	**(950)**	(392)	(427)
Others	**(468)**	2,629	1,313
	126,476	59,363	57,022
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	**31,923**	(59,454)	10,336
Decrease (increase) in other receivables	**(5,875)**	396	2,164
Increase (decrease) in trade payables	**(40,726)**	18,330	(219)
Increase (decrease) in other payables	**2,972**	(7,566)	2,056
Increase (decrease) in inventory	**12,458**	(15,799)	(23,483)
	752	(64,093)	(9,146)
	127,228	(4,730)	47,876

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

	2019	2018	2017
Trade and other payables for the purchase of fixed assets and other assets other than for cash	**1,842**	7,196	5,639
Receivables for the sale of fixed assets and assets designated for sale	**-**	172	1,887
Liability for minimal payments for royalties	**12,657**	14,026	17,699
Additional liability in respect of leases	**25,254**	-	-

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

Note 1 – Overview

Delta Galil Industries Ltd. (hereinafter – "The Company"), is an Israeli corporation, which together with its subsidiary companies (hereinafter – "The Group"), is engaged in the design, development, production, marketing and sale of intimate apparel, socks, children's' wear, leisure wear and active wear, as well as in the development, design, marketing, distribution and sale of branded products in the jeans and over wear clothing and ancillary products for women, in five business segments- Delta USA, Global Upper Market (this segment includes, as of the third quarter of 2019, also the activity of Bogart), Delta European Brands (this segment includes, as of the third quarter of 2018, the Schiesser and Eminence activity), Delta Premium Brands and Delta Israel. Information regarding the operating segments is presented in Note 5.

The Company's securities are listed for trade on the Tel Aviv Stock Exchange ("TASE").

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

Note 2 – Principal accounting policies

a. Basis of preparation of the financial statements

The Group's financial statements as at December 31, 2019 and as at December 31, 2018, and for each of the three years in the period ended December 31, 2019, comply with the International Financial Reporting Standards, which are published by the International Accounting Standards Board (hereinafter – The IFRS Standards), and they include additional disclosures, which are required under the Securities Regulations (Annual Financial Statements) – 2010.

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

1) The principal accounting policies, which are described below, have been implemented consistently for all of the periods that are presented, unless it is otherwise stated.

2) The consolidated financial statements have been prepared under the historical cost convention, subject to the adjustment of derivatives, financial assets and assets comprising deposits for severance pay, which are presented at fair value.

3) The preparation of financial statements, in accordance with the IFRS standards, requires the use of certain significant accounting estimates. Furthermore, it requires the Group's management to exercise judgment in the process of the implementation of the Group's accounting policy. Disclosure of the fields in which a considerable degree of judgment or complexity is involved, or fields in which the assumptions and the estimates have a significant impact on the consolidated financial statements, is provided in Note 3. The actual results may be significantly different from the estimates and the assumptions that have been used by the Group's management.

4) The Group's operating cycle period is 12 months.

5) The Group analyzes the expenses acknowledged in the Statement of profit or loss according to classification method based on the expenses' activity characteristic.

Note 2 – Principal Accounting Policies (continued)

b. Consolidated financial statements:

1) Subsidiary and business combinations

Subsidiary companies are entities that are controlled by the Group. The Group controls an entity where the Group has the power to influence the entity, it has an exposure to or rights in the variable yields from its involvement in the entity and it also has the ability to influence the amount of the yield that will derive to it from that entity. Subsidiary companies are fully consolidated as from the time at which control is achieved in them by the Group. Their consolidation is discontinued at the time at which control is discontinued.

In the event that the activity that is acquired is operated by a third party, but control exists, the Company consolidated the financial results as from the time that control is achieved (which is the time of the acquisition), when the conditions that are set in IFRS 10 are met, as detailed below:

a) The Company has the power to influence the investee entity.
b) The Company has the ability to use its power to influence the investee entity in order to affect the investor's yield, including the right to make managerial decisions in relation to the activity.
c) The Company has an exposure to or rights in the variable yield from its involvement in the investee entity.

The Group's accounting treatment of business combinations is performed using the acquisition method. The consideration that is transferred in respect of the acquisition of a subsidiary company (hereinafter – The acquired company"), is calculated as the fair value of the assets that are transferred by the group, the liabilities that are incurred for the Group opposite the previous owners of the acquired company and the capital rights that are issued by the Group within the framework of the business combination transaction. The consideration that is transferred includes the fair value of each asset or liability deriving as a result of a conditional consideration arrangement. Costs that are connected to an acquisition are recognized in profit or loss as incurred.

Identified assets that have been acquired and liabilities and contingent liabilities that the group has taken upon itself within the framework of a business combination (except for certain exceptions, which are detailed in International Financial Reporting Standard 3 – "Business Combinations" (Revised), (hereinafter – IFRS 3), are initially measured at their fair value at the time of the acquisition.

The surplus of the consideration that is transferred, the amount of any non-controlling interests whatsoever in the acquired company, the fair value at the time of the acquisition of any previous rights whatsoever in the equity of the acquired company over the net amount of the identifiable assets that have been acquired and the liabilities that have been taken up at the time of the acquisition, all of which are measured as aforesaid, is recognized as goodwill (see also Section G below).

In the case of an acquisition at an opportunity price, in which the net amount, at the time of the acquisition, of the identifiable assets that have been acquired and of the liabilities that have been taken up, exceeds the overall amount of the consideration that is transferred, the amount of any non-controlling interests whatsoever in the acquired company and the fair value at the time of the acquisition of any previous rights whatsoever in the equity of the acquired company as aforesaid, the difference is recognized directly in profit or loss at the time of the acquisition and is defined as a profit on an opportunity acquisition.

In a business combination that is achieved in stages, the capital rights that were held by the Group in the acquired company proper to the business combination are measured at fair value at the time of the business combination and the gain or loss that has arisen of this is reflected in profit or loss.

Conditional consideration that has arisen for the Group within the framework of a business combination is measured at its fair value at the time of the business combination. Subsequent changes in the fair value of the conditional consideration, which is classified as an asset or a liability, are recognized as profit or loss.

Note 2 – Principal Accounting Policies (continued)

The accounting policy that has been implemented in the subsidiary companies has been altered, as necessary, in order to ensure consistency with the accounting policy that has been adopted by the Group.

2) Affiliated companies

An affiliated company is an entity in which the Company has significant influence, but not control, which is mostly expressed in a holding of 20% to 50% of the voting rights. An investment in an affiliated company is treated at equity.

In accordance with the equity method, the initial investment is recognized at cost, and the carrying value changes such that the Company recognizes its share of the profit or the loss of the affiliated company or the joint venture from the time of the acquisition.

The Company's share of the post-acquisition profit or the loss of the affiliated company is reflected in profit or loss against the carrying value of the investment in the accounting records.

At every reporting date, the Company determines whether signs of impairment in the value of the investment in the affiliated company or the joint venture exist. In the event that any such sign whatsoever exists, the Company calculates the amount of the impairment in value as the difference between the recoverable amount of the investment (the higher of the value in use and the fair value less selling costs) and its carrying value in the accounting records, and it recognizes the amount of the impairment in profit or loss in the item "share of the profits (losses) of investee companies treated at equity".

Profits or losses that have derived from transaction between the Company and the affiliated companies are only recognized in the Company's financial statements at the level of the investors who are not connected to the Company's share in the affiliated company. The Company's share of the profits or in the losses of the affiliated company in respect of these transactions is eliminated.

The affiliated companies' accounting policies have been altered, as necessary, in order to ensure consistency with the accounting policy that has been adopted by the Company.

c. Segmental reporting

Operating segments are reported in accordance with the same basis that is used for the purpose of internal reporting that is presented to the Chief Operational Decision Maker in the Company, who is responsible for the allocation of resources to the Company's fields of activity and the evaluation of their performance.

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

1) The functional currency and the presentation currency

Items that are recorded in the financial statements of each of the companies in the Group are measured in the currency of the main economic environment in which that entity operates (hereinafter – the functional currency). The consolidated financial statements are presented in the Company's functional currency and presentation currency, which is the Dollar.

Note 2 – Principal Accounting Policies (continued)

The following are the changes that have occurred in the reporting periods in the exchange rate of the US Dollar (hereinafter – "The Dollar") opposite the NIS and in the exchange rate of the Euro against the Dollar:

	Rate of change in the exchange rate of the Dollar against the NIS	Rate of change in the exchange rate of the Euro against the Dollar
	%	%
For the year ended December 31, 2019	(7.8)	(2.0)
For the year ended December 31, 2018	8.1	(4.4)
For the year ended December 31, 2017	(9.8)	13.9

The exchange rate of the Dollar against the NIS as at December 31, 2019 is 1 Dollar is NIS 3.456
The exchange rate of the Dollar against the NIS as at December 31, 2018 is 1 Dollar is NIS 3.748

The exchange rate of the Euro against the Dollar as at December 31, 2019 is 1 Euro is 1.122 Dollars
The exchange rate of the Euro against the Dollar as at December 31, 2018 is 1 Euro is 1.145 Dollars

2) Transactions and balances

Transactions in currency other than the functional currency (hereinafter – foreign currency) are translated into the functional currency using the exchange rates in effect on the transaction date. Exchange rate differences resulting from the settlement of such transactions and from the translation monetary assets and liabilities denominated in foreign currencies according to exchange rates at the end of the period are charged to gain/loss, except when charged under other comprehensive earnings as cash flow hedging.

Profit and loss from exchange rate differences pertaining to monetary assets or liabilities are presented in the Report on Comprehensive Earnings under “Financing Expenses, Net".

3) Translation of the financial statements of Group companies

The results and the financial positions of all of the companies in the Group (and where the functional currency of any of them is not the currency of a hyper-inflationary economy) whose functional currency is different from the presentation currency, are translated into the presentation currency as follows:

a) Assets and liabilities in each statement of financial position are translated in accordance with the closing rate at the time of that statement of financial position;

b) Revenues and expenses in each statement of profit and loss are translated in accordance with the average exchange rates for the period (unless that average does not provide a reasonable approximation of the cumulative impact of the exchange rates at the times of the transactions. In such a case, the revenues and expenses are translated in accordance with the exchange rates at the times of the transactions);

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

Goodwill and fair value adjustments, arising from the acquisition of foreign operations, are treated as assets and liabilities of the foreign operations and are translated according to the closing rate. Exchange rate differentials in respect of such translation are charged to other comprehensive income.

Note 2 – Principal Accounting Policies (continued)

e. Fixed assets

Fixed assets are presented at cost less accumulated depreciation and provision for impairment in value. Historical cost includes expenses that can be attributed directly to the acquisition of the items. The depreciation of assets, except for owned land, which is not depreciations, is calculated under the straight-line method over the estimated useful lifetime of the fixed asset, in the following manner:

	%
Buildings	2 – 7 (primarily 4%)
Plant and machinery	7 – 25 (primarily 7%)
Office furniture and equipment and motor vehicles	6 – 25 (primarily 7%)

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

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

Leasehold improvements are amortized under the straight-line over the shorter of the period of the rental contract or the estimated lifetime of the improvements.

Gains or losses due to the exercise of fixed assets are determined by comparing the net proceeds received with the carrying amount and are recognized under "other income (expenses)" in the profit and loss statement.

f. investment property

Investment property includes an office building that is owned by Schiesser in Germany, and which is not used by the Group in the production or supply of goods or services or for administrative purposes or for sale in the regular course of business.

Investment property was initially measured at fair value, within the framework of the allocation of the acquisition cost, which the Company has performed.

Following the initial recognition, the Group measures its investment property at historical cost, less accumulated depreciation.

g. Intangible assets

1) Goodwill

Goodwill represents the surplus of the consideration that has been transferred for the acquisition of a subsidiary company, over the net amount of the identifiable assets and liabilities that have been acquired as at the time of the acquisition. Ate every year end and at any time at which any sign whatsoever exists of impairment in value, the Group tests whether an impairment has occurred in the value of the goodwill. The goodwill is presented at cost, less accumulated impairment losses, if any. Losses from impairment in the value of goodwill are not cancelled when increases occur in its value afterwards.

The goodwill is attributed to cash-generating units for the purpose of testing for impairment. The allocation is performed for each cash-generating unit or group of cash-generating units that is expected to produce economic benefit from the business combination from which the goodwill derives, which is not larger than an operating segment.

Regarding the examination of impairment of goodwill, see Note 8B.

Note 2 – Principal Accounting Policies (continued)

2) Contractual customer contacts

Customer contacts, which are acquired within the framework of a business combination, are recorded in accordance with their fair value at the time of the acquisition and are amortized under the straight-line method over their estimated useful lives.

3) Trademarks

a. Rights for the use of trademarks have been recorded at the discounted amount of the liability in respect of minimal payments payable for royalties and they are amortized over the shorter of the period of the contract (generally 3-4 years) or the estimated period of use, see also Note 8C.

b. Certain trademarks that have been acquired within the framework of a business combination are recognized at their fair value at the time of the acquisition and are amortized over the shorter of the period of the contract or the estimated period of use.

4) Brands

Brands are recorded in accordance with their fair value at the time of the acquisition. Once a year the parent company examines whether the brands have indefinite lifetimes and therefore, they are not amortized.

The value of the brands is examined at least once a year or on the occurrence of signs evidencing the need to perform such an examination.

Regarding the examination of brand impairment, see Note 8D.

5) Computer software

Licenses for the use of computer software are presented on the basis of the accumulated costs in respect of the purchase of the computer software and bringing it to a state in which it can be used. These costs are amortized over the estimated useful lifetime of the software (4 years). Costs that are connected to the

Maintenance of the computer software are recognized as an expense as incurred. Costs that are directly attributable to the development of identified and unique software products, which are under the Group's control, and where it is highly likely that economic benefit will be produced that exceeds the direct costs that are connected to employees, which have been accumulated as an expense from the development of the software and an appropriate portion of the relevant indirect expenses are capitalized to intangible assets.

h. Impairment in value of non-monetary assets

Assets having an indefinite lifetime, are not amortized and testing is conducted for impairment in their value once a year and at any time at which any sign whatsoever of impairment in value exists.

Impairment in the value of assets having a defined lifetime is tested if events or changes in circumstances have occurred, which indicate that the carrying value in the accounting records will not be recoverable. The amount of the loss that is recognized in respect of impairment is equivalent to the amount by which the carrying value of the asset in the accounting records exceeds its recoverable amount. The recoverable amount of an asset is the higher of the fair value of the asset less selling costs and its value in use. For the purpose of testing for impairment in value, the assets are divided into the lowest levels at which separate identified cash flows exist (cash-generating units). Non-monetary assets, except for goodwill, in which impairment in value has occurred, are tested for the purpose of identifying the possible cancellation of impairment in value that has been recognized in respect of them at the date of each statement of financial position.

Note 2 – Principal Accounting Policies (continued)

i. Financial instruments – debt instruments

On January 1, 2018, International Financial Reporting Standard 9 "Financial Instruments" (hereinafter - IFRS 9) came into force.

1) Following is the Group's policy with respect to financial assets implemented as from January 1, 2018, in accordance with IFRS 9:

a. **Classification**

The Company classified its financial assets into the following categories: "Financial assets at fair value through profit or loss" and "Financial assets at amortized cost". The classification depends on the business model in which the financial assets are held and on the contractual terms of the cash flows in respect thereof.

The Company reclassifies its financial assets that are debt instruments when, and only when, a change occurs in its business model for the managing of the financial assets.

Financial assets at amortized cost are financial assets held within the framework of a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual terms provide entitlement on defined dates to cash flows that are only principal and interest payments in respect of the principal amount that has not yet been repaid.

These assets are classified as current assets, except for maturities of more than 12 months after the date of the statement of financial position, which are classified as non-current assets.

The Group's financial assets at amortized cost are included under: Accounts receivable, cash and cash equivalents, as well as other long-term receivables in the statement of financial position.

b. **Recognition and measurement**

Regular purchases and sales of financial assets are recorded in the Company's accounting records at the time of the clearing of the transaction, which is the time at which the asset is delivered to the Group or by the Group. Financial assets are de-recognized where the rights to receive the cash flows from the investments have expired or have been transferred and the Company has transferred all of the risks and the yields in respect of the ownership of those assets. Financial assets at fair value through profit or loss are presented at fair value in subsequent periods. Financial assets at amortized cost are initially recognized at fair value with the addition of transaction costs, excluding customers and in subsequent periods they are measured at amortized cost, under the effective interest method.

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

c. **Impairment of financial assets**

On each balance sheet date, the Company assesses whether there has been a significant increase in the credit risk of the financial asset since its initial recognition, on an individual basis or on a group basis. For this purpose, the Company compares the risk of a failure in the financial instrument at the reporting date with the risk of a failure in the financial instrument on the initial recognition date, taking into account all reasonable and substantiable information, including forward-looking information.

Note 2 – Principal accounting policies (Continued)

For financial assets with a significant increase in credit risk from the date of initial recognition, the Company measures the provision for loss in an amount equal to the expected credit losses throughout the life of the instrument. Otherwise, the provision for loss will be measured in an amount equal to expected credit losses in a period of 12 months. The amount of the expected credit differentials (or the cancellation thereof) is recognized in profit or loss.

For financial instruments with low credit risk, the Company assumes that the credit risk did not increase significantly from the date of initial recognition thereof.

Notwithstanding the foregoing, the Group always measures the provision for a loss in an amount equal to projected credit losses throughout the instrument's life for customers.

2) The Group's policy with respect to financial assets until December 31, 2017, in accordance with IAS 39:

a. **Classification**

The Group classified its financial assets into the following categories: "Financial assets at fair value through profit or loss", "loans and receivables", "financial assets available-for-sale and investments held to maturity". The classification depended, in part, on the purpose for which the financial assets were acquired. The Group's management determined the classification of financial assets when they were first recognized.

Derivative financial instruments are classified as held for trading unless they are designated for hedging purposes.

Loans and receivables are non-derivative financial assets and have fixed or determinable payments that are not quoted in an active market.

b**.** **Recognition and measurement**

Regular acquisitions and sales of financial assets are recorded in the Group's books at the date of the transaction clearing, which is the date o which the asset was delivered to the Group or delivered by the Group. Financial assets presented at fair value through profit or loss are initially recognized at fair value, and transaction expenses are charged to the profit and loss statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or been transferred and the Group has transferred all risks and returns for ownership of these assets. Financial assets at fair value through profit or loss are presented at subsequent periods at fair value. Loans and receivables are initially recognized at fair value plus transaction costs and are measured in subsequent periods at a reduced cost, based on the effective interest method.

c. **Impairment of loans and receivables**

As of December 31, 2017, the Group examined whether there was objective evidence of impairment of a financial asset or of a group of financial assets. The value of a financial asset or the value of a group of financial assets is impaired and impairment losses occur only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and the said loss event (or loss events) have an impact on the estimate of the future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Material customer difficulties, the probability they will go bankrupt or undergo economic reorganization and insolvency or material delays in payments are considered signs of the fact that the value of the debtor’s balance has decreased. The debt’s book value is reduced through the provision account, and the sum of the loss was recognized in the Report on Comprehensive Earnings under administrative and general expenses. When a customer debt cannot be collected, it is erased against the provision to doubtful debt.

Note 2 – Principal accounting policies (Continued)

d. **Offsetting financial instruments**

Financial assets and financial liabilities are offset and net amounts are disclosed in the statement of financial position when, and only when, there is an immediate legal right (which is not contingent on a future event) to offset the amounts recognized, legally enforceable in all of the following circumstances: in the ordinary course of business and in the event of credit failure and in the event of insolvency or bankruptcy of the entity and all counterparties, and there is an intention to liquidate the financial assets and liabilities on a net basis or to realize the asset and repay the liability at the same time.

j. **Derivative Financial Instruments and Hedging Activity**

The Company has financial instruments that are eligible for hedging cash flows in connection with the payment of debentures and in connection with the purchase of inventory. The Company also has financial instruments that are not eligible for hedging.

Derivative financial instruments are initially recognized at fair value at the time of the commitment under the derivative contract, and are re-measured at their fair value in subsequent periods.

The method of the recognition in profit or loss, which derives from changes in the fair value, is dependent upon the question of whether the derivative instrument is designated as a hedging instrument, and in such a case, by the nature of the hedged item. Changes in the fair value of derivative financial instruments, which do not qualify for cash flows hedging, are reflected in profit or loss under "other income (expenses), net", whereas changes in the fair value of items eligible for cash flows hedging are charged to other comprehensive income or loss.

The Company designated certain derivative instruments for cash flow hedging:

At the time of the creation of the hedge, the Company documents the connection between the hedging instruments and the hedged items, as well as the risk management and strategic objectives in relation to the execution of various hedging transactions. In addition, the Company documents its estimates, both at the time of the creation of the hedge and also on an ongoing basis, regarding the derivative instruments, which are used in hedging transactions being highly effective in achieving changes, offsetting the cash flows of the hedged items.

The main assumptions that have been used in the calculation of the fair value of the derivative instruments that serve for hedging purposes are detailed in Note 12.

A change in the fair value is reflected under other comprehensive income and is presented in the statement of changes in equity. The full fair value of a hedging derivative instrument is classified as a non-current asset or liability, where the remaining time to redemption is more than 12 months after the date of the statement of financial position, or as a current asset or liability, where the remaining time to redemption is less than 12 months after the date of the statement of financial position.

The gain or loss that is connected to the non-effective part in respect of the financial instrument in connection with inventory purchase transactions, is recognized immediately in the statement of profit and loss under "other income (expenses), net".

The gains and losses, deferred in the past under other comprehensive profit, are transferred from equity and included in the first measuring of the asset's cost.

The deferred amounts are eventually recognized, under the cost of sale item.

Note 2 – Principal accounting policies (Continued)

k. Inventory

Inventory of finished products, which are purchased by the Company, is measured at the lower of cost or net realizable value. The cost is determined under the moving average method. The cost of finished goods and goods in process includes the direct cost of production, labor and then loading of indirect costs in accordance with normative capacity. The cost of the inventory of raw materials and ancillary materials is also determined under the moving average method.

Cost of inventory includes gains/ losses on cash flow hedges of finished product purchases transferred from equity.

Generally, write-downs in the value of inventory are recorded in the various fields of activity, as is explained below:
Delta's operations in the United States includes inventory of finished goods only. The mark down of this inventory is executed in accordance with its age, where the rate of the write down is determined with a distinction being made between brand inventory and private label inventory, which is produced for the customers' private label.

In the global upper market segment, the inventory comprises finished goods, which is inventory that is intended for specific customers for which there is no markdown. This operating segment also contains inventory of raw materials, ancillary materials and inventory in process, which are manufactured in the Company's plants, which is marked down in accordance with its age.

The Delta European Brands, Delta Premium Brands and Delta Israel operating segments include primarily inventory of finished branded goods, which are sold through chain stores, on the internet and also in wholesale sales to retail customers. The mark down of the value of the inventory of finished goods is performed with a distinction being made between the inventory of basic products and the inventory of fashion products.

No mark-down is performed in relation to the inventory of basic products, which can also be sold in future periods. In relation to inventory of fashion products, the need for a mark-down in the inventory value is examined after the end of the season in which the inventory was to be sold. In the event that the market price less the selling costs that can be received from the sale of the surplus inventory is lower than the written down cost, a write-down is performed, taking into account the potential for the sale of the inventory in the Company's outlet stores.

The Delta European Brands and Delta Premium Brands operating segments also include inventory of raw and ancillary materials as well as inventory on process, which is manufactured in the Company's plants and through subcontractors, and which is marked down in accordance with its age. Furthermore, special mark-downs are recorded in all of the said segments, in accordance with specific circumstances, if required.

l. Customers

The balance of customers relates to amounts receivable from the Group's customers for goods sold during the ordinary course of business. When collection of these amounts is expected to occur within one year or less, they are classified as current assets, otherwise they are classified as non-current assets.

As of January 1, 2018 (the initial implementation date of IFRS 15), customers are initially recognized according to the price of their transaction, as defined in International Financial Reporting Standard 15 (hereinafter – IFRS 15), if customers do not include a significant financing element in accordance with IFRS15, and then are measured at reduced cost based on the effective interest method, less provision for impairment (hereinafter - "provision for impairment"). As to the manner of determination of the provision for impairment and the subsequent handling thereof, see Note 19B1.

Note 2 – Principal accounting policies (Continued)

Until December 31, 2017, customers were initially recognized at their fair value, and subsequently measured at amortized cost based on the effective interest method, net of provision for doubtful debts (hereinafter – "provision for impairment" or "provision for doubtful debts"). Regarding the manner of determining the provision for doubtful debts, see Note 19B1.

m. Cash and cash equivalents

Cash and cash equivalents include cash in hand and short-term bank deposits, whose deposit periods do not exceed three months.

n. Treasury shares

The cost of purchasing company's shares, which are held by it (treasury shares) is deducted from the equity attributed to the shareholders in the parent company until the shares are cancelled or re-issued, under the moving weighted average method.

o. Debentures

Debentures are initially recognized at fair value, less issueance costs. In subsequent periods, the debentures are presented at amortized cost with the difference between the sum of the loan initially recognized and the redemption value recognized in the Report on Comprehensive Earnings across the debenture period using the effective interest method.

p. Current and deferred taxes

Tax expenses for the reported years include current and deferred taxes. Taxes on income are charged to profit or loss, with the exception of taxes arising from business combination and taxes pertaining to items charged to other comprehensive earnings (loss). In these cases, the tax influence is also charged to other comprehensive earnings (loss), or directly to equity.

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

From time to time, Company management studies tax aspects applicable to its taxable income, in accordance with relevant tax laws, and creates provisions as needed.

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

Recognition of deferred tax assets is conducted for all temporary differences that are deductible for tax purposes, within the sum of the differentials that may be expected to be used in the future in return for taxable revenues. Deferred tax assets are reviewed at each reporting date and are impaired if it is no longer probable that the related tax benefit will be realized.

Deferred tax balances are calculated using tax rates expected to apply upon realization of the deferred tax asset, or settlement of the deferred tax liability, in accordance with tax rates and tax laws that have been enacted, or effectively enacted, in the countries in which those companies are active, as of the balance sheet date.

In calculating deferred taxes, taxes that would have been created in the event of realization of investments in subsidiaries and companies handled using the book value method are not taken into account, as it is Company policy to hold these investments and not realize them.

Note 2 – Principal accounting policies (Continued)

The Company may be liable for additional taxes in the event of inter-company dividend distribution. This added tax has not been accounted for in light of Company policy not to have dividends involving additional tax distributed in the foreseeable future.

q. Employee benefits

The Group operates a number of post-employment employee benefit plans, which include defined benefit plans and defined deposit plans.

1) Retirement/Pension Compensation Liability:

A defined deposit plan is an employee post-employment benefits plan within the framework of which companies in the Group make fixed deposits in a separate and independent entity in such manner that the Group has not obligation, legal or implied, to make additional deposits, in a situation in which the fund's assets are not sufficient to pay all employees the benefits for work services in the current period and in previous periods.

A defined benefit plan is a post-employment employee benefit plan that is not a defined deposit plan.

The Group members operate a number of pension plans. The plans are financed by payments made to insurance companies or pension funds held in trust.
According to their terms, the pension plans in question meet the definition of a defined benefit plan as above.

In accordance with labor laws and labor agreements in Israel, and in accordance with Company practices, the Company is required to pay severance pay to employees dismissed or departing work under certain circumstances. . . The Company's commitment to pay severance pay for some of the employees is treated as a defined benefit plan and in respect of the rest of the employees it is treated as a defined deposit plan.

In accordance with the Group companies' commitment to employees for whom there is a plan that constitutes a defined benefit plan, the amounts of the benefit that an employee who is entitled to severance pay will receive at the time of their departure is based on the number of years of service and their last salary.

The total retirement compensation liability presented in the balance sheet is the current value of the defined benefit liabilities as of the balance sheet date less the fair value of the plan assets. The defined benefit liability is measured on a yearly basis by an actuary, using the projected unit credit method.

The current value of the liability is determined by discounting expected future cash flows (after taking expected pay increase rates into account), on the basis of interest rates on government debentures or corporate debentures in accordance with the tradability of the debentures in countries in which the Group companies reside, denominated in the currency in which the benefits will be paid, the validity of which until redemption is near the period of the liabilities referring to retirement compensation.

In accordance with International Accounting Standard 19 "Employee benefits" (hereinafter – IAS 19), the discount rate used to calculate actuary obligation shall be determined using market yields as of the balance sheet date of high-quality corporate debentures. At the same time, IAS 19 notes that in countries lacking a deep market for these debentures, market yields as of the balance sheet date of government debentures must be used.

On November 25, 2014, the Securities Authority published a team position according to which Israel has a deep market in high-quality CPI-linked corporate debentures, whose currency is the NIS. Therefore, in accordance with staff's opinion, when measuring commitments for employees defined as defined benefit plans, a transition must be made form use of a yield rate on government debentures to use of a yield rate on high--quality corporate debentures. In accordance with the staff's position, the manner of proper implementation for the transition in question is on a prospective basis, meaning as a change in estimate.

Note 2 – Principal accounting policies (Continued)

As a result, the interest rate used by the Company to capitalize expected future cash flows for the purpose of calculating obligations for defined benefit plans in the Financial Statements was established based on the interest rates of high-rated Corporate NIS debentures. The influence of the change in the discount rate on the commitments in question was charted to other comprehensive earnings under “Re-measurements of net severance-pay liabilities”.

The Group companies charge re-measurement of the net liability in respect of a defined benefit under other comprehensive earnings, in the period they were created. Such re-measurements are created as a result of changes in actuary assumptions, from differences between assumptions made in the past and results in practice and from differences between yields on the plan assets and sums included in the net interest on the net defined benefit liabilities (asset).

Costs for past services are charged to the statement of Operations on a regular basis.

Compensations reserves are measured at fair value. The reserves in question due not constitute “plan assets” as defined in IAS 19, and therefore were not offset from the balance of the severance pay liability for the purpose of presentation in the balance sheet.

As noted above, the Group companies purchase insurance policies and make deposits in pension and compensation funds to finance its defined deposit plan liability. Upon making the deposit, they are not obligated to make additional payment. The deposits are recognized as an expense due to employee benefits concurrent with receiving service from employees, for which they are entitled to the deposits. Advanced Deposits are recognized as an asset, in the event that the Group is entitled to a cash refund or to a reduction in future payments.

2) Vacation and recuperation pay

According labor laws in Israel and in some of the other countries in which the Group is active, each employee is entitled to vacation days and recuperation days, both calculated on a yearly basis. This right is established throughout the employee’s employment at the Company. The Group recognizes the liability and expense for vacation and recuperation pay based on the benefit created for each employee on a non-capitalized basis.

3) Executive Compensation

The Company recognizes its liability and expense for executive compensation based on various compensation components that vary according to the rank of the executive and may change from year to year based on the decisions of Company management. The Company recognized the provisions in when a contractual obligation exists or when practice in the past created an implies obligation.

r. Share based payments

The Company's Board of Directors approved plans for the issue of options and/or restricted share units to the Group's employees from time to time, see Note 14 below. Some of the options and/or the restricted share units that are granted stipulated on achieving operational goals. The fair value upon issue is charged as a salary expense concurrent with an increase in undesignated retained earnings, across the period in which the employees become entitled to them and it upholds all of the defined conditions for the maturation of a share-based payment arrangement. The sum charged as an expense is adapted in order to reflect the number of options and/or blocked share units for shares expected to vest.

When the options to purchase the shares are exercised, the resulting exercise bonus is charged to stock capital (according to their notational value) and stock premium.

Note 2 – Principal Accounting Policies (continued)

s. Provisions

Provisions for re-structuring costs are recognized in the financial statements where the Company has a legal or implicit liability, as a result of past events; the Company is expected to bear the cash flows in order to redeem the liabilities and the sum can reliably estimate. Provisions for re-structuring expenses include employee compensation payments when the Company approves a formal and detailed restructuring plan, and when the restructuring begins in practice, or when it is announced (see Note 19G). The provisions do not include future operational costs.

The provisions are measured according to the current value of management's best estimates regarding the cash flows expected to be required to clear existing commitment as of the balance sheet date.

t. Recognition of revenues

The Company has revenues from the sale of products to customers and from royalties.

1) Measurement of revenues

Up to December 31, 2017 (the implementation of IAS 18) the Company revenues were measured at fair value of proceeds received or proceeds the Company is entitled to receive in respect of sales over the ordinary course of business. The revenues are presented net of VAT, returns, credit and discounts after writing off inter-group revenues.

In situations where the customer has a right of return, the Company recognizes a provision in respect of the right of return, in the amount of the gross profit inherent in the sale transaction in respect of the products expected to be returned.

As of January 1, 2018 (the initial implementation date of IFRS 15), the Company's revenues are measured according to the amount of consideration that the Company expects to be entitled to in return for the transfer of goods that were promised to the customer, net of amounts collected for third parties, such as certain sales taxes. Revenues are presented net of VAT and after cancellation of revenues between the Group companies.

If the consideration promised to the customer includes a variable amount (for example, as a result of discounts or a right of return), the Company estimates the amount of the consideration to which it will be entitled in return for the transfer of the goods promised to the customer in the transaction and includes in the transaction price the entire amount of the variable consideration, or part thereof, only when it is highly probable that a significant cancellation of the recognized cumulative revenues will not occur when the uncertainty associated with the variable consideration becomes apparent thereafter. At the end of each reporting period, the Company updates the estimated transaction price in order to properly represent the circumstances at the end of the reporting period and the changes in circumstances during the reporting period.
This amount varies and is recognized as part of the customer item in the Company's balance sheet.

The Company does not adjust the consideration guaranteed in respect of the effects of a significant financing component if the Company expects, at the date of the contract, that the period between the date on which the Company transfers the goods promised to the customer and the date on which the customer pays will be one year or a period shorter than one year.

2) Date of recognition of income

Until December 31, 2017, the Company recognized income when the amount of revenues can be measured reliably, it is expected that the economic benefits attributed to the transaction will reach the Company and when certain additional conditions exist for each of the Group's various activities, as detailed below.

Note 2 – Principal Accounting Policies (continued)

The amount of income is not considered to be reliably measurable until all conditions relating to the transaction have been settled. The Company bases its estimates on past experience, considering the type of customer, the type of transaction and the special details of each arrangement.

As of January 1, 2018 (the initial implementation date of IFRS 15), the Company recognizes revenue when the customer obtains control of the goods in accordance with the sale agreement. For each performance obligation, the Company determines, at the date of entering into a contract, whether it fulfills the performance obligation over time or at a point in time.

A performance obligation is maintained over time, if one of the following criteria is met: (a) the customer receives and consumes at the same time the benefits provided by the Company's performance; (b) the Company's performance creates or improves an asset controlled by the customer while creating or improving it; or (c) the Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to pay for performance completed up to that date.

To the extent that a performance obligation is not fulfilled over time, it is fulfilled at a point in time.

3) Types of Company Revenues:

a) Revenues from the sale of wholesale goods

The Company manufactures and sells a variety of products for the wholesale market. The sale of goods is recognized upon delivery by the Company of the goods to the wholesaler, while the wholesaler has full discretion regarding the selling channel and the selling price of the products, and there is no unfulfilled obligation that could affect the acceptance of the goods by the wholesaler. Delivery of the goods does not occur until the products have been sent to the specified location, the aging and loss risks have been transferred to the wholesaler, and the wholesale has received the products in accordance with the sales contract, the acceptance terms have expired or the Company has objective evidence that all acceptance criteria have been met.

The Company's products are sometimes sold at volume discounts. Customers reserve the right to return defective products in the wholesale market. Sales are recognized on the basis of the price specified in the sales contracts, less estimates of quantity discounts and returns as at the date of sale. Past accumulated experience is used to make estimates and provisions for assumptions and returns. The quantity discounts estimate is based on the expected acquisitions for the year. Sales do not include a financing component, since they are carried out with a credit period of less than one year.

b) Revenues from the sale of goods in retail

The Company operates retail chain stores. The sale of goods is recognized when the Company sells a product to the customer. Retail sales are usually made in cash or through credit cards.

The Company's policy is to sell its products to retail customers with the right to return in accordance with the law. Past experience accumulated is used to make estimates and provisions for returns on the date of sale. As for the accounting treatment of the right of return, see section A above.

The Company operates a customer loyalty program in which retail customers are entitled to accumulate points in respect of their purchases, which entitle them to a discount on future purchases. A liability in respect of a contract is recognized for the points awarded at the time of sale to the customer, and is charged against recognition of revenue at the actual utilization or expiry of the points 12 months after the initial sale, the earlier of the two.

Note 2 – Principal Accounting Policies (continued)

c) Revenue from online activities

Revenue from sales provided via the Internet is recognized when the customer obtains control over the products (until December 31, 2017 – when the risks and benefits related to the inventory are transferred to the customer).

Payments in respect of the transactions are made by credit card.

d) Revenues from royalties

Until December 31, 2017, revenues from royalties are recognized on an accrual basis, according to the nature of the related agreements.

Commencing from January 1, 2018, revenue from sales-based royalties is recognized only upon the later of the following events occurs: (a) the sale occurs; and (b) the performance obligation to which some or all of the sales-based or use-based royalties have been allocated, has been met.

u. Leases

The Company's policy regarding leases in which the Company is the lessee until December 31, 2018, pursuant to IAS 17:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (less any incentives received from the lessor) are charged to profit or loss on a straight-line basis for the duration of the lease.

The Company leases certain fixed assets. Fixed assets leases, in which all the risks and benefits associated with ownership have been substantially transferred to the Company, are classified as finance leases. Finance leases are recognized as an asset and liability at the beginning of the lease period for less than the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is attributed between a repayment of a liability and a financing expense. The related rental liabilities, less the financing component, are classified under loans and other non-current liabilities, except amounts that are expected to apply in the period up to 12 months after the financial statement date, which are classified as current liabilities. Financing costs are allocated to each of the periods during the lease period in such a way that the periodic interest rate for the remaining outstanding liability in each period is constant.

In cases where there is no reasonable certainty that the Company will acquire ownership at the end of the lease period on fixed assets leased under finance leases, the said property is amortized over the period of its useful life and the lease term, the shorter of the two; On the other hand, in such cases where there is reasonable certainty that the Company will acquire ownership at the end of the lease term, the said property is amortized over the projected period of use which is also the useful life of the property.

In connection with the Company's policy regarding leases in which the Company is the lessee as of January 1, 2019, pursuant to IFRS16, see Note 2D (1)(a) below.

v. Earnings per share

Calculation of basic profit per share is based on the net profit (loss) distributable to regular shareholders, divided by the weighted average of the number of regular shares in circulation during the period, less Company shares held by it. When calculating the diluted profit or loss per share the weighted average of the number of shares issued is also added to the average of regular shares used in the basic calculation, assuming that all diluting potential shares are converted to shares. The potential shares are taken into account as stated only when their influence is diluting (reducing the profit or increasing the loss per share).

Note 2 – Principal Accounting Policies (continued)

w. Dividend Distribution

Dividend distributed to the Company's owners and minority rights holders is recognized as liability in the Group's balance sheet in the period the dividends were approved for distribution by the Company's Board of Directors.

x. New International Financial Reporting Standards, Revisions to Standards and New Interpretations

1) **Standards and amendments to the existing Standards coming into effect and binding for reporting periods starting January 1, 2019**:

a) International Financial Reporting Standard 16 "**Leases**".

Upon first implementation, IFRS 16 replaced the currently existing guidelines in International Accounting Standard 17 "Leasing" ("IAS 17"). The Standard deals with the recognition, measurement, presentation and disclosure of leases, and it is expected to have a significant impact, primarily on the accounting treatment that is implemented by the lessee side in a lease transaction.

IFRS16 amends the existing IAS17 guidelines, requiring lessors to recognize a lease liability, reflecting the discounted value of future lease payments, as opposed to the "right of use" asset, with respect to all leases (except as stated below), without distinction between financing leases and operating leases. However, IFRS16 allows lessees not to apply these provisions for short-term leases, by groups of underlying assets, and for leases in which the underlying asset of the lease is of low value.

IFRS16 also changes the definition of "lease" and the method of assessing whether a contract contains a lease.

IFRS16 requires each lease component to be treated separately of non-lease components in the contract. However, as a practical relief, IFRS16 allows the lessee to choose, by groups of underlying assets, not to separate non-leasing components from lease components, and instead treat each lease component and any related non-lease components as a single lease component.

The Company implements IFRS16 retrospectively as of January 1st 2019 in accordance with the transition directive allowing recognition of the cumulative impact of the application for the first time as adjustment to the opening balance of the surplus as of January 1, 2019 (i.e. without amendment of the comparative figures for the previous reporting periods).

In relation to the transactions in which the Company is the lessee, the company first chose to implement the standard retroactively, when the cumulative effect of the initial implementation of the standard was recognized at the initial implementation date as an adjustment of the opening balance of the surplus (without a restatement of comparative data). At the initial implementation date of the standard the Company recognized liabilities with respect to lease, for leases previously classified as operational leases, according to the current value of the remaining lease payments, capitalized according to the incremental interest rate of the lessee at the initial implementation date. At the same time, the Company recognized assets in respect of right of use in assets leased according to their book value assuming that the standard was applied from the beginning of each lease but the lease payments were capitalized by using the lessee's incremental interest rate at the time of initial implementation of the standard. The difference between the amount of lease liabilities and the amount of additional assets in respect of rights of use recognized at the date of initial implementation of the standard, considering the tax effect, is charged to the balance of surplus at the date of initial implementation.

Note 2 – Principal Accounting Policies (continued)

The following are the exemptions that the Company chose to adopt when the Standard was first implemented and thereafter:

(1) Not to recognize the right to use and liability in respect of leases whose lease period ends within 12 months from the date of initial application.
(2) Not to separate components that are not a lease from lease components, and instead to treat each lease component and non-lease components associated with it as a single component of a lease.
(3) Apply the exemption from recognition to leases where the underlying asset is of low value.
(4) Apply one discount rate to lease contracts with similar characteristics in a reasonable manner.
(5) To rely on an estimate whether the leases are onerous, at the time of application of IAS37, immediately prior to the initial application date of the Standard as an alternative to performing an impairment test.
(6) Not to include direct costs incurred in the lease as part of the asset on the transition date.
(7) Not to re-evaluate whether a contract contains a lease at the date of initial application. The Company has applied the Standard to contracts previously identified as leases in accordance with IAS17 and IFRIC4 only.

Following is information on the quantitative effects of the initial application of IFRS16:

(1) The effect of the initial application of IFRS16, on the items of the Company's report on the financial position, as well as the cumulative effect of the application of the aforementioned standard credited to the balance of retained earnings, are presented in the table below:

	January 1, 2019		
	According to the previous policy	The effect of the initial application	According to the new policy
	Thousand dollars		
Non-current assets:			
Rights of use assets	-	209,385	209,385
Deferred income taxes	-	4,313	4,313
Total assets		213,698	213,698
Current Liabilities:			
Creditors	1,495	(1,495)	-
Current maturities of lease liabilities	-	50,565	50,565
Non-current liabilities:			
Other long-term liabilities	6,323	(6,323)	-
Lease liabilities	-	180,951	180,951
Capital deficit:			
Surplus	-	(10,000)	(10,000)
Total liabilities and capital	7,818	213,698	221,516

Note 2 – Principal Accounting Policies (continued)

(2) The following is the effect on the statement of comprehensive income for the year ended December 31, 2019 following IFRS16 implementation:

	Year ending on December 31, 2019
	Thousand dollars
Profit increase from operations	8,059
Increase in financing expenses	8,474
Decrease in pre-tax profit	(415)
Decrease in tax expenses	291
Decrease in net income	(124)
Differences from translation of financial statements prepared in foreign currency	(67)
Decrease in total profit for the period	(191)

The following is the effect on the cash flow statement for the year ended December 31, 2019 following IFRS16 implementation:

	Year ending on December 31, 2019
	Thousand dollars
Increase in cash flow from ongoing operations	57,912
Decrease in cash flow from financing activities	57,912

(3) In order to determine the capitalization rates used in the above calculations, the Company was assisted by an external appraiser. The capitalization rates are based on rating work for the Group companies. This rating served as a basis for interest curves based on the risks of the companies and the duration of contracts.

The following are the range of capitalization rates used by the Company for capitalizing lease contracts:

Average duration (in years)	Activity in the US	Activity in Europe	Activity in Israel	Activity in the Far East
2	5.6%	2.2%	2.2%	5.7%
4	6.2%	2.9%	3.0%	6.2%
6	6.7%	3.7%	3.6%	6.4%

(4) Pursuant to the debenture Series F deed of trust, the Company's financial ratios such as net financial debt ratio to EBITDA and gross financial debt to CAP ratio were not affected by the application of this standard. In accordance with the Company's deeds of trust for Series A, B and E, the Company's financial ratios were affected by the application of this standard, but did not exceed the standards as set therein.

b) **Interpretation Number 23 (hereinafter – "IFRIC 23")**

IFRIC 23 clarified how the recognition and measurement principles in International Accounting Standard 12 "Taxes on income" are to be implemented where there is uncertainty relating to taxes on income.

Note 2 – Principal Accounting Policies (continued)

Uncertainty relating to taxes on income is any treatment of taxes that is implemented by an entity where uncertainty exists in respect of whether the accounting treatment is also acceptable to the tax authorities. Uncertainty may exist up to the time of the receipt of a ruling by the relevant tax authority or of a court in the future. Accordingly, a dispute with the tax authorities, or an examination that is being conducted by the tax authorities in respect of a particular tax treatment may affect the accounting treatment that is implemented by the entity in respect of a current or deferred tax asset or liability deriving from the said tax treatment. IFRIC 23 provides guidance regarding the accounting treatment of the following issues regarding uncertainty relating to taxes on income:

- The manner of the determination of the measurement unit for the examination of the accounting treatment (i.e.: whether the entity is to consider any uncertainty in respect of the tax treatment, separately;
- The assumptions that an entity is to assume in connection with the examination of the particular tax treatments by the tax authorities;
- The manner of the determination of the chargeable income for tax purposes (the loss for tax purposes), the tax base, losses available to be carried forward, and an unexploited tax credit and the tax rates, in relation to such uncertainty;
- Handling changes in facts and circumstances

The initial implementation of IFRIC 23 did not materially affect the Group's consolidated financial statements.

c. **Amendments to International Financial Reporting Standard 9 "Financial Instruments" (hereinafter - IFRS 9) and to International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (hereinafter - IFRS 7)**

The amendments provide temporary relief from the implementation of specific requirements concerning hedge accounting, in the context of benchmark interest rate replacement reform (hereinafter - the IBOR reform), so that entities can continue to implement hedge accounting under the assumption that benchmark rates have not changed as a result of IBOR reform.

The relief provided by the amendments relevant to the Company relates to a highly probable requirement for hedging cash flows and a prospective assessment of the economic relationship between the hedged item and the hedging instrument in accordance with IFRS 9. However, ineffectiveness will continue to be reflected in profit or loss.

The application of the reliefs will be discontinued prospectively at the earliest of:

- When the uncertainty about the timing and amount of the cash flows based on the benchmark interest rate becomes clear.
- Termination of hedging relationships or reclassification of all amounts from the capital fund for cash flow hedging.

The Company chose to adopt the amendments to IFRS 9 and IFRS 7 published in September 2019 in accordance with the transitional provisions of the amendments, the amendments were retrospectively applied to hedging relationships that existed at the beginning of the reporting period or designated thereafter, and to the amount accrued in the capital fund for the beginning of the reporting period for cash flow hedging.

The Company has an interest rate risk arising from Series B shekel bonds, the interest rate for which is based on the Telbor interest rate (see Note 11). This bond is treated at a reduced cost in the NIS currency.

The Company's risk management policy is to hedge the changes in cash flows in respect of foreign currency debt using financial derivatives for cash flows swap contracts. Accordingly, the Company entered into a swap contract for a period of 10 years from the issue date, in October 2014 (hereinafter - the hedging instrument), for which it pays variable interest in dollars and receives variable interest in shekels.

Note 2 – Principal Accounting Policies (continued)

As part of the implementation of the reliefs, the Company assumed that the LIBOR rate would not change as a result of the IBOR reform for the assessment of whether future cash flows are highly probable and for a prospective assessment of the economic relationship between the hedging instrument and the hedged item.

In addition, the Company is examining the process of switching to an alternative benchmark interest rates instead of LIBOR interest rates.

As a result of the impact of the amendments, the Company will be able to continue to implement hedge accounting as stated above.

The book value of the derivatives as at December 31, 2019 is $ 18,578 thousand and is shown as a financial derivative balance in the statement the Company's financial position at that date.

The book value of the hedged items exposed to the effect of Libor interest as of December 31, 2019 is $ 59,682 thousand under the debentures section of the statement of the Company's financial position at that date.

2. **Standards, amendments and interpretations of existing standards which are not yet in effect and which the Company has not chosen for early implementation thereof**:

a. **International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (hereinafter - the amendment to IAS 8) and International Accounting Standard 1 "Presentation of Financial Statements" (hereinafter - the amendment to IAS 1)**

The amendment to IAS 8, the amendment to IAS 1, and the subsequent amendments to other international financial reporting standards:

- Use a consistent definition of materiality across the various standards and conceptual framework:
- Clarify the explanation of defining materiality; And
- Incorporate some of the guidelines in IAS 1 regarding non-material information.

The revised definition is as follows:
"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

These amendments will be prospectively applied for annual periods beginning on or after January 1, 2020. In accordance with the provisions of the amendments, their early implementation is possible. The initial implementation of the amendments is not expected to have a material impact on the Company's financial statements.

b. **International Financial Reporting Standard 9 "Financial Instruments" (hereinafter - IFRS 9), International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" (hereinafter - IAS 39) and International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (hereinafter - IFRS 7)**

The amendments provide temporary relief from the implementation of specific hedge accounting requirements in the context of the benchmark interest rate replacement reform (hereinafter - the LIBOR reform), so that entities can continue to implement hedge accounting assuming that benchmark rates have not changed as a result of the LIBOR reform. The relief relates to a highly probable requirement for hedging cash flows, to the prospective assessment of the economic relationship between the hedged item and the hedging instrument under IFRS 9 (or the highly effective requirement under IAS 39), to the retrospective effectiveness test (under IAS 39), and to the designation of an item component as a hedged item. However, ineffectiveness will continue to be reflected in profit or loss on an ongoing basis. Also, the amendments obligate certain disclosure requirements.

Note 2 – Principal Accounting Policies (continued)

The said amendments will be applied retrospectively (subject to the provisions set out in the amendments) for annual periods beginning on or after January 1, 2020. In accordance with the provisions of the amendments, their early implementation is possible. The initial implementation of the amendments is not expected to have a material impact on the Group's financial statements.

c. **Amendment to IAS 1 "Presentation of Financial Statements" (hereinafter - the Amendment to IAS 1)**

The amendment to IAS1 clarifies the guidelines regarding the classification of liabilities as current or non-current in the statement of financial position. The amendment clarifies, *inter alia*, that:

- A liability will be classified as a non-current liability if the entity has a substantive right to defer settlement of the liability for at least 12 months after the end of the reporting period. The amendment also clarifies that the entity's intention regarding the exercise of the right is irrelevant for the purpose of classifying the liability, and eliminates the reference to the existence of an unconditional right.
- A substantive right exists only if the entity meets the relevant conditions at the balance sheet date.
- The “settlement” of the liability includes settlement by way of cash payment, other financial resources or equity instruments of the entity. However, a conversion right in respect of a convertible instrument that has been classified into equity does not affect the classification of the liability in respect of the instrument.

The amendment to IAS1 will be applied retrospectively for annual periods beginning on or after January 1, 2022. In accordance with the amendment provisions, its early implementation is possible. The Group is examining the impact of the amendment to IAS 1 on its financial statements. Or, alternatively, the initial implementation of the amendment to IAS1 is not expected to have a material impact on the Group's financial/ consolidated financial statements.

Note 3 – Material accounting estimates and judgments

As part of the financial reporting process, Company's management is required to make certain assumptions and estimates which may affect the value of its assets, liabilities, revenues, expenses and some of the disclosures provided in the Group's consolidated financial statements. By their nature, these estimates may be subjective and complex and may therefore differ from actual results.

The accounting estimates and assumptions used in preparing the financial statements are reviewed and are based on past experience and other factors, including future events which are reasonably likely to occur in view of current circumstances.
Below is a description of critical accounting estimates used in preparing the Financial Statements, the formulation of which required the Company to make assumptions with regard to circumstances and events involving significant uncertainty. In exercising its judgment for the purpose of making accounting estimates, the Company takes into account, respectively, the relevant facts, past experience, the impact of external factors and assumptions reasonable under the circumstances.

a. Significant accounting estimates and assumptions

1) Inventory

The Company prepares monthly estimates for the purpose of amortization of slow or dead inventory, based on past experience, remaining inventory balances from previous seasons and sales forecasts. See Note 2K.

Note 3 – Material accounting estimates and judgments (continued)

2) Goodwill

At least once a year, or on the occurrence of events, the Company checks the need for the recognition of impairment in the value of the goodwill, in accordance with the management's forecasts in respect of the discounted amount of the expected cash flows of the cash-generating unit to which the goodwill is attributed. See Note 8B.

3) Fixed assets

Depreciation expenses due to fixed assets are calculated using the straight-line method on the basis of the estimated period of time in which the asset will serve the Company.

In addition, the Company tests the need for additional write-downs at any time at which signs exist indicating the possibility of impairment in value.

4) Brands

The balance of the brands includes the brand name "Schiesser", purchased in 2012, "P.J. Salvage", purchased in 2015, "7 for all mankind", "Splendid" and "Ella Moss", purchased in 2016 and "Eminence", "Athena" and "Liable", purchased in 2018. The book value of the brands is presented at fair value upon their date of purchase and was calculated as part of purchasing costa made by external assessors.

In addition, the balance of brands also includes the brand names "Karen Neuberger", "Little Miss Matched" and "Fix", which were purchased in 2011, 2012 and 2014, respectively, and which are presented at historical cost.

All brands have an undefined life span and which are not amortized routinely,

At least once a year and on the occurrence of events, the Company reviews the need for an impairment provision. See Note 8D.

5) Taxes on income and deferred taxes

The Group is assessed for tax purposes in a large number of jurisdictions, and accordingly, Group's management is required to apply considerable judgment in order to determine the overall provision for taxes on income. The Group records a provision in its accounting records based in its estimates regarding the possible likelihood of additional tax payments for these transactions.

Where the final tax indebtedness, which is determined by the tax authorities is different from the tax indebtedness that was recorded in the financial statements in previous periods, the difference will be reflected in profit and loss in the period in which the final assessment is determined by the tax authorities.

Furthermore, the Group records deferred tax assets and deferred tax liabilities on the basis of the differences between carrying amounts of assets and liabilities and their sums taken into account for tax purposes. The Group regularly reviews the recoverability of deferred tax included in its accounts, on the basis of historical taxable revenues, projected taxable revenues, the timing of the expected reversal of temporary differences and implementation of the tax planning Strategy. If the Company is unable to derive sufficient future taxable revenues or in the event of a significant change in effective tax rates in the period during which the temporary differences become taxable or deductible, the Group may be required to reverse part of its deferred tax asset or to increase its deferred tax liabilities, which may increase its effective tax rate and adversely affect its operating results.

b. Considerations that have a material impact on the implementation of the entity's accounting policies

Determining the lease term and the discount rate in respect thereof

As of January 1, 2019, the Group implements IFRS16 for the accounting treatment of leases. In this context, management considers facts and circumstances that create an economic incentive for the exercise of extension options or the non-exercise of cancellation options. Extension options, or periods after the exercise of cancellation options, are included in the lease period only to the extent that it is reasonably likely that the lease will be extended (or canceled).

The Company is examining, based on past experience for its business plans, whether the extension options existing in the lease agreements it has entered into are expected to be exercised or not.

The Company's management re-evaluates whether the extension option is likely to be exercised, or the cancellation option is likely not to be exercised, upon the occurrence of a significant event or change in circumstances that is under the control of the Company, and also influences the decision whether the Company is reasonably likely to exercise an option that was not previously included in determining the lease term, or not exercise an option previously included in determining the lease term.

In addition, as part of the implementation of IFRS16, the Company has determined the capitalization rate used to capitalize its assets and liabilities in respect of these leases.

The Company was assisted by an external valuator to determine capitalization rates in four different geographies: the US, Europe, the Far East and Israel.

Note 4 –Financial instruments and the management of financial risks

a. Financial risk factors

The Group's activities are exposed to various financial risks: market risks (including exchange rate risk and interest rate risk on cash flows), credit risks and liquidity risks. The Group’s risks management plan focuses on the uncertainty of financial markets and seeks ways to minimize potential adverse effect on the Group financial performance. From time to time, the Company uses derivative financial instruments in order to hedge specific exposures to risks.

The Group manages financial risks based on a policy approved by the Board of Directors and the senior management. This policy relates to the management of exchange rate risk, credit risks and cash management.

1) Market risk

a) Exchange rate risks

The Group operates globally and is exposed to fluctuations in various exchange rates, primarily of the Euro and NIS against the Dollar. Exchange rate risks derive from commercial transactions, assets or liabilities or net investments in foreign operations, which are denoted in a currency other than the entity's functional currency.

The Group sometimes invests in foreign currency derivatives – forward contracts – in order to protect itself from the risk in which cash flows deriving from surplus receipts in Euros and NIS will be impacted by changes in exchange rates. Furthermore, the Group sometimes invests in foreign currency derivatives (the Euro vs. Czech Koruna), forward contracts or options in order to protect itself against cash flow risk deriving from production costs in the Company's plant in the Czech Republic, which is impacted by changes in exchange rates. The duration of these contracts is usually shorter than one year. These transactions are primarily intended to protect against changes in the exchange rates in question.

See Note 12A on the subject of the hedging of cash flows from the issuance of NIS debentures.

Regarding transactions to hedge the cash flows deriving from the purchase of inventory, see Note 12B.

Exchange rate risk exists when future commercial transactions or assets and liabilities are recognized in the financial statements are measured and denoted in a currency other than the entity's functional currency.

Note 4 – Financial instruments and the management of financial risks (continued)

As of December 31, 2019, if the Group's functional currency had weaken/ strengthen by 5% or 10% opposite the NIS with all other variables to remain constant, the total profit for the year would be US$ 2,877 thousand or US$ 5,754 thousand lower/ higher, respectively (as of December 31 2018 – US$ 442 thousand and US$ 885 thousand, respectively), primarily as a result of losses/ profits from changes in the exchange rates in respect of the translation of the net monetary balances that are presented in the Company's statement of financial position, which are denominated in NIS.

As of December 31, 2019, if the Group's functional currency were to weaken/ strengthen by 5% or 10% opposite the Euros, and were all of the other variables to remain constant, the comprehensive income for the year would be US$ 6,493 thousand or US$ 12,985 thousand lower/ higher, respectively (as of December 31 2018 – US$ 4,223 thousand and US$ 8,445 thousand, respectively), primarily as a result of profits/ losses from changes in the exchange rates in respect of the translation of the net monetary balances that are presented in the Company's statement of financial position, which are denominated in Euros.

The exposures detailed above do not include the effect of forward cash flow hedging transactions.

b) Risk due to changes in the interest rate

Risks related to interest rates derive from changes to interest rates which may have a negative impact on the Company's net profit or cash flow. The changes in interest rates lead to changes in the Company's revenues and interest expenses due to interest-bearing assets and liabilities.

The Company has no material variable interest-bearing assets or liabilities with the exception of Series B debentures (see below), and therefore the Company revenues and operational cash flows are not directly affected by changes in market interest rates.

2) Credit risks

Credit risks are managed at the Group level. Credit risks derive primarily from cash and cash equivalents, bank deposits and credit exposure to customers. The Company assesses risks associated with the quality of the customer credit by weighing the customer’s financial standing, past experience and other factors. Sales to Company’s customers are generally carried out under credit terms of up to 90 days. Sales to retail customers are made in cash or credit cards, through the major credit card companies.

Most of the Group's cash and cash equivalent balances as of December 31, 2019 are deposited with the banking corporations Bank Leumi, Commerz Bank, UBS, HSBC and a number of other banks, mainly in Europe.

In the Company’s assessment the credit risk in relation to these balances in banks is low.

3) Liquidity risks

Prudent liquidity of risk management requires the maintenance of sufficient available cash and available credit frameworks to finance activity in light of the dynamic nature of its business activity, the Company maintains financial flexibility by taking care to maintain available credit frameworks (see Note 19D).

The following table analyses the Company's financial liabilities according to redemption dates, based on the balance for the period as of the projected repayment date. The sums presented in the table represent non-capitalized cash flows.

Note 4 – Financial instruments and the management of financial risks (Continued)

	Less than one year	Between one year and two years	Between two years and five years	More than five years	Total
			US$ thousands		
Balance as at December 31, 2019:					
Debentures including interest	54,506	52,633	224,388	103,924	435,451
Loan from a banking corporation	10,588	9,366	58,971	-	78,925
Financial Derivative	1,099	22	(14,937)	(4,762)	(18,578)
Credit from banking corporations	1,868	-	-	-	1,868
Trade payables	140,475	-	-	-	140,475
Liabilities in respect of leases	53,401	50,489	93,197	78,373	275,460
Trade and other payables and other liabilities	157,070	28,880	36,216	1,098	223,264
	419,007	141,390	397,834	178,633	1,136,865
Balance as at December 31, 2018:					
Debentures including interest	33,386	32,250	77,569	167,733	310,938
Loan from a banking corporation	8,015	8,015	62,119	-	78,149
Financial Derivative	2,662	1,752	2,331	(6,696)	49
Credit from banking corporations	79,987	-	-	-	79,987
Trade and other payables and other liabilities	262,860	15,310	24,720	3,698	306,588
	386,910	57,327	166,739	164,735	775,711

Group management periodically review the ratio between future cash flows derived from the maturities of its liabilities and future cash flows derived from maturities of its financial assets. Where necessary, the Group modifies its liability mix and their maturities. In the Group's management's assessment, the Group's liquidity risk is low.

Note 4 –Financial instruments and the management of financial risks (Continued)

b. The management of capital risks

The Group's capital risk management targets are to preserve the Group's ability to continue functioning as a going concern in order to provide shareholders with returns on their investments, and benefits to other interested parties, and to maintain an optimal capital structure to reduce the cost of equity.

From time to time, as needed, the Group considers the need to rise outside capital.

Leverage:

The following is a calculation of the net financial debt to overall equity (CAP) as of December 31, 2019 and 2018:

	As of December, 31	
	2019	2018
	US$ thousands	
Financial debt, net [(1)]	560,816	326,661
Total equity (CAP) [(2)]	1,215,421	894,338
Leverage ratio – net financial debt to CAP *	46.1%	36.5%

(1) Financial debt, net includes short-term and long-term credit from banks, debentures, interest payable, a liability to a financial institution, a derivative financial instrument and a deposit that has been deposited as collateral for the derivative and finance leasing, less cash and cash equivalents.

(2) The total overall equity (CAP) relates to the gross financial debt with the addition of a financial derivative and less a deposit that has been deposited as collateral for the derivative, as aforesaid, equity and the reserve for deferred taxes.

* Leverage ratio – net financial debt to CAP excluding the effect of the implementation of IFRS16 is 33.5%.

c. Fair value Assessments

The following is an analysis of the financial instruments that are measured at fair value, in accordance with the evaluation method. The various levels have been defined as follows:

1. Quoted prices (unadjusted) in active markets in which identical assets or liabilities are traded. (level 1)
2. Data other than quoted prices included in level 1, which may be directly (i.e. as prices) or indirectly (i.e. price derivatives) for the asset or the liability.
3. Data regarding the asset or liability not based on observable market information (unobservable input (level 3)

Forward contracts in which the Company invests to hedge its cash flow are included in Level 2 (see Note 12).

A derivative financial instrument, in respect of swap transactions for hedging payments of the debentures is included in Level 2 (see Note 12).

Note 4 –Financial instruments and the management of financial risks (Continued)

d. Changes in financial liabilities, the cash flows from which are classified as cash flows from financing activity:

	Short-term credit and loans	Long-term loans from banking corporations	Long-term loans and financial liabilities	Debentures	Derivative financial instrument	Liability to a financial institution	Liabilities in respect of leases	Total
Balance as at December 31, 2018:	28	-	5,706	(279,541)	(22,559)	7,426	-	270,142
Changes in the course of 2018:								
Cash flows received	73,415	81,480	-	-	-	-	-	154,895
Cash flows paid	-	(2,014)	(3,647)	(20,920)	-	(7,426)	-	(34,007)
Consolidation	6,760	-	-	-	-	-	-	6,760
Other liabilities added in respect of fixed property providers	-	-	8,225	-	-	-	-	8,225
Amounts reflected in profit or loss	-	-	-	(16,132)	16,628	-	-	496
Amounts reflected in other comprehensive income: differences on the translation of financial statements	(216)	(1,317)	-	-	5,980	-	-	4,447
Balance as at December 31, 2018:	79,987	78,149	10,284	242,489	49	-	-	410,958
Changes in the course of 2019:								
Implementation of IFRS16	-	-	-	-	-	-	231,517	231,517
Consolidation	1,540	11,505	-	-	-	-	16,799	29,844
Cash flows received	-	-	-	150,137	-	-	-	150,137
Cash flows paid	(81,039)	(8,944)	(3,503)	(29,748)	-	-	(57,912)	(181,146)
Other liabilities added in respect of fixed property providers	-	-	1,842	-	-	-	-	1,842
Repayment of long-term loans in the course of an acquisition agreement	-	-	(3,350)	-	-	-	-	(3,350)
Amounts reflected in profit or loss								
Amounts reflected in other comprehensive income:	-	-	-	14,300	(16,618)	-	35,071	32,753
Differences on the translation of financial statements	1,380	(1,785)	-	-	(2,009)	-	829	(1,585)
Balance as at December 31, 2019:	1,868	78,925	5,273	377,178	(18,578)	-	226,304	670,970

Note 5 –Segmental reporting

a. Operating segments:

1) Overview

Group management has determined the operational segments on the basis of the reports examined by the Company's CEO and Board of Directors on a regular basis. The CEO and Board of Directors were identified together as the strategic steering committee, which makes the Company’s strategic decisions (CODM).

The following is a short description of each of the reportable operating segments:

(a) Delta USA – this segment deals in designing, developing and marketing of undergarments, socks and sportswear mainly for private labels in the women, men and children categories, sold to the large retail chains in the USA, as well as under labels for which it has received a concession labels in its possession.

(b) Global Upper Market - this segment deals in designing, developing, manufacturing and marketing undergarments for men and women, socks and sportswear manufactures at the Company plants. Most of the operating segment's sales are to private labels in the upper market segment in the United Stated and in Europe. As of July 2019 this operating segment also includes the activity of the Bogart Group, see Note 6.

(c) Delta European Brands – this segment is engaged in the design, production, development and marketing of labeled undergarments for men and women and labeled children's clothing, primarily under the "Schiesser", "Eminence", "Athena" and "Liable" brands. The operating segment's activity is carried out primarily through wholesale activity to retail marketing chains, through the chain of stores and via the internet.

(d) Delta Premium Brands – this segment is engaged in the design, production, development and marketing of premium products under the "7 for all mankind", "Splendid" and "Ella Moss" brands, through the Company’s chain of stores in the United States and in Europe, via the internet and also through wholesale activity to retail marketing chains.

In 2018, the "Ella moss" activity was changed to the franchise model.

(e) Delta Israel – this segment is engaged in design, development and marketing of branded undergarments for men and women, children's clothing and activewear and sports footwear, mainly under the "Delta", "Fix" and "Puma" brands for various customers in Israel, by means of and the Company's chain of stores in Israel, via the internet website and also through wholesale activity to retail marketing chains.

2) Information on segmental sales, profit (loss) and assets of the reportable segments:

(a) The measurement of segmental sales, profit (loss) and segmental assets:

The measurement of segmental sales, profit (loss) and segmental assets is based on the same accounting principles that have been implemented in the consolidated financial statements.

The segmental profits (losses) reflect the profits (losses) from the segment's operations and they do not include financing expenses, net and taxes on income, since those items are not attributed to the segments and are not analyzed by the CODM in a segmental break down.

Sales prices between segments are based on negotiations between the segments, when possible, on market prices.

(b) Segment assets include primarily fixed assets, intangible assets, investments in companies handled using the equity method, inventory, trade and other receivables. Assets not attributed to segments include primarily cash and cash equivalents, deferred taxes, financial derivative and assets held for sale.

In addition, the CODM does not examine liabilities as part of the segmental data.

Note 5 – Segmental reporting (Continued)

b. Data on segmental activity:

	Delta USA	Global Upper Market (*)	Delta European Brands (**)	Delta Premium Brands	Delta Israel	Adjustments (***)	Inter-company eliminations	Total
	Thousands of Dollars							
For the year ended December 31, 2019								
Sales to external customers	460,073	434,987	308,526	271,742	214,836	-	-	1,690,164
Inter segment	1,535	25,696	-	2,906	-	-	(30,137)	-
Total sales, net	461,608	460,683	308,526	274,648	214,836	-	(30,137)	1,690,164
Segmental profits (losses), before non-recurring items	23,166	40,333	25,683	5,405	15,922	(4,633)	90	105,966
Re-organization expenses (expense elimination), net	-	(187)	-	-	-	(800)	-	(987)
Activity acquisition expenses	-	3,273	-	-	-	-	-	3,273
Segmental profits (losses)	23,166	37,247	25,683	5,405	15,922	(3,833)	90	103,680
Financing expenses								36,065
Profit before taxes on income								67,615
Assets at the end of the year (****)	318,521	395,549	389,967	249,170	144,723	89,884	-	1,587,814
Depreciation and amortization	6,668	17,213	20,292	26,940	15,736	2,975	-	89,824
Capital gain (loss)	-	47	48	-	(10)	1	-	86
Capital investments in fixed assets and intangible assets (*****)	1,329	11,341	5,186	9,787	3,262	2,667	-	33,572

(*) As of the third quarter of 2019, this segment includes Bogart's activity.

(**) As of the third quarter of 2018, this segment includes Schiesser and Eminence. Until that date, this segment included the results of Schiesser's activity only.

(***) The data on adjustments include expenses that are not attributed to operating segments.

(****) The data on adjustments include primarily fixed assets, cash balances and deferred taxes.

(*****) These data do not include minimum amounts in respect of concession agreements that the Company is a party to, the purchases of brands and the effect of the implementation of IFRS16.

Note 5 – Segmental reporting (Continued)

b. Data on segmental activity (Continued):

	Delta USA	Global Upper Market (*)	Delta European Brands (**)	Delta Premium Brands	Delta Israel	Adjustments (***)	Inter-company eliminations	Total
	Thousands of Dollars							
For the year ended December 31, 2018								
Sales to external customers	467,255	285,224	273,253	278,491	194,198	-	-	1,498,421
Inter segment	2,066	23,141	-	3,440	-	3	(28,650)	-
Total sales, net	469,321	308,365	273,253	281,931	194,198	3	(28,650)	1,498,421
Segmental profits (losses), before non-recurring items	32,988	21,023	21,073	16,952	10,962	(4,665)	(328)	98,005
Re-organization expenses, net	(144)	4,563	-	(297)	-	1,300	-	5,422
Activity acquisition expenses	-	-	4,283	-	-	-	-	4,283
Adjustments due to allocation of acquisition costs	-	-	7,625	-	-	-	-	7,625
Segmental profits (losses)	33,132	16,460	9,165	17,249	10,962	(5,965)	(328)	80,675
Financing expenses								21,352
Profit before taxes on income								59,323
Assets at the end of the year (****)	297,882	206,348	366,115	197,060	105,034	33,490	-	1,205,929
Depreciation and amortization	3,942	8,853	9,313	2,933	4,423	2,852	-	32,316
Capital gain (loss)	-	(126)	34	-	(3)	(4)	-	(99)
Capital investments in fixed assets and intangible assets (*****)	1,797	20,669	7,789	7,747	5,568	1,933	-	45,503

(*) As of the third quarter of 2019, this segment includes Bogart's activity.
(**) As of the third quarter of 2018, this segment includes Schiesser and Eminence. Until that date, this segment included the results of Schiesser's activity only.
(***) The data on adjustments include expenses that are not attributed to operating segments.
(****) The data on adjustments include primarily fixed assets, cash balances and deferred taxes.
(*****) These data do not include minimum amounts in respect of concession agreements that the Company is a party to and purchases of brands.

Note 5 – Segmental reporting (Continued)

b. Data on segmental activity (Continued):

	Delta USA	Global Upper Market (*)	Delta European Brands (**)	Delta Premium Brands	Delta Israel	Adjustments (***)	Inter-company eliminations	Total
	Thousands of Dollars							
For the year ended December 31, 2017								
Sales to external customers	445,172	277,979	207,882	275,278	161,769	-	-	1,368,080
Inter segment	149	12,577	-	-	-	123	(12,849)	-
Total sales, net	445,321	290,556	207,882	275,278	161,769	123	(12,849)	1,368,080
Segmental profits (losses), before non-recurring items	30,300	29,881	12,607	13,520	3,853	(2,771)	-	87,390
Profit on an opportunity acquisition	-	-	-	-	-	-	-	-
Re-organization expenses, net	144	-	-	2,688	-	-	-	2,832
Segmental profits (losses)	30,156	29,881	12,607	10,832	3,853	(2,771	-	84,558
Financing expenses								18,848
Profit before taxes on income								65,710
Assets at the end of the year (****)	317,609	157,775	170,654	176,525	96,703	101,256	-	1,020,522
Depreciation and amortization	3,270	8,042	6,727	3,575	4,202	2,234	-	28,500
Capital gain (loss)	-	320	133	3,110	-	769	-	4,332
Capital investments in fixed assets and intangible assets (*****)	1,449	15,478	6,490	9,027	4,101	3,156	-	39,701

(*) In 2017, the operating segment did not Bogart activity.
(**) In 2017, the operating segment included the Schiesser activity only.
(***) Data on adjustments include expenses that are not attributed to operating segments.
(****) Data on adjustments include primarily fixed assets, cash balances and deferred taxes.
(*****) These data do not include minimum amounts in respect of concession agreements that the Company is a party to and purchases of brands.

Note 5 –Segmental reporting (Continued)

c. Additional information on a geographical basis:

1) Sales on a geographical basis (based on the customers' locations):

	For the year ended December 31		
	2019	2018	2017
	Thousands of Dollars		
United States	846,061	794,316	760,480
Europe (except for Germany)	312,093	251,804	203,750
Germany	198,194	194,378	188,770
Israel	215,708	194,239	162,056
Others	118,108	63,684	53,024
	1,690,164	1,498,421	1,368,080

2) Balances of non-current assets (*), on a geographical basis, are detailed below:

	For the year ended December 31		
	2019	2018	2017
	Thousands of Dollars		
United States	182,966	115,609	122,970
Switzerland	112,649	99,146	91,851
Israel	136,522	79,635	85,169
Germany	88,739	40,995	42,830
France	111,795	111,921	-
Vietnam	39,234	39,595	28,561
Egypt	24,577	22,257	17,291
Czech Republic and Slovakia	15,587	16,317	16,865
Turkey	11,509	11,148	10,328
Italy	13,476	15,645	-
Bulgaria and Hungary	5,250	5,756	6,138
Far East	132,037	2,718	2,728
Jordan	-	-	254
Others (primarily Europe)	5,113	661	1,562
	879,453	561,403	426,547

(*) Except for deferred taxes.

d. Sales Information by product categories:

	For the year ended December 31		
	2019	2018	2017
	Thousands of Dollars		
Ladies Intimate Apparel, activewear, nightwear and clothing	681,239	543,551	508,990
Men's Underwear and activewear	345,005	307,105	250,553
Socks	222,295	201,829	203,178
Children's wear	166,977	164,005	130,081
Branded denim and outwear	274,648	281,931	275,278
	1,690,164	1,498,421	1,368,080

e. Sales to a main customer:

	For the year ended December 31		
	2019	2018	2017
	US$ millions		
Customer A – Belongs to the Delta USA segment	-	143.0	158.0

Note 5 –Segmental reporting (Continued)

* In 2019 the Company did not have a customer to whom 10% or more of its total sales were made.

Note 6 – Business combinations

a. On July 2, 2019, the Company completed the acquisition of the Bogart Group from the selling shareholder, following the fulfilment of the preconditions required to complete the transaction.

The Bogart Group is a vertical manufacturer engaged in development and marketing of intimate apparel, mainly brassieres and swimwear for private brands of leading customers in the upper market segment in the US and Europe. Bogart was established in 1993 and is one of the largest brassiere manufacturers in the world. Bogart Group holds a number of subsidiaries in the Far East (China, Thailand, Myanmar) and owns cutting and sewing factories for the manufacture of apparel products and the manufacture of raw materials (lace and pads) for self-use and for external customers.

The Company consolidated the results of the Bogart Group in its financial statements as of July 2019 and presents them as part of the Global Division Upper Market operating segment, see Note 5.

In the course of 2019, the Company provided loans to the members of the Bogart Group totaling approximately $ 18 million in addition to previous loans granted up to December 31, 2018. In addition, the Company repaid Bogart's loans to banks as provided under the acquisition agreement in the amount of $ 28 million and transferred $ 15 million to repay Bogart's debts to its suppliers and employees, so that as of December 31, 2019, the Company transferred approximately $ 75 million.

The Company has contracted with an external assessor to allocate the acquisition cost. As part of the acquisition cost allocation, assets and liabilities were measured and presented at fair value, including goodwill and customer relationships that were included within the intangible assets.

The table below shows the consideration for the acquisition of the Bogart Group, the amounts recognized for the acquired assets and the liabilities incurred at the acquisition date, at their fair value:

The consideration:

	Thousand dollars
Cash paid	27,881
Conditional consideration	11,037
Total consideration	**38,918**

Note 6 – Business combinations (Continued)

The following are amounts as of the date of acquisition recognized for identifiable assets acquired and liabilities incurred:

	Thousand dollars
Cash	1,511
Inventory	29,891
Customers	13,526
Other receivables	5,428
Fixed assets	27,454
Right of use asset	17,351
Customer relations	52,500
Other intangible assets	158
Deferred taxes	(8,363)
Suppliers	(29,601)
Payables and credit balances	(40,271)
Current maturities of long-term loans and short-term credit from banks	(4,568)
Liabilities for leases	(16,799)
Accounts payable and long-term liabilities	(47,161)
Total assets identified, net	**1,056**
Goodwill	37,862

The acquisition agreement included a liability in respect of a contingent consideration for the previous company owners, which depends on achieving profitability goals in 2023-2024.

The following are figures for sales and net profit of the Group, assuming that the Company's acquisition transaction took place on January 1, 2019:

1. Group sales in 2019 would have totaled $ 1,775.2 million compared to $ 1,690.2 million as reported.

2. Net income in 2019 would have totaled $ 45.4 million, compared with $ 57.7 million as reported.

It should be noted that Bogart results in the first half of 2019 and does not include one-time adjustments as a result of its acquisition.

The Company included in the 2019 results expenses for the Company's acquisition of $ 3.3 million; These expenses are included in general and administrative expenses.

b. On July 6th 2018, a purchase agreement was signed between the Company, a subsidiary of the Company, Delta Textiles France, the shareholders and security holders of Boxer Holding ("BH") and of Financière Boxer ("FB") ("the Sellers") and the Sellers' representative, for the purchase of all of FB's securities and all of BH's securities (excluding BH securities held by FB) for € 127.2 million (approximately $ 148 million). The purchase consideration net of the balance of net cash, that was in the Eminence fund is € 123.3 million (approximately $ 144 million according to the exchange rate at the time) in cash.

FB is a private company that is a minority shareholder in BH and BH is a private company holding 100% of Eminence shares.

Eminence owns several subsidiaries throughout Europe (France, Italy, Spain, Romania and Belgium).

The Company consolidated the results of the acquired company in its financial statements as of July 2018 and presents them as part of the Delta European Brands operating segment, which includes the Schiesser results, see Note 5.

Note 6 – Business combinations (Continued)

The Company entered into an agreement with an external appraiser for the purpose of allocating the acquisition cost that was attached to the financial statements for the third quarter of 2018, and which assessed and presented the assets and liabilities at their fair value, including goodwill, brand names, customer relations and the value of concession agreements.

Below are details of the amounts as of the acquisition date recognized in respect of identifiable assets acquired and liabilities taken, in thousands of dollars:

	As of July 6, 2018 Thousands of Dollars
Restricted cash	1,631
Inventory	34,054
Trade receivables	20,123
Other receivables	6,891
Fixed assets	21,203
Brand names	34,849
Customer relations	29,770
Other intangible assets	3,383
Goodwill	41,563
Suppliers	(10,822)
Accounts payable	(12,409)
Deferred taxes	(21,588)
Long - term liabilities	(4,943)
	143,705
Financial liabilities	(6,760)
	136,945
The balance of cash entered into consolidation following the acquisition of a company	11,303
	148,248

Following are data regarding the Group's sales and net profit, assuming that the Company's acquisition transaction took place on January 1, 2018:

1. The Group's sales in 2018 amounted to $ 1,549.1 million compared to $ 1,498.4 million as reported.
2. The net profit in 2018 would have been $ 49.8 million, compared with $ 48.2 million reported.
   The net profit in 2018 included non-recurring expenses in respect of the allocation of acquisition costs, which are not in cash, in the amount of $ 5.4 million.
   Excluding these one-off expenses, net profit in 2018 would have been $ 55.2 million, compared with $ 48.2 million reported.

   In the results of 2018, the Company included expenses in respect of the Company's acquisition transaction of $ 4.3 million; These expenses are included in general and administrative expenses.

Note 7 – Fixed assets

a. Composition of the cost, accumulated depreciation and amortization of fixed assets, by the main groupings, in 2019:

	Cost						
	Balance at the beginning of the year	Additions During the year	Disposals During the year	Consolidation	Writing-off fully reduced assets and assets not in use	Capital reserve from translation differences	Balance at the end of the year
	Thousands of Dollars						
Land and buildings	78,576	1,065	(6)	4,389	-	(443)	83,581
Machinery and Equipment	112,870	8,133	(925)	17,717	-	(1,632)	136,163
Office furniture and equipment, vehicles & leasehold improvements	155,442	17,249	(1,761)	5,348	(2,656)	(1,079)	172,543
	346,888	26,447	(2,692)	27,454	(2,656)	(3,154)	392,287

	Accumulated depreciation and Amortization						
	Balance at the beginning of the year	Additions During the year	Disposals During the year	Consolidation	Writing-off fully reduced assets and assets not in use	Capital reserve from translation differences	Balance at the end of the year
	Thousands of Dollars						
Land and buildings	14,572	2,744	-	-	-	(206)	17,110
Machinery and Equipment	59,301	9,730	(666)	-	-	(212)	68,153
Office furniture and equipment, vehicles & leasehold improvements	81,277	17,713	(1,636)	-	(2,656)	(884)	93,814
	155,150	30,187	(2,302)	-	(2,656)	(1,302)	179,077

	Depreciated Balance	
	As at December 31	
	2019	2018
	Thousands of Dollars	
Land and buildings	66,471	64,004
Machinery and Equipment	68,010	53,569
Office furniture and equipment, vehicles & leasehold improvements	78,729	74,165
	213,210	191,738

Note 7 – Fixed assets (Continued)

a. Composition of the cost, accumulated depreciation and amortization of fixed assets, by the main groupings, in 2018:

	Cost						
	Balance at the beginning of the year	Additions During the year	Disposals During the year	Consolidation	Writing-off fully reduced assets and assets not in use	Capital reserve from translation differences	Balance at the end of the year
	Thousands of Dollars						
Land and buildings	58,056	2,222	(276)	19,588	-	(1,014)	78,576
Machinery and Equipment	101,619	17,611	(6,164)	622	(151)	(667)	112,870
Office furniture and equipment, vehicles & leasehold improvements	157,183	21,083	(5,738)	581	(1,127)	(16,540)	155,442
	316,858	40,916	(12,178)	20,791	(1,278)	(18,221)	346,888

	Accumulated depreciation and Amortization						
	Balance at the beginning of the year	Additions During the year	Disposals During the year	Consolidation	Writing-off fully reduced assets and assets not in use	Capital reserve from translation differences	Balance at the end of the year
	Thousands of Dollars						
Land and buildings	13,094	2,224	(276)	-	-	(470)	14,572
Machinery and Equipment	57,719	7,490	(5,338)	-	(151)	(419)	59,301
Office furniture and equipment, vehicles & leasehold improvements	86,027	16,968	(5,865)	-	(1,127)	(14,726)	81,277
	156,840	26,682	(11,479)	-	(1,278)	(15,615)	155,150

	Depreciated Balance	
	As at December 31	
	2018	2017
	Thousands of Dollars	
Land and buildings	64,004	44,962
Machinery and Equipment	53,569	43,900
Office furniture and equipment, vehicles & leasehold improvements	74,165	71,156
	191,738	160,018

a. Composition of the cost, accumulated depreciation and amortization of fixed assets, by the main groupings, in 2017:

	Cost						
	Balance at the beginning of the year	Additions During the year	Disposals during the year	Writing-off fully reduced assets and not in use assets	Capital reserve from translation differences	Reclassifications	Balance at the end of the year
	Thousands of Dollars						
Land and buildings	78,416	2,754	(25,406)	(459)	2,751	-	58,056
Machinery and Equipment	91,012	15,577	(4,789)	(1,937)	1,756	-	101,619
Office furniture and equipment, vehicles & leasehold improvements	126,206	12,965	(3,055)	-	21,367	(300)	157,183
	295,634	31,296	(33,250)	(2,396)	25,874	(300)	316,858

	Accumulated depreciation and Amortization						
	Balance at the beginning of the year	Additions During the year	Disposals during the year	Writing-off fully reduced assets and not in use assets	Capital reserve from translation differences	Reclassifications	Balance at the end of the year
	Thousands of Dollars						
Land and buildings	11,190	1,725	(600)	(459)	1,238	-	13,094
Machinery and Equipment	56,827	6,344	(4,576)	(1,937)	1,061	-	57,719
Office furniture and equipment, vehicles & leasehold improvements	55,663	15,715	(2,824)	-	17,473	-	86,027
	123,680	23,784	(8,000)	(2,396)	19,772	-	156,840

	Depreciated Balance As at December 31	
	2017	2016
	Thousands of Dollars	
Land and buildings	44,962	67,226
Machinery and Equipment	43,900	34,185
Office furniture and equipment, vehicles & leasehold improvements	71,156	70,543
	160,018	171,954

Note 7 – Fixed assets (Continued)

b. Land and buildings

The Group owns land and buildings used for its operations, which are located in Israel, the United States, Vietnam, Bulgaria, Egypt, Thailand, Germany, France, the Czech Republic and Slovakia.

c. Encumbrances on assets

The Company's liabilities to banks are fully secured by an unlimited floating lien on all of the Company's assets and rights and on assets of some of its subsidiaries.

d. For classification of depreciation expenses in report on profit or loss, See Note 19I, J and K.

Note 8 –Intangible assets

a. Composition of the intangible asset and the accumulated amortization thereon, by the main groupings:

	Goodwill (B)	Customer Relations (*)	Trademarks (C) (*)	Patent	Brand name (D)	Computer software (**)	Total
	Thousands of Dollars						
In 2017							
Capital reserve on translation differences	-	(26)	130	-	2,827	56	2,987
Additions	-	-	17,847	-	-	4,462	22,309
Reclassification	-	-	-	-	-	300	300
Amortization	-	(2,721)	(10,462)	(35)	-	(1,600)	(14,818)
	70,101	21,218	41,004	462	89,146	6,938	228,869
In 2018							
Capital reserve on translation differences	(709)	(517)	(124)	0	(1,618)	473	(2,495)
Additions	0	0	12,988	0	196	8,087	21,271
Consolidation	41,563	29,770	3,385	0	34,849	437	110,004
Amortization	0	(2,423)	(19,882)	(33)	0	(2,687)	(25,025)
	110,955	48,048	37,371	429	122,573	13,248	332,624
In 2019							
Capital reserve on translation differences	(816)	(976)	(25)	-	(1,128)	166	(2,375)
Additions	-	-	12,657	-	-	4,963	17,620
Consolidation	37,862	52,500	18	-	-	140	90,520
Reclassification	-	-	(369)	-	-	369	-
Amortization	-	(4,411)	(7,732)	(36)	-	(4,487)	(16,642)
	148,001	95,161	41,920	393	121,445	14,399	421,319
Balance as of December 31 2019							
Cost	155,556	115,303	144,794	650	123,356	36,103	575,762
Accumulated amortization	(7,555)	(20,142)	(102,874)	(257)	(1,911)	(21,704)	(154,443)
Balance as of December 31 2019	148,001	95,161	41,920	393	121,445	14,399	421,319

(*) The amortization of customer contacts and trademarks are presented under selling and marketing expenses.
(**) The amortization of computer software is presented under cost of sales, selling and marketing expenses and administrative and general expenses according to the type of software.

Note 8 – Intangible assets (Continued)

b. Goodwill

The balance of goodwill is attributed to the Delta USA, Global Division Upper Market (in respect of Bogart) and Delta European Brands operating segments.

The Group reviews the need for goodwill balance impairment once a year or when signs exist that may indicate the need to impair.

In 2019, 2018 and 2017, no need arose for such impairment.

The Company uses the above assumptions to analyze the value of goodwill of cash generating units in the various segments:

1) Long-term gross representative profit rate. The gross profit rate is based on past experience and Group forecasts of market developments.
2) The weighted average growth rate used to estimate cash flows past the budget period.
3) Capitalization rate applied to the cash flow forecast. Discount rate set according to segmental risks.

Goodwill impairment Test - Delta USA

The recoverable amount of a cash-generating unit is determined based on the value calculations used. The cash flow forecast is based on the approved budget for the coming year, that is approved by management, and additional assumptions regarding the growth rate of sales and expenses in the following four years. In cash flows exceeding five years, extrapolation is carried out using the expected growth rates listed below.

The basic assumptions used in calculating of the value in use in 2019 are as follows:

Gross profit rate	23.2%
Nominal growth rate	2.0%
Pre-tax discount rate	11.5%

In 2018, the Company relied on the valuation performed in 2017, in accordance with its compliance with all of the conditions specified in section 99 of IAS 36 regarding impairment of assets, as follows:

(a) The assets and liabilities that make up the unit have not changed significantly since the most recent calculation of the recoverable amount;
The most recent calculation of the recoverable amount exceeds the carrying amount of the unit at a material margin;

(b) Based on the analysis of the events that have occurred in 2018 and the circumstances that have changed since the most recent calculation of the recoverable amount, the likelihood that the recoverable amount to be determined in the current period will be lower than the current book value of the unit is remote.

Goodwill impairment Test – Eminence – Delta European Brands

In July 2018, the Company completed the acquisition of the Eminence Group, which operates primarily in France and Italy, see Note 6B. The results of the Eminence Group are included under Delta European Brands.

The Company entered into an agreement with an external appraiser for the purpose of allocating the acquisition cost that was attached to the financial statements for the third quarter of 2018. As part of the allocation of the acquisition cost, the assets and liabilities were measured at fair value, including goodwill.

The Company reviewed the need for goodwill balance impairment as of December 31, 2019 and 2018.
As a result of this review, no need arose for such impairment.

Note 8 –Intangible assets (Continued)

The basic assumptions used in calculating of the value in use are as follows:

	2019	2018
Gross profit rate	51%	52%
Nominal growth rate	2.0%	1.0%
Pre-tax discount rate	8.5%	11%

Bogart goodwill impairment test - Global Division Upper Market Segment

In July 2019, the Company completed the acquisition of the Bogart Group operating in the Far East and which is mainly known to customers in the US and Europe, see Note 6A. The results of the Bogart Group are included under the activity of Global Division of the Upper Market Segment.
The Company has contracted with an external assessor to allocate the acquisition cost. As part of the acquisition cost allocation, assets and liabilities were measured and presented at fair value, including goodwill.

The Company has examined the need to reduce goodwill as of December 31, 2019.
As a result, the need for such reduction did not come up.

The main assumptions used in calculating value in use in 2019 are as follows:

	2019
Gross profit rate (1)	21.6%
Nominal growth rate (2)	3%
Pre-tax discount rate (3)	17.5%

In addition, for all Delta USA, Eminence and Bogart goodwill balances, an impairment sensitivity test was performed for December 31, 2019 on the change of the pre-tax discount rate by 0.5% and the remaining other parameters unchanged.

An impairment sensitivity test for December 31, 2019 was performed with a 0.5% change in the growth rate and the remaining other parameters unchanged.

The results of the sensitivity tests listed above do not indicate any required impairment.

c. The right to use trademarks

The Company has entered into agreements which afford it the right to market products under brand names owned by other parties, usually for periods of 3 to 4 years. Royalties for these agreements are calculated as a percentage of sales. Royalty rates range from 5% and 14% of sales, pursuant to these agreements, the Company is liable for minimum royalty payments, as set forth in these agreements, and the discounted sums of which are included recorded in the financial statements under "other non-current liabilities".

d. Brands

The Group reviews the need for recognizing of the impairment of its brands once a year or when signs exist that may indicate the need to impair.

1) The balance of the brands as of December 31, 2019 includes the brand names: "Schiesser", "P.J. Salvage", "Karen Neuburger", "Little Miss Matched", "Fix", "7 For All Mankind", "Splendid", "Ella Moss", "Eminence", "Athena" and "Liable".
2) Schiesser Brand impairment Test

The Company considers Schiesser brand to have unlimited shelf life and therefore it is not amortized in the books. In making this determination, the Company relied on the following assumptions:

Note 8 – Intangible assets (Continued)

a. The brand exists since 1875 and is a famous and stable in Germany and in the Benelux countries (Western Europe).
b. The brand's primary activity has been profitable for many years.
c. Purchase of the brand by the Company assures continued expansion in Germany and in the Benelux countries.

In 2018, the Company relied on the valuation performed in 2017, in accordance with its compliance with all of the conditions specified in section 99 of IAS 36 regarding impairment of assets, as stated above.

The valuation performed in 2019 is in accordance with the Revenue Approach and is based on the "Relief from royalty method". The basic assumptions used in calculating the value are as follows:

a. The royalties' rate is 3.0%, and is calculated according to a weighted between an average royalty's rate in franchise agreements in the garment industry and a royalty rate calculated as part of a representative operating profit.

	Average rate	**Weighted rate**
Average royalties' rate in concession agreements in the garment industry	5.5%	25%
Royalties rate as share of profit representative operating Profit (*) (average of between 25% and 33%).	2.2%	75%

(*) A representative operating margin of 7.5%.

b. Post-tax discount rate of 8.5% (the discount rate is determined according to the segment risks).
c. Growth rate of 0% (The growth rate applied in the valuation based on past experience and on Company's market development forecast)

3) "7 for all mankind" Impairment Test
The Company considered the "7 for all mankind" brand to have an unlimited shelf life and therefore it is not amortized in its books. In making this determination, the Company relied on the following assumptions:
a. The brand has existed for over 15 years and is a leading brand in the high-end denim category.
b. The brand is a global brand and is familiar in United States and in European and Asian countries.
c. The Company estimates that its purchase of the brand and the investment in it will lead to its global growth.

In 2018, the Company relied on the valuation performed in 2017, in accordance with its compliance with all of the conditions specified in section 99 of IAS 36 regarding impairment of assets, as stated above.

The main assumptions used in calculating the brand value in 2019 are as follows:
a. Royalties are: 3.5% in retail activity and 7.7% in wholesale activity.
b. Growth rate: 2%.
c. Post-tax discount rate: 8.5%

The results of the sensitivity tests detailed above, do not indicate that the required impairment exists.

4) P.J. Salvage Impairment Test:

The Company conducted an impairment test for the P.J. Salvage brand in accordance with the revenue approach and based on the "Relief from royalty method".

The main assumptions used in calculating the value of the brand in 2018 and 2019 are:

Note 8 –Intangible assets (Continued)

		2019	2018
a.	Royalties rate:	10%	10%
b.	Growth rate:	2%	3%
c.	Post-tax discount rate:	14.5%	14.5%

5) Eminence, Liable, Athena Impairment Test:

The Company views the lifespan of the Eminence, Athena, and Liable brands as unrestricted, and therefore are not impaired in its books. For purposes of this determination, the Company bases on the following assumptions:

a.

	Eminence	Athena	Liable
Year of establishment	1944	1962	1851
Primary country	France	France	Italy

b. The brands' primary activity is profitable over many years and they are market leaders in the key countries they operate in.

c. The acquisition of the brands by the Company ensures their continued expansion in the relevant countries.

The valuation performed in 2018 and 2019 is in accordance with the Revenue Approach and is based on the "Relief from royalty method". The main assumptions used in calculating the value ob the brand in 2018 and 2019 are as follows.

2019:	**Eminence**	**Athena**	**Liable**
Royalties rate	7%	5%	7%
Capitalization rate *	10.5%	10.5%	10.5%
Growth rate**	1%	1%	1%

2018:	**Eminence**	**Athena**	**Liable**
Royalties rate	7%	5%	7%
Capitalization rate *	13%	13%	13%
Growth rate**	1%	1%	1%

* The capitalization rate is determined in accordance with the Company's risks.
** The growth rate was based on past experience and the Company's forecasts for market development.

The Company has a number of additional brands for which it tested impairment as of December 31, 2019. No need for impairment arose as a result of this examination.

Also, for all brand balances, an impairment sensitivity test was performed for December 31, 2019 on the change of the pre-tax discount rate by 0.5% and the remaining other parameters unchanged.

An impairment sensitivity test for December 31, 2019 was performed with a 0.5% change in the growth rate and the remaining other parameters unchanged.

The results of the sensitivity tests listed above do not indicate any required impairment.

Note 9 – Assets and liabilities in respect of leases:

As stated in Note 2X(1), as of January 1, 2019, the Company applies IFRS16. This note refers to the leases in which the Company is the lessee.

a. Assets in respect of right of use:

	Buildings	Equipment and computers	Vehicles	Other	Total
	Thousand dollars				
Cost:					
Balance as of January 1, 2019 (as a result of the initial adoption of IFRS16)	377,256	3,411	1,881	1,491	384,039
Changes over the year:					
Additions	24,390	598	1,127	2,631	28,746
Consolidation	17,351	-	-	-	17,351
Subtractions	(6,576)	(518)	62	(281)	(7,313)
Other changes	3,825	(53)	(25)	-	3,747
Balance as of December 31, 2019	416,246	3,438	3,045	3,841	426,570
Accumulated amortization:					
Balance as of January 1, 2019	171,570	1,551	855	678	174,654
Changes over the year:					
Amortization	49,034	443	244	194	49,915
Subtractions	(7,591)	(69)	(38)	(30)	(7,728)
Other changes	2,040	19	12	7	2,078
Balance as of December 31, 2019	215,053	1,944	1,073	849	218,919
Amortized cost balance as of January 1, 2019	205,686	1,860	1,026	813	209,385
Amortized cost balance as of December 31, 2019	201,193	1,494	1,972	2,992	207,651

b. Liabilities in respect of leases:

	Buildings	Equipment and computers	Vehicles	Other	Total
	Thousand dollars				
Balance as of January 1, 2019	227,493	2,023	1,116	884	231,516
Changes over the year:					
Additions	24,511	374	206	163	25,254
Consolidation	16,799	-	-	-	16,799
Interest expense	8,324	75	42	33	8,474
Payments for leases	(56,889)	(514)	(284)	(225)	(57,912)
Other changes *	(1,472)	51	28	622	2,173
Balance as of December 31, 2019	221,710	2,009	1,108	1,477	226,304
Current maturities of lease liabilities	51,843	482	266	810	53,401
Long-term lease liabilities	169,867	1,527	842	667	172,903
Balance as of December 31, 2019	221,710	2,009	1,108	1,477	226,304

* Derive from changes made in lease agreements, such as extending the lease term, as well as assets and liabilities in respect of a lease of the Company that was first consolidated/ from differences arising from the translation of financial statements of subsidiaries prepared in foreign currency.

Note 10 – Investments treated at equity and other long-term receivables

	As at December 31	
	2019	**2018**
	Thousands of Dollars	
Loan given *	-	13,800
Investments in companies treated at equity	5,564	5,346
Advance investment in joint venture	4,164	4,484
Long-term deposits in respect of leases	-	2,721
Other long-term receivables	4,639	4,154
	14,367	30,505
Less – current maturities	-	(1,104)
	14,367	29,401

* In December 2018, the Company entered into an agreement to grant a loan of $ 13.8 million to Bogart Lingerie Limited and to a related company (the "Bogart Group").

The following are the movements in the balances of the investments in companies treated at equity:

	As at December 31	
	2019	**2018**
	Thousands of Dollars	
Balance as at January 1	5,346	4,954
Share of profits in a held company accounted for using the equity method	950	392
Repayment of loan	(732)	-
Balance as at December 31	5,564	5,346

The fair value of the long-term debt balances is not materially different from their book value.

Note 11 – Debentures

1. Details regarding the existing series of debentures

Series Name	Date of issue	Par value		Issuance Cost	Proceeds from Issuance	Duration [1]	Fixed NIS interest	Fixed Dollar interest [2]	NIS interest linked to the Dollar rate	Principal Payments	Interest Payments
		In millions									
		NIS	USD [2]	USD	USD						
E	8.4.2012	192.9	51.5	0.6	51.5	1.44	7.6%	6.18%	-	8 equal annual payments 2014 - 2021	Semi-annual in July and December
A [4]	13.8.2013	178.5	49.7	0.6	49.7	4.13	5%	4.075%	-	14 equal annual payments 2015 - 2028	Semi-annual in February and August
A Expansion [3]	27.10.2013	21.5	6.0	-	6.0	4.13	5%	4.41%	-	14 equal annual payments 2015 - 2028	Semi-annual in February and August
A 2nd Expansion [3]	14.5.2014	161.7	47.2	0.4	50.5	4.13	5%	5.45%	-	14 equal annual payments 2015 - 2028	Semi-annual in February and August
A 3rd Expansion [3]	1.6.2014	38.3	11.7	-	11.8	4.13	5%	5.45%	-	14 equal annual payments 2015 - 2028	Semi-annual in February and August
A 4th Expansion [4]	24.12.2019	245.0	70.6	0.5	81.4	4.13	5%	6.78%	-	9 equal annual payments 2020 - 2028	Semi-annual in February and August
B [4]	18.9.2014	168.4	46.2	0.6	46.2	4.50	[6] -	-	-	A single payment in 2024	Semi-annual in April and October
B Expansion [3]	20.11.2014	31.6	8.2	-	8.4	4.50	[7] -	-	-	A single payment in 2024	Semi-annual in April and October
B 2nd Expansion	24.5.2015	159.6	41.2	0.4	40.4	4.50	[8] -	-	-	A single payment in 2024	Semi-annual in April and October
F	27.3.2017	208.9	57.7	0.6	57.7	3.66		-	3.85%	9 equal payments 2018 - 2026	Semi-annual in June and December
F Expansion	13.3.2019	253.5	70.4	0.9	69.1	3.66		-	3.85%	8 equal payments 2019 - 2026	Semi-annual in June and December

Note 11 – Debentures (Continued)

2. Details regarding the existing series of debentures as at December 31, 2019:

Series Name	Book Value	Interest payable	Market value (5)	Fair value of the financial Derivative
	US$ thousands			
E	13,861	-	15.322	1,931
A (4)	32,979	555	38,558	6,150
A Expansion (3)	3,926	67	4,634	533
A 2nd Expansion (3)	31,257	503	34,928	1,530
A 3rd Expansion (3)	7,370	119	8,264	362
A 4th Expansion (4)	80,041	1,182	82,305	160
B (4)	48,467	285	50,327	2,019
B Expansion (3)	9,215	53	9,436	1,055
B 2nd Expansion	45,390	272	47,684	4,838
F	44,548	-	43,880	-
F Expansion	60,124	-	60,202	-
Total	377,178	3,036	395,540	18,578

(1) Gross average lifetime to maturity at the end of 2019.

(2) The Company has decided to enter agreements to replace cash flows with those identical to the repayment dates of the above debentures to hedge cash flows for the payments of debentures against exchange rate risks and interest risks. For Series A and E, this hedging creates fixed cash flows for the Company in Dollar terms, in which the Company is undertakes to transfer a dollar payment according to fixed USD interest rate as noted in the table, and receive NIS payment from the banking corporation according to the denoted interest rate.
For series B - See notes 6, 7 and 8 below.

(3) The maximum exposure level the banking corporation for the swap transaction as set by it for this transaction is $5 million. The Company will be asked to provide collateral in the event that the exposure exceeds the sum in question, as the banking corporation demands. As of December 31 2019, the provision of deposits was not demanded.

(4) The maximum exposure the banking corporation for the swap transaction as set by it for this transaction is $ 3 million. The Company will be asked to provide collateral in the event that the exposure exceeds the sum in question, as the banking corporation demands. As of December 31 2019, the provision of deposits was not demanded.

(5) According to the value on the Tel-Aviv Stock Exchange as at December 31, 2019.

(6) Variable NIS interest rate: 3 month Telbor + 2.10%. Variable USD interest rate: 3 month LIBOR + 2.875%.

(7) Variable NIS interest rate: 3 month Telbor + 2.10%. Variable USD interest rate: 3 month LIBOR + 2.55%.

(8) Variable NIS interest rate: 3 month Telbor + 2.10%. Variable USD interest rate: 3 month LIBOR + 2.81%.

Note 11 – Debentures (Continued)

The following are details of non-discounted contractual cash flows debentures, by years:

	As at December 31	
	2019	2018
	Thousands of Dollars	
2019	-	33,386
2020	54,506	32,250
2021	52,633	31,108
2022	44,350	23,556
2023	42,967	22,905
2024	137,071	117,740
2025	35,515	16,619
2026	34,138	15,975
2027	17,534	8,902
2028	16,737	8,497
	435,451	310,248

3. The following are details of the financial covenants that are included in the trust deeds for Series E, A, B and F, the breach of which will constitute grounds for immediate repayment, subject to the periods for repair, which have been set.

Series E:

- If the Company's equity, as published in the financial statements, amounts to under three hundred and fifty (350) million NIS, and inasmuch as the equity was not increased past the sum in question within 30 days.
- If the Company's net financial debt to CAP ratio, as published in the financial statements exceeds a rate of 60% for two consecutive quarters after the increase in question in financial debt leverage ratio.

In this regard, “the equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term debts and loans, plus current maturities of long-term loans, plus long-term loans, plus liabilities due to operating leases, except for cash and cash equivalents and with the exception of short-term investments; "CAP" (capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights), plus long-term deferred taxes in the balance sheet.

Series A:

- If the Company's equity as published in the financial statements, amounts to under one hundred and fifty (150) million dollars, and inasmuch as the equity was not increased past the sum in question within 30 days after the publication date of the relevant financial statements.
- If the company’s net financial debt to CAP ratio, as published in the financial statements, exceeds 60%, and inasmuch as the leverage rate of net financial debt to CAP does not drop by 60% as of the publication date of the second consecutive financial statements after the publication date of the financial statements That first reported the increase in question in the above leverage rate.

In this regard, "the equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debts, plus debentures and plus balance sheet liabilities due to leases, less cash and cash equivalents and less short-term investments; "CAP" (Capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights), plus long-term deferred taxes in the balance sheet.

Note 11 – Debentures (Continued)

Series B:

- If the Company's equity, as published in the financial statements, amounts to under one hundred and fifty (150) million dollars, and inasmuch as the equity was not increased past the sum in question within 30 days after the publication date of the relevant financial statements.
- If the Company's net financial debt to CAP ratio, as published in the financial statements, exceeds 60%, and inasmuch as the leverage rate of net financial debt to CAP does not drop by 60% (and including) as of the publication date of the second consecutive financial statements after the publication of the financial statement that first reported the increase in question in the above leverage rate.

In this regard, "the equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debt, plus debentures, plus balance sheet due to leases, less cash and cash equivalents and less short-term investments; "CAP" (Capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights), plus long-term deferred taxes in the balance sheet.

Series F:

- If the Company's equity, as published in the financial statements amounts to under one hundred and eighty (180) million dollars, and inasmuch as the leverage rate was not increased past the sum in question within 30 days after the publication date of the relevant financial statements.
- If the Company’s net financial debt to CAP ratio, as published in the financial statements, exceeds 60%, and inasmuch as the leverage rate of net financial debt to CAP does not drop by 60% (and including) as of the publication date of the second consecutive financial statements after the publication of the financial statements that first reported increase in question in the above leverage rate.

In this regard, "the equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debt, plus debentures, plus balance sheet due to leases, less cash and cash equivalents and less short-term investments; "CAP" (Capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights), plus long-term deferred taxes in the balance sheet.

As at December 31, 2019, the Company was in compliance with the above financial covenants in respect of all series.

Note 11 – Debentures (Continued)

4. The following are details of the restrictions on the distribution of dividends included in the deed of trust of debentures (Series E, A, B and F):

Restriction Type	Debentures (Series E)	Debentures (Series A)	Debentures (Series B)	Debentures (Series F)
Maximum distribution amount	50% of the sum of the profits in the relevant quarter (or accumulated on a quarterly basis), but in any event no more than 50% of profit	50% of the sum of distributable profits, calculating just surpluses accumulated starting June 30, 2016	50% of the sum of the distributable profits, calculating just surpluses accumulated above profits of one hundred (100) million dollars	50% of the sum of the distributable profits, as decided at the time of the decision to make the distribution.
Impact on the equity	No dividend shall be distributed if following which Company's equity drops below four hundred and fifty (450) million NIS.	No dividend shall be distributed following which the Company's equity drops below one hundred and seventy-five (175) million dollars.	No dividend shall be distributed following which the Company's equity drops below two hundred (200) million dollars.	No dividend shall be distributed following which Company's equity drops below one hundred and two hundred and twenty (220) million Dollars.
Impact of financial net debt to EBITDA ratio		The distribution is not expected to increase the Company's net financial debt to EBITDA ratio over 3.5	No dividends shall be distributed following which the Company's net financial debt to EBITDA ratio increases to over 3.5.	No dividend shall be distributed following which Company's ratio of the net financial debt to EBITDA exceeds 3.5
Distribution from Revaluation	No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments.	No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments.	No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments	No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments.
Additional restrictions			dividend shall not be distributed: – When a "warning sign" exists. – If the Company is not in compliance with all of the significant commitments under the trust deed or is in significant breach of the provisions of the trust deed and the terms of the debentures. – If the Company's shareholders' equity, including following the distribution of the dividend, does not exceed an amount of one hundred and fifty (150) thousand Dollars. – If the Company's gearing ratio of the net financial debt to CAP, including following the distribution of the dividend, exceeds a rate of 60%.	dividend shall not be distributed: – When a "warning sign" exists. – If the Company is not in compliance with all of the significant commitments under the trust deed or is in significant breach of the provisions of the trust deed and the terms of the debentures.

As at December 31, 2019, the Company was in compliance with all of the restrictions on the distribution of a dividend.

Note 12 – Derivative financial instruments

The Company invests in derivative financial instruments suited of hedging for the purpose of hedging cash flows, both through swaps in connection with the debenture series and through forward transactions, in order to hedge cash flows for the purchase of inventory, as follows:

a. Financial derivative in respect of swaps

The Company examines the value of the financial derivative in respect of swaps on each cut-off date and is assisted by an external expert for the purpose of examining its value.

The value of the financial derivative was tested on the basis of the exchange rate difference between the cash flow the Company will receive in the future (in NIS) and the cash flow it is expected to pay (in USD). The future value of these values is based on the fixed interest rates, the basis of days for calculating interest and the risk that one of the parties will not be able to meet their obligations. The following basic were used in calculation the value of the financials derivative as at December 31, 2019:

1. Market interest rates:

	Market interest rate	
Series	**NIS**	**Dollars**
E	(0.28%) - (0.3%)	1.81%-1.69%
A	(0.26%) - 0.43%	1.9%-1.86%
B	(0.26%) - (0.06%)	1.9%-1.72%

2. Credit risk rates:

Series	**The Company**	**Bank Leumi**	**Bank Mizrahi**	**Deutsche Bank**	**Barclays Bank**	**Bank Hapoalim**
E	0.86%		0.53%			
A	1.32%			0.54%	0.37%	
B	1.46%	0.52%		0.56%		0.54%

b. Financial derivative in respect of forward transactions

The Company examines the value of the financial derivative in respect of the forward transactions on each cut-off date and is assisted by an external expert for the purpose of examining its value. An examination of the value of the financial derivative was made on the basis of the difference between the fair value of the asset acquired and the fair value in accordance with the strike price.

The effect of exchange rate forward contracts used to hedge exchange rate risk on the financial position and operation results of the Company for 2019 is as follows (the amounts presented in the table are in thousands of dollars):

Note 12 – Derivative financial instruments (Continued)

	December 31, 2019
	Thousand dollars
Cash Flow Hedge:	
The book value of the hedged item (liability)	258
The item in the statement of financial position that includes the hedging item	Payables
Nominal Amount (in USD thousands)	35,000
Contract termination date	December 2020
Hedging Ratio *	
The change in the fair value component of the hedging instruments as of January 1	(264)
The change in the value of the hedged item as a basis for recognizing ineffectiveness for the period	68

* Forward contracts on exchange rates are denominated in the same currency as the expected cash flows in respect of sales to purchase inventory (dollar), and therefore the hedging ratio is 1: 1.

The main assumptions used in calculating the fair value of the derivative as of December 31, 2019 are as follows:

1. Dollar / Euro exchange rates

Date	Dollar / Euro exchange rate
December 31st 2019	1.222

2. Interest Rates

Date	Duration	Dollar interest	Euro interest
June 24th 2020	0.49	1.84%	-0.39%

Date	Duration	Dollar interest	Euro interest
March 25th 2020	0.24	1.91%	0.175%
June 24th 2020	0.49	1.84%	0.157%
September 24th 2020	0.74	1.80%	0.146%
December 24th 2020	0.99	1.76%	0.142%

Note 12 – Derivative financial instruments (Continued)

Following is the movement in a capital reserve in respect of the cash flow hedge for 2019 (in thousands of dollars):

	Swap contracts	Forward transaction	Total hedge fund
Balance as of January 1, 2018	**8,298**	**-**	**8,298**
Plus changes in the fair value of hedging instruments recognized in other comprehensive income	(5,979)	(22)	(6,001)
Less current taxes	1,368	7	1,375
Balance as of December 31, 2018	**3,687**	**(15)**	**3,672**
Plus changes in the fair value of hedging instruments recognized in other comprehensive income	2,617	(239)	2,378
Less current taxes	(602)	55	(547)
Balance as of December 31, 2018	**5,702**	**(199)**	**5,503**

In the course of 2019 $ 111 thousand were transferred from hedge fund cash flows to profit or loss in respect of forward contracts.
In the course of 2017 - 2018, there were no transfers from hedge fund cash flows to profit or loss in respect of these contracts.

Note 13 – Other non-current liabilities

	As at December 31	
	2019	**2018**
	Thousands of Dollars	
Liabilities for minimum royalty payments (see Note 8C)	38,576	33,464
Onerous contract liability	-	3,553
Conditional liability from the purchase of activity	11,837	-
Office rental liability	-	3,271
Loan from suppliers	8,757	-
Machinery purchase liability	7,496	10,002
Other liabilities	3,166	4,214
Total liabilities (see section 1 below)	69,832	54,504
Less – current maturities	21,933	18,671
Total long-term liabilities	47,899	35,833

The fair value of the non-current liabilities is not materially different from their book value.

Note 13 – Other non-current liabilities (Continued)

1. The following are details of other liabilities, discounted, payable by year:

	As at December 31	
	2019	2018
	Thousands of Dollars	
2019	-	19,877
2020	22,734	15,525
2021	28,880	14,625
2022 and onward	14,245	13,579
2023 and onward	23,033	
Less –interest component	(19,060)	(9,102)
	69,832	54,504

Note 14 – Equity

a. Equity, funds and surpluses:

1) Composed of ordinary shares worth 1 NIS NV, as follows:

	Number of shares as at December 31	
	2019	2018
Registered capital	45,000,000	45,000,000
Issued and paid-up capital (after eliminating treasury shares)	25,515,715	25,468,515
Treasury shares	1,407,754	1,451,198

As at December 31, 2019, the Company's shares are traded on the Tel-Aviv Stock Exchange at a price of US$ 27.25 (NIS 94.19).

2) The following are dividend sums distributed in past three years:

Year	Amount distributed (Thousands of Dollars)	Dividend per share (Dollars)
2017	14,055	0.56
2018	14,070	0.56
2019	11.084	0.43

3) Retained earnings:
In determining the sums available for distribution as dividends, according to the Companies Law, the total number of Company shares bought back (presented under a separate item in equity) should be deducted from retained earnings presented under Company equity.

The shares held by the Company ("treasury shares") do not grant voting rights and do not grant dividends.

Note 14 – Equity (Continued)

b. Share based payment:

1. The 2009 plans:

On August 20, 2009, the Company's Board of Directors decided to adopt an additional options plan for remunerating employees, officers, directors, consultants and other providers of services to the Company or to the Company's subsidiary companies and related companies (hereinafter – "The Recipients"). The options shall be granted free of charge. Pursuant to the plan, the Company shall be entitled to allocate up to 800,000 non-tradable options, exercisable as up to 800,000 ordinary shares worth 1NIS NV each. The exercise price of each option will be determined by the Company’s Board of Directors at its sole discretion in accordance with the law.

In addition, the Board of Directors decided to adopt an options plan for the remuneration of the American employees of the Company and of its subsidiaries. Pursuant to the plan, the Company shall be entitled to allocate up to 300,000 options, exercisable up to 300,000 ordinary Company shares worth 1 NIS NV each.

On October 27, 2011, the Company's Board of Directors decided to increase the number of regular Company shares saved for the purpose of the remuneration plan for employees, officers, directors, consultants and other selected senior providers of services to the Company or to the Company's subsidiaries and related companies, approved by the Company’s Board of Directors on August 20, 2009, by 300,000 shares, so the total number of shares saved for the purpose of the plan will amount to 1,100,000.

On the same date, the Company's Board of Directors decided to increase the number of regular shares in the Company that are reserved for the purpose of the remuneration plan for the remuneration of the American employees of the Company and of its subsidiaries companies, including directors and other officers, approved by the Company’s Board of Directors on August 20, 2009, by 300,000 shares, so the total number of shares saved for the purpose of the plan will amount to 600,000.

On December 15, 2013, the Company's Board of Directors decided to increase the number of regular Company shares saved for the purpose of the remuneration plan for employees, officers, directors, consultants and other selected senior providers of services to the Company or to the Company's subsidiaries companies and related companies, by 500,000, so the total number of shares saved for the purpose of the 2009 plan for Israeli recipients will amount to 1,600,000.

Furthermore, regarding the expansion of the plan for the above 500,000 options, the Company’s Board of Directors decided, to revised the 2009 plan for Israeli recipients, according to which the formula for calculating the issue of options via for exercising options as shares on the basis of the benefit component would be amended recipients so the recipients will not be required to pay the notational value of the exercise shares.

The Company undertook so long as the 2009 plan for Israeli recipients was still in effect, to save in the balance of profits worthy of distribution, a sum sufficient to turn it into stock capital in accordance with section 304 of the Companies Law, 1999.

The remaining provisions of the 2009 plan for Israeli recipients will remain unchanged.

As at December 31, 2019, the balance of the options that can be allocated under this plan amounted to 757,157, and the remaining blocked share units that can be allocated under this plan amounted to 133,028.

In accordance with the path that has been selected by the Company, the Company is not entitled to claim sums attributed to employees as a bonus as expense for tax purposes, including sums listed as salary benefit in the Company’s accounts due to options the employees received as part of the plan, with the exception of a fruit bonus component, if any, set upon allocation.

Note 14 – Equity (Continued)

On February 14, 2018, the Company received approval from the Tel Aviv Stock Exchange for the registration of an outline plan for employees that was submitted on June 21, 2017 and was amended on September 4, 2017.

As part of the outline, the Company listed 730,000 options exercisable into up to 730,000 shares and 200,000 restricted share units exercisable for up to 200,000 shares.

The 2014 plan:

On July 28, 2014, the Company's Board of Directors decided to adopt a plan to allocate 300,000 restricted share units. The units shall be awarded to recipients for no return at the Board of Directors' discretion and the recommendation of the Company's CEO.

On February 14, 2019, the Company received approval from the Tel Aviv Stock Exchange for the registration of an outline plan for employees.

As part of the outline, the Company listed 417,391 restricted share units exercisable into up to 417,391 shares of the 2014 plan, exercisable into up to 417,391 shares.

The balance of the share units that can be allocated from the plan stands at 404,875 as at December 31, 2019.

2. The fair value of the options granted (with the exception of options contingent on implementation goals) during the years 2019, 2018 and 2017 stood at US$ 385, 83 and 349 thousand, respectively at the time of their grant.

The fair value of each option granted (with the exception of options contingent on implementation goals) is estimated on date of grant using the Black & Scholes option pricing model using the following assumptions:

	2019	2018	2017
Dividend yield	0%	0%	0%
Expected standard deviation (*)	24.04% - 22.3%	24.8% - 23.7%	24.2% - 23.7%
Risk free interest rate	1.08% - 046%	1.2% - 0.3%	0.8% - 0.3%
Expected lifetime – in years	3.7-2.5	3.7	4.1

(*) Based on historical volatility of Company's shares over periods similar to the expected life of the option through its exercise date.

The theoretical economic value of the options that are conditional upon the achievement of targets that were granted in 2019 is US$ 282 thousand and was estimated at the time of their grant using the Black & Scholes model for pricing options, under the following assumptions:

	2019	2018	2017
Dividend yield	0%	0%	0%
Expected standard deviation (*)	24.04% - 23.8%	24.9% - 24.6%	27.5% - 23.5%
Risk free interest rate	0.46% - 0.19%	0.6% - 0.3%	1.0% - 0.5%
Expected lifetime – in years	4.1-3.7	3.7	4.1

(*) Based on historical volatility of Company's shares over periods similar to the expected lifetime of the option until their exercise.

Note 14 – Equity (Continued)

3. The sums of the expenses attached to the options included in the financial statements in 2019, 2018 and 2017 are $ 820,000, $ 382,000 and $ 900,000, respectively.

   The sums of the expenses relating to the granting of blocked share units that have been recorded in the financial statements in 2019, 2018 and 2017 amount to $ 379,000, $ 564,000 and $ 1,174,000 and, respectively.

4. The balance of the benefits not yet recognized for all the option plans, as of December 31, 2019, on assuming the achievement of all goals met, amounts to a total of $ 1,036,000. Its recognition is expected to take place over the coming 4 years.

   The balance of the benefit not yet recognized for the issue of blocked shares as of December 31, 2019, amounts to a total of $ 659,000, and its recognition is expected to take place over the coming 4 years.

5. The movements in the number of options not yet exercised and the relevant weighted average of the exercise prices (original price before adaptation due to distribution of dividends) are as follows:

   a. Options not contingent on meeting performance goals:

	2019		2018		2017	
	Quantity	**Weighted average exercise price $**	**Quantity**	**Weighted average exercise price $**	**Quantity**	**Weighted average exercise price $**
Outstanding at the beginning of the year	144,370	29.18	149,596	27.77	134,308	20.82
Granted	63,434	27.69	12,366	29.61	54,788	32.39
Forfeited	(53,566)	25.71	(500)	32.30	(3,375)	24.47
Exercised	(625)	15.20	(17,092)	16.77	(36,125)	9.26
Outstanding at the end of the year	153,613	19.98	144,370	29.18	149,596	27.77
Of which exercisable at the end of the year	67,973	28.55	52,437	26.20	55,390	22.75

   b. Options subject to meeting performance goals:

	2019		2018		2017	
	Quantity	**Weighted average exercise price $**	**Quantity**	**Weighted average exercise price $**	**Quantity**	**Weighted average exercise price $**
Outstanding at the beginning of the year	521,596	30.77	375,221	31,02	350,085	30.14
Granted	195,767	27.42	148,000	30.16	89,844	30.39
Forfeited	(209,796)	30.44	-	-	(57,208)	27.22
Exercised	(35,750)	31.60	(1,625)	30.98	(7,500)	7.76
Outstanding at the end of the year	471,817	29.48	521,596	30.77	375,221	31.02
Of which exercisable at the end of the year	194,446	31.24	115,124	31,63	95,413	32.07

Note 14 – Equity (Continued)

6. Details of the balance of the options * as at December 31, 2019 and 2018 and the movements in 2019**:

Granting Date	Exercise price ($) (***)	31.12.2018 Balance of the options granted and not yet exercised	Movements in 2019 Granted	Movements in 2019 Exercised	Movements in 2019 Forfeited	31.12.2019 Balance of the options granted and not yet exercised	31.12.2019 Weighted average of the balance of the forecast lifetime (in years)
July 2013	15.22	5,750	-	625	4,250	875	0.58
August 2015	32.3	12,000	-	-	1,000	11,000	1.33
August 2015– conditional upon performance	32.3	208,784	-	26,250	41,010	141,524	1.44
January 2016	26.58	9,092	-	-	5,092	4,000	1.88
January 2016– conditional upon performance	26.58	2,625	-	-	-	2,625	1.88
February 2016	24.88	20,000	-	-	-	20,000	1.08
September 2016	28.25	30,374	-	-	6,224	24,150	2.58
September 2016– conditional upon performance	28.25	72,343	-	3,500	17,500	51,343	2.58
February 2017– conditional upon performance	30.33	42,000	-	-	10,500	31,500	3.17
February 2017– conditional upon performance	30.52	34,949	-	4,906	26,350	3,693	2.50
February 2017– conditional upon performance	30.47	11,497	-	1,094	5,147	5,256	2.50
March 2017– conditional upon performance	28.42	1,398	-	-	-	1,398	3.00
November 2017	32.38	10,000	-	-	-	10,000	3.58
November 2017	32.39	44,788	-	-	26,000	18,788	3.58
May 2018 – conditional upon performance	29.97	100,000	-	-	100,000	0	-
May 2018	29.97	10,000	-	-	-	10,000	4.33
May 2018 – conditional upon performance	29.97	48,000	-	-	3,000	45,000	3.17
November 2018	28.08	2,366	-	-	-	2,366	4.58
February 2019	27.74	-	46,304	-	1,000	45,304	4.85
February 2019– conditional upon performance	27.74	-	160,893	-	6,289	154,604	4.78
August 2019	27.54	-	17,130	-	10,000	7,130	4.92
August 2019– conditional upon performance	27.54	-	11,645	-	-	11,645	4.50
November 2019– conditional upon performance	25.14	-	23,229	-	-	23,229	5.25
Total		665,966	259,201	36,375	263,362	625,430	2.83

* The balance of the options does not include the options that were issued to the trustee and have not yet been allocated to the managers.

** See also section 5 above.

*** The exercise price in the above table is the original price before adjustment for the distribution of dividends.

Note 14 – Equity (Continued)

7. The movements and balances in the number of blocked share units are as follows:

a. Blocked share units that are not conditional upon performance targets:

	For the year ended December 31		
	2019	**2018**	**2017**
	US$ thousands		
Balance at the beginning of the year	9,929	15,858	24,387
Granted	2,000	454	4,743
Exercised	(4,333)	(6,383)	(12,617)
Forfeited	(914)	-	(909)
Balance at the end of the year	6,682	9,929	15,604

b. Blocked share units that are conditional upon performance targets:

	For the year ended December 31		
	2019	**2018**	**2017**
	US$ thousands		
Balance at the beginning of the year	108,966	88,619	121,932
Granted	25,573	51,464	15,871
Exercised	(39,640)	(27,722)	(36,618)
Forfeited	(54,535)	(3,395)	(12,566)
Balance at the end of the year	40,364	108,966	88,619

Note 14 – Equity (Continued)

c. Details of the balance of blocked share units which are not conditional upon performance as at December 31, 2019 and 2018 and the movements in 2019, by plan:

		31.12.2018	Movements in 2019			31.12.2019
Date of the plan	**Time of the grant**	**Balance of the blocked share units that have been granted and not yet exercised**	**Granted**	**Exercised**	**Forfeited**	**Balance of the blocked share units that have been granted and not yet exercised**
October 2009	August 2015	500	-	-	250	250
July 2014	August 2015	125	-	125	-	-
October 2009	September 2016	4,107	-	1,722	664	1,721
October 2009	November 2017	4,743	-	2,373	-	2,370
October 2009	November 2018	454	-	113	-	341
October 2019	February 2019	-	2,000	-		2,000
	Total	9,929	2,000	4,333	914	6,682

Note 14 – Equity (Continued)

d. Details of the balance of blocked share units which are conditional upon performance as at December 31, 2019 and 2018 and the movements in 2019, by plan:

		31.12.2018	Movements in 2019			31.12.2019
Date of the plan	**Time of the grant**	**Balance of the blocked share units that have been granted and not yet exercised**	**Granted**	**Exercised**	**Forfeited**	**Balance of the blocked share units that have been granted and not yet exercised**
October 2009	January 2015	12,775	-	12,775	-	-
October 2009	August 2015	5,625	-	2,125	1,000	2,500
July 2014	August 2015	16,500	-	13,000	2,125	1,375
July 2014	October 2015	6,667	-	6,667	-	-
July 2014	February 2016	1,125	-	750	-	375
October 2009	September 2016	3,750	-	1,250	-	2,500
July 2014	September 2016	2,655	-	1,770	-	885
October 2009	February 2017	6,159	-	1,239	4,506	414
July 2014	February 2017	1,990	-	-	812	1,178
October 2009	March 2017	256	-	64	-	192
October 2009	March 2017	3,372	-	-	-	3,372
October 2009	May 2018	46,092	-	-	46,092	-
July 2014	May 2018	2,000	-	-	-	2,000
July 2014	February 2019	-	6,465	-	-	6,465
October 2009	August 2019	-	14,587	-	-	14,587
July 2014	August 2019	-	468	-	-	468
July 2014	November 2019	-	4,053	-	-	4,053
	Total	108,966	25,573	39,640	54,535	40,364

Note 15 – Taxes on income

a. Taxation of the Company in Israel

1) The measurement of the results for tax purposes
As from the 2008 tax year, the Company's results are measured in nominal values for tax purposes.

2) In January 2017, the Company approached the tax authority and announced its intention of submitting its tax reports for the years 2017 and thereafter in accordance with the Dollar Regulations.

3) Tax rates

The revenues of the Company (with the exception of revenues benefiting from reduced tax rates in accordance with Israeli encouragement laws, see C below), are liable for corporate taxes and the usual rate.

In December 2016 the Economic Streamlining Law (Legislative Amendments for Achieving Budgetary Goals for the 2017 and 2018 Budget Years), 2016 were passed, establishing a decrease of the corporate tax from 25% to 23%. At the same time, the law in question established a temporary ordinance according to which the corporate tax rate in 2017 would be 24%. As a result, the corporate tax rate that will apply in 2017 will be 24% and the corporate tax rate that applies from 2018 onward is 23%.

Capital gains held by the Company in Israel are taxable according to the regular corporate tax rate applicable in the tax year.

b. Taxation of the subsidiary companies outside of Israel

The subsidiaries incorporated outside of Israel are assessed according to the tax law in their countries of resident, except for companies that are defined as a "foreign controlled company", in accordance with the provisions of the Income Tax Ordinance, whose income may be taxed in Israel in addition to the taxation under the tax laws in the countries in which they are resident.
The main tax rates in 2019 that apply to the main subsidiary companies, which were incorporated outside of Israel, are:

Companies incorporated in the United States – a tax rate of 25% (including federal tax and state tax) – see Section K below.
Companies incorporated in Germany – a tax rate of 30%.
Companies incorporated in Great Britain - a tax rate of 19%.
Companies incorporated in France – a tax rate of 28%.
Companies incorporated in Hong Kong – a tax rate of 16.5%.

Consolidated companies that were incorporated outside of Israel in free trade areas, are registered for tax purposes according to the laws in in the countries of their residence.
In general, inter-company transactions between the Company and foreign subsidiaries are subject to the provisions of Income Tax Regulations (Determination of Market Terms) – 2006.

c. Encouragement Laws in Israel

Amendment to the Encouragement of Capital Investments Law, 1959.

Pursuant to the 2011 and 2012 Economic Policy Law (Legislative Amendments), 2011, which was approved by the Knesset on December 29 2010, the Capital Investment Encouragement Law, 1959 was also amended (hereinafter – the Amendment). The Amendment comes into effect January 1, 2011.

Pursuant to the Amendment benefit plans were established, in lieu of the plans currently existing in the Capital Investment Encouragement Law, 1959 (hereinafter – the Law), as follows: a grants plan for factories in Development Area A and two tax benefit plans (preferred factory and special preferred factory), dealing with the incidence of a uniform tax rate on all of the Company's preferred revenues, as defined in the Amendment.

Note 15 – Taxes on income (Continued)

The preferred enterprise benefits will be given with no time limits, compared to benefits given a special preferred enterprise, which are given for a period of 10 years. The benefits will be given companies that meet the terms set in the amendment which are largely similar to the benefits set in law before its amendment. Pursuant to the amendments transition orders, it was decided that a company may continue to receive the tax benefits within the framework of the law until its amendment, up to the end of the benefits period as defined in the law.

As of 2011 the Company began claiming part of its revenues in Israel as a Preferred Factory.

Key benefits deriving from preferred factory:

Decreased tax rate – in accordance with the outline set in the amendment a gradual decrease shall occur in tax rates applicable to the preferred revenues of companies whose factories are in development Area A, according to which the tax rate applicable to the companies preferred revenues shall be as follows: in 2011 and 2012 – 10%, in 2013 and 2014 7% and in 2015 onward – 7.5%.

The National Priorities Alteration Law (Legislative Amendments for the Achievement of Budgetary Goals for 2013 and 2014), 2013, published on August 5 2013 (see a(3) above), established, among other things, an increase in the tax rate applicable to preferred income, so that starting from 2014 onward, the rate of tax on income of companies whose factories are in Development Area A shall be 9% and the tax rate that shall apply to companies whose plants are in another area shall be 16%.

Accelerated depreciation – a preferred company is entitled to accelerated depreciation for productive assets serving the preferred factory, so long as the total depreciation deducted does not exceed the asset’s original price. The factory shall be entitled to an accelerated depreciation claim over the course of the first 5 tax years for the activation of the assets (in the remaining years, depreciation shall be claimed according to the regular depreciation rate). Regarding machinery and equipment, the accelerated depreciation shall be at a rate of 200% of the rate set in the regulations passed by virtue of Section 21 of the ordinance, while regarding buildings the accelerated depreciation shall be at a rate of 400% of the depreciation rate set in these regulations, but no more than 20% per year, multiplied by the adjustment rate.

Dividend distribution – dividends paid originating from preferred income is taxable at a rate of 15% until the 2013 tax year and 20% starting 2014.

d. Losses for Tax purposes Carried on to Subsequent Years

Deferred tax assets for losses for tax purposes carried on to subsequent years, are recognized in the event that realization of the tax benefit in question through the existence of future taxable income is expected.

Losses for tax purposes transferable to subsequent years deriving from the parent company amounted to $ 8 million and to $ 16 million as of December 31, 2019 and 2018, respectively.

Losses for tax purposes carried over to subsequent years derive from the Group subsidiaries, amounted to $ 11.9 million and to $ 6.7 million as of December 31, 2019 and 2018, respectively.

The tax asset recognized in Israel as of December 31, 2019 and 2018 amounted to $ 1.8 million and to $ 3.6 million, respectively.

Losses carried over for tax purposes, accumulated in Israel may be offset over an unlimited period of time.

The tax asset recognized for income tax losses in subsidiaries amounted to $ 2.7 million and to $ 1.8 million as of December 31, 2019 and 2018, respectively.

Note 15 – Taxes on income (Continued)

e. Deferred tax assets

1) Composition of deferred taxes as of the balance sheet dates and transactions in said years as follows:

	For Balance Sheet Items						
	Fixed assets	**Intangible assets and right of use asset**	**Inventory**	**Provision to Employee benefits**	**Others**	**Losses for tax purposes**	**Total**
	Thousands of Dollars						
Balance as at January 1, 2017	(4,067)	(8,606)	2,105	3,214	9,905	7,365	9,916
Changes in 2017:							
Charged to Statement of Operations	(787)	1,529	931	(400)	(4,628)	(1,923)	(5,278)
Sums charged to other comprehensive earnings (loss)	-	-	-	(128)	-	-	(128)
Charging to capital reserve from translation differences and exchange rate differences	(276)	(449)	91	22	32	-	(580)
Balance as at December 31, 2017	(5,130)	(7,526)	3,127	2,708	5,309	5,442	3,930
Changes in 2018:							
Charged to Statement of Operations	(929)	(1,316)	3,400	(573)	1,873	(1,979)	476
Deferred taxes created in purchase of company	(3,323)	(17,577)	(2,448)	1,015	(1,173)	1,918	(21,588)
Sums charged to other comprehensive earnings (loss)	-	-	-	68	-	-	68
Charging to capital reserve from translation differences and exchange rate differences	223	484	(36)	(16)	(24)	(30)	601
Balance as at December 31, 2018	(9,159)	(25,935)	4,043	3,202	5,985	5,351	(16,513)
Changes in 2019:							
Charged to Statement of Operations	(308)	(46)	141	219	712	(776)	(58)
Deferred taxes created in purchase of company	-	(8,363)	-	-	-	-	(8,363)
Deferred taxes created in the application of standard IFRS16	-	4,294	-	-	-	-	4,294
Sums charged to other comprehensive earnings (loss)	-	-	-	451	-	-	451
Charging to capital reserve from translation differences and exchange rate differences	11	504	(2)	(23)	29	(20)	499
Balance as at December 31, 2019	(9,456)	(29,546)	4,182	3,849	6,726	4,555	(19,690)

Note 15 – Taxes on income (Continued)

2) Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legal enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority. The offset sums are as follows:

	As of December, 31	
	2019	**2018**
	Thousands of Dollars	
Deferred tax assets:		
The repayment of which is expected within 12 months of the balance sheet date	10,277	6,142
The repayment of which is expected over12 months after the balance sheet date	11,712	9,826
	21,989	15,968
Deferred tax liabilities:		
Then repayment of which is expected within 12 months of the balance sheet date	(11,446)	(9,403)
The repayment of which is expected over12 months after the balance sheet date	(30,233)	(23,078)
	(41,679)	(32,481)
	(19,690)	(16,513)

	As of December, 31	
	2019	**2018**
	Thousands of Dollars	
Presentation in the balance sheet:		
Under deferred tax assets	19,678	9,285
Under deferred tax reserve	(39,368)	(25,798)
	(19,690)	(16,513)

Most deferred taxes are calculated according to tax rates of 16.5% to 33%.

f. Profit before taxes on income is comprised as follows:

	For the year ended December 31		
	2019	**2018**	**2017**
	Thousands of Dollars		
Israeli Companies	11,036	(2,945)	20,355
Non-Israeli subsidiaries	56,579	62,268	45,355
	67,615	59,323	65,710

Note 15 – Taxes on income (Continued)

g. Composition of taxes on income in the Report on comprehensive earnings:

	For the year ending December 31		
	2019	**2018**	**2017**
	US$ thousands		
Current:			
Israeli Companies	2,467	2,466	1,722
Non-Israeli subsidiaries	7,788	8,686	6,882
	10,255	11,152	8,604
Deferred:			
The Company in Israel	2,342	22	1,241
Non-Israeli subsidiaries	(2,284)	(498)	4,745
	58	(476)	5,986
Taxes for previous years:			
The Company in Israel	500	200	1,559
Non-Israeli subsidiaries	(898)	270	602
	(398)	470	2,161
	9,915	11,146	16,751

h. The following is a reconciliation of the "theoretical" tax amount which would have applied if all revenues had been taxed at the regular rate applicable to companies in Israel (see Section A3), to the tax sums charged in the report on Comprehensive Earnings (loss) for the reported years:

	For the year ending December 31		
	2019	**2018**	**2017**
	Thousands of Dollars		
Profit before taxes on income as presented in reports on comprehensive income	67,615	59,323	65,710
Theoretical tax expenses	15,538	13,644	15,770
Decrease in tax due to different tax rates applicable to non-Israeli subsidiaries	(6,114)	(6,019)	(3,892)
	9,424	7,625	11,878
Increase(decrease) in tax due to fixed differences:			
Non-deductible	1,024	336	(153)
Expenses less exempt revenues, net	(398)	470	2,161
Decrease in taxes deriving from preferred factory revenues	-	-	(338)
Increase (decrease) in taxes deriving from losses for tax purposes for which deferred taxes have not been recorded	1,459	2,353	(646)
Utilization of losses brought forward for which deferred taxes were not recorded in the past.	(1,273)	-	(227)
Exchange differences and differences in the measurement base	52	(319)	1,381
Change in deferred taxes as a result of a change in the tax rate	(255)	-	3,111
Other- net	(118)	681	(416)
Taxes on income – in the statements of profit and loss	9,915	11,146	16,751

Note 15 – Taxes on income (Continued)

i. Tax assessments

In January 2020, the Company was issued a best judgment tax assessment for 2014. In accordance with the tax assessment clauses, an additional tax of $ 10 million was imposed.

The Company disagrees with the Tax Assessor's position and estimates that it has a proper defense against the assessment's clauses and the likelihood that its position will be accepted is higher than the likelihood of it being rejected. Accordingly, no provision was included in the financial statements.

In February 2020, the Company filed an appeal to the income tax authorities in respect of the best judgment assessment as stated above.

In 2017, the Company reached agreement with the Israeli tax authorities regarding the tax assessments it received for 2012 – 2014. The influences of the sum in question were included as the Company's tax expenses in 2017.

On November 19, 2015, the Knesset passed its second and third vote on the Economic Streamlining Bill ((Legislative Amendments for Achieving Budget Goals for the 2015 and 2016 Budget Years), 2015, which included an amendment to the Income Tax Ordinance that expended the statute of limitation for self-assessments submitted by assesses, regarding self-assessments for the 2013 tax year onward, for a period of 4 years from the end of the tax year on which the report was filed. Until of the approval of this amendment, the statute of limitations for self-assessments was 3 years from the end of the tax year in which the report was filed and with the Director's approval within 4 years from the tax year on which the report was filed.

In 2017, the subsidiary company Schiesser reached agreement with the tax authorities in Germany in respect of assessments for the year 2011 to 2013. The impact of the said agreements has been recorded in the Company's tax expenses for the year 2017.

A self-assessment by US subsidiary up to end of 2016 is considered final.

j. The impact of the adoption of IFRS in Israel on Tax Liability

The Company has prepared its financial statements in accordance with the IFRS Standards as of January 1, 2008.

IFRS Standards different from generally accepted Israeli accounting principles and accordingly, preparation of financial statements as per IFRS Standards may reflect a financial position, operating results and cash flows materially different from those presented according to generally accepted Israeli accounting principles.

In accordance with laws issued in 2010, 2012 and 2014 (hereinafter – the temporary orders), in determine taxable income for tax years 2007-2013, Accounting Standard 29 of the Israeli Accounting Standers Board shall not apply, even if implemented in the Financial Statements for the tax years in question. The significance of the temporary orders is that the IFRS Standards will not be applied when calculating the income reported for tax purposes for the tax years in question.

over the course of 2014 a Law Memorandum was publish for an amendment to the Income Tax Ordinance (hereinafter – The Law Memorandum) deriving from the implementation of IFRS Standards in financial statements. The Law Memorandum adopts the IFRS principles as a rule. However, the Law Memorandum proposes a number of amendments to the Income Tax Ordnance, which will clarify the mode of calculation of taxable income in cases where a lack of clarity exists, and the IFRS standards are not compatible with Israeli tax principles. Legislation regarding the Law Memorandum has yet to be completed and is doubtful that it will be completed in the foreseeable future.

Due to the failure to complete legislation on the matter of the Law Memorandum, Company management estimates that the Temporary Order set for 2007 to 2013 will be extended to 2014-2019 as well. As a result, Company management predicts at this stage that the new legislation will not apply to tax years prior to 2020.

Note 15 – Taxes on income (Continued)

Taking the temporary orders applicable to tax years 2007 to 2013 and the Company's estimates regarding the likelihood of their extension to 2014 to 2019, as noted above e, the Company calculated its taxable income for tax years 2007 to 2019 based on Israeli accounting standards in effect prior to adoption of the IFRS Standards in Israel, subject to certain adjustments.

k. The impact of the tax reform in the US

On December 22, 2017, the President of the United States, Donald Trump, signed on legislation that brings about broad changes in the America tax system ("The Reform"). Within the framework of the Reform, significant changes have occurred in the array of tax laws in the United States, which include a number of provisions which will have an impact of the Company's tax liability in the United States.

The following are the main provisions of the reform, which are relevant to the Company:

a) The lowering of the Federal tax rate on companies in the United States from 35% to 21%, with effect from January 1, 2018.

b) A transition to a territorial based tax system, such that the profits that are produced outside of the United States by foreign companies, in which an American company has a holding of more than 10%, will be exempt from tax on dividends that may be distributed.

c) The cancellation of the Alternative Minimal Tax (AMT) on American companies and the restriction of the deduction of accumulated losses (Net Operation Losses) to 80% of the chargeable income.

d) The imposition of a one-time tax on the accumulated net income of foreign companies in which an American shareholder has a holding of more than 10%. The effective tax rate that will be imposed on those profits will be at the level of 15.5% in connection with cash and cash equivalents and 8% in respect of profits that have been invested in illiquid fixed assets, in accordance with the higher of the balance of retained earnings as at November 2, 2017 and the balance as at December 31, 2017. The payment of the tax can be spread over a period of 8 years.

e) **Base Erosion and Anti-Abuse Tax – BEAT** – The taxation of certain payments by companies that are resident in the United States to foreign related companies. This tax was at a rate of 5% in 2018 and 10% in the years after 2018. The tax will apply to certain payments that are allowable as a deduction for tax purposes in the United States (such as interest, royalties, management fees and etcetera) or which are recorded on the basis of the cost of the tangible asset or intangible asset in the accounting records of the American company (cost of goods sold). The BEAT will apply, inter alia, where the average annual turnover of a company that is resident in the United States on a gross basis, in the three years preceding the tax year in which the payment has been received or accumulated, is at least US$ 500 million.

f) **Global Intangible Low-Taxed Income –** The surplus income of foreign controlled companies (CFC) will be subject to Federal corporation tax in the United States. This income is to be measured in accordance with the amount of the CFC's income that exceeds 10% of the yield on the CFC's tangible assets. This income will be chargeable with corporation tax in the United Stated at an effective rate of 10.5%. In addition, to this, subject to certain conditions, it will be possible to receive a credit against 80% of the foreign tax that applies to the CFC's income in a foreign country.

g) **Foreign Derived Intangible Income** – The possibility of receiving a deduction for tax purposes in respect of certain components of the Company's income from exporting, under certain conditions.

h) **Interest expenses** – In accordance with the new legislation, during the years 2019 to 2021 (inclusive), companies will not be allowed to deduct interest expenses, the amount of which exceed 30% of those companies' total adjusted income (EBITDA). After 2021, companies will not be allowed to deduct interest expenses, the amount of which exceed 30% of those companies' total income (EBIT). Any amount that has not been allowed as a deduction in a year, may be carried forward to the coming years on the basis of that same mechanism, without time limit.

i) **Accelerated depreciation (Bonus Depreciation)** – Within the framework of the Reform, it has been decided to allow companies to record an immediate expense at a particular rate of the cost of certain fixed assets, which have been made available for use between September 27, 2017 and January 1, 2028.

Note 16 – Earnings per share

a. Basic

The basic earnings per share calculated by dividing the income attributed to the shareholders in the parent company by the weighted average number of ordinary shares issued, except for the ordinary shares purchased by the Company and held as treasury shares.

	Year		
	2019	**2018**	**2017**
Net income attributed to Company shareholders (in thousands of dollars)	57,898	48,539	48,839
Weighted average number of ordinary shares issued (in thousands)	26,920	26,902	26,859
Less weighted average of treasury shares (in thousands)	1,407	1,451	1,486
Total shares for the purpose of the calculation of the basic earnings per share (in thousands)	25,513	25,451	25,373
Basic earnings per share (in dollars per share)	2.27	1.91	1.92

b. Diluted

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in circulation less treasury shares while including potential ordinary shares with diluting effect.

	Year		
	2019	**2018**	**2017**
Net income used for calculating diluted earnings per share (in thousands of dollars)	57,898	48,539	48,839
Weighted average number of regular shares issued and were used for the calculation of basic earnings per share (in thousands)	26,920	26,902	26,859
Less treasury shares (in thousands)	1,407	1,451	1,486
Adjustment for weighted average of additional shares in respect of the exercise of options and blocked share units (in thousands)	81	97	130
Total shares for the purpose of the calculation of the diluted earnings per share (in thousands)	25,594	25,548	25,503
Diluted earnings per share (in US$ per share)	2.26	1.90	1.91
Adjustments were not taken into account in the calculation of the diluted earnings per share in respect of options that are non-dilutive (in thousands)	471	473	434

Note 17 – Commitments

a) As of December 31, 2018, the Company and its subsidiaries lease a number of buildings under operating leases as well as shops rented by the Delta Israel, Delta European Brands and Delta Premium Brands operating segments in the United States and in Europe. The leases on these properties will expire at various times between 2019 and 2038.

The minimal future annual rental fees (taking into account options for extensions, which will probably be exercises), will amount to $ 52.3 million, $ 45.3 million, $ 41.3 million, $ 33.6 million and US$ 27.7 million in each of the years 2019 to 2023, respectively.

In the period from 2024 and until the end of the leasing periods, the cumulative rental fees will amount to US$ 89.4 million.

The expenses in respect of leasing for each of the years 2018 and 2017 amounted to US$ 55.7 million and US$ 53.6 million, respectively.

Note 17 – Commitments (Continued)

b) See Notes 13 and 8C regarding liability for minimum royalty payments.

c) The Company and some of its subsidiaries provided bank collateral as of December 31, 2019, mainly for rental agreements and royalty agreements, which they are a party to, to the sum of $ 29.3 million.

Note 18 – Transactions and balances with interested and related parties

The Group is controlled by Mr. Isaac Dabah, who holds 48.89% of the shares in the Company through the GMM Capital LLC fund and directly. Sterling Macro, which is a fund, which is managed by Mr. Dabah also has a holding of approximately 4.95% of the Company's shares as at the reporting date.

"Interested Parties" – according to the definition of "Interested Parties" in the Securities Regulations (Yearly Financial Statements) – 2010.

"Related Parties" – as defined in IAS 24 "Related Party Disclosures".

Key Company management personnel included together under the definition of "related parties" as per IAS24, include the members of the Board of Directors and the Company's CEO.

a. Transactions with interested and related parties

The benefits that have been provided to interested and related parties are as follows:

	For year ending December 31		
	2019	**2018**	**2017**
Salary and benefit components in respect of options and blocked share units that have been granted to interested parties and related parties who are employed in the Company or in a subsidiary company			
Sum – in thousands of dollars– see (1) and (2) below *	2,440	2,488	2,401
Number of people to whom benefit refers	3	3	3
Fees and travelling expenses provided to directors			
Sum – in thousands of dollars	374	383	355
Number of people to whom benefit refers	7	10	6
Purchases from related parties – companies treated at equity	19,367	18,692	21,097

* The expenditure in 2019 does not include the cancellation of the long-term bonus component of $ 675 thousand relating to the Company's performance in 2019-2021. The expenditure in 2018 does not include the cancellation of the long-term bonus component of $ 1,250 thousand relating to the Company's performance in 2016-2018, which was not paid to the Company's CEO due to failure to meet the targets set for their receipt.

** During the course of 2018, three serving directors were replaced and one additional director was added.

Note 18 – Transactions and balances with interested and related parties (Continued)

Approval of Terms of Employment of Interested Parties

1) Approval of the terms of employment of the Company's controlling shareholder and director, Mr. Isaac Dabah, as CEO of the Company – following is a summary of his terms of employment:
The terms of his employment as CEO in 2018 were approved by the Remuneration Committee, the Company's Board of Directors, and by the general meeting on January 20, 2016, effective from January 1, 2016, for three years.
Under the conditions approved, in the years 2016-2018 Mr. Dabah is entitled to an annual salary of $ 750 thousand, social benefits, reimbursement of expenses, insurance and indemnity, an annual bonus of $ 750 thousand subject to achieving business objectives up to a maximum annual bonus of $ 937.5 thousand subject to achieving even higher business objectives, and a long-term bonus of $ 1,875 thousand for the years 2016-2018 subject to achieving three-year business objectives. These goals were not achieved, and therefore Mr. Dabah did not receive the long-term bonus.
On December 5, 2008, after the approval of the Remuneration Committee and the Board of Directors of the Company, the general meeting approved the employment terms of Mr. Dabah as of January 1, 2019, for three years. Under the terms approved, Mr. Dabah is entitled to an annual salary of $ 810 thousand, social benefits, reimbursement of expenses, insurance and indemnity, an annual bonus of $ 810 to $ 1,000, subject to the achievement of business objectives, and a long-term bonus of $ 2,025 thousand for the years 2019 - 2021 subject to achieving three-year business objectives.

2) Ratification of the terms of employment of the daughter of the Company’s controlling shareholder, acting as Vice President Kids Division DG Premium Brands:
On January 2, 2017 the general meeting of the Company's shareholders approved the new terms of employment of Ms. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company' CEO and controlling shareholder, as Vice President Kids Division DG Premium Brands, which came into effect on January 1, 2017, all in accordance with the recommendations of the Company's Remunerations Committee and Board of Directors, who examined, *inter alia*, Ms. Dabah's new position, which constituted a significant change and advancement from her previous role, taking into account her authorities, the responsibility placed upon her and the operating turnover of the department that she will lead and manage, following which they confirmed that the new terms of employment are generally acceptable, reasonable and fair in the circumstances in hand, and finally approved that the new terms of employment are acceptable, reasonable and fair under the circumstances.
On February 14, 2018, the Company's Board of Directors approved the updating of Gloria Dabah's job description, such that it will be General Manager of Splendid Kids, Ladies and Men's, including the addition of fields of responsibility without there being a change in her terms of employment, which have been approved by the authorized bodies in the Company.
On February 18, 2010, the Remuneration Committee and the Board of Directors approved a new employment agreement for Ms. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company' CEO and controlling shareholder, in her capacity as President, of Splendid Ladies and Men's & Kids, whereby her annual salary, as of April 1 2019, will stand at $ 350 thousand, and she will be entitled to an annual bonus of up to 50% of her annual income, subject to her meeting objectives. The new employment agreement is subject to the approval of the general meeting of the Company, which will be convened in accordance with the provisions of the law.
On April 8, 2019, the general meeting approved the terms of employment of Ms. Dabah in accordance with the conditions set forth above.

Note 18 – Transactions and balances with interested and related parties (Continued)

b. Balances with interested and related parties

	As of December, 31	
	2019	2018
	Thousands of Dollars	
Current credit balance due to salary expenses for Directors: balance as of the balance sheet date	101	138
Current debit balances due to salaries and bonuses for interest and related parties employed at the Company.		
Balance as of the balance sheet date	759	934
Current credit balances for purchases from related parties as of the balance sheet date companies treated according to equity method.	2,628	4,188

c. Directors Compensation and Insurance

The Company has an indemnification and insurance arrangement for directors and senior executives, including senior executives in subsidiaries in which the Company holds at least 25% of the Company's equity. The amount of indemnification is limited to 25% of the Company’s according to its latest financial statements prior to the payment of the indemnification in practice, $ 10 million is covered by an insurance policy with yearly premium of $31,000.

d. Negligible transactions with interested parties

The Company's Board of Directors decided to adopt guidelines and principles for the classification of a transaction as "a negligible transaction", as defined in Regulation 41(A3) of the Securities Regulations (Financial Statements) – 2010. These principles and guidelines will also be used for determine e the extent of disclosure regarding transactions by the Company with the controlling interest or in the approval of which the controlling interest has a personal interest, as determined in Regulation 222 of the Securities Regulations (Periodic and Immediate Reports) – 1970 and Regulation 54 of the Securities Authority (Details in a Prospectus and a Draft Prospectus – Structure and Form) – 1969 and also for examining the need for submitting an immediate report in respect of such a transaction by the Company, as determined on Regulation 37A(6) of the Securities Regulations (Periodic and Immediate Reports) – 1970.

The Company's Board of Directors determined that a transaction between the Company with a controlling shareholder or where the controlling shareholder has a personal interest in it shall be considered "a negligible transaction " if all of the following conditions are met:

1) It is not an exceptional transaction as defined in Section 1 of the Companies Law – 1999;

2) The transaction is not expected to have a significant or strategic impact on the Company, from the qualitative perspective of the transaction.

3) The impact of the relevant parameter (as stated below) is at a rate of 1%. For this purpose, the parameter that is relevant to the transaction will be tested as the most relevant parameter from among the following: (a) the sales ratio – i.e. the total sales that are the subject of the transaction divided by the Company's total annual sales; (b) the cost of sales ratio – i.e. the cost of the transaction divided by the Company's total annual sales; (c) the profits ratio – i.e. the profit or loss that is attributed to the transaction divided by the annual profit or loss; (d) the assets ratio – i.e. the total of the assets that are the subject of the transaction divided by the Company's total assets; (e) the liabilities ratio – i.e. the liabilities that are the subject of the transaction divided by the Company's total liabilities; (f) the operating expenses ratio – i.e. the total expenses that are the subject of the transaction divided by the Company's total operating expenses.

Note 18 – Transactions and balances with interested and related parties (Continued)

The impact of the transaction will be tested on an annual basis, based on the Company's audited (consolidated) annual financial statements.
In cases in which, in the Company's judgment, any of the quantitative criteria that are mentioned above are not relevant to the testing for the immateriality of the transaction, the transaction will be considered to be immaterial in accordance with another quantitative criteria, which may be determined by the Company, and solely that the relevant criteria that is calculated for the transaction will be at a rate not exceeding 1% of the relevant parameter.

4) In the examination of the immateriality of a transaction, which is expected to take place in the future, inter alia, the probability of the execution of the transaction and the realization of its impact are to be examined.

5) Separate transactions, which are inter-dependent, such that in practice they form part of the same commitment, are to be examined as a single transaction.

The immateriality of a transaction will be tested by the Company's Chief Financial Officer, who is to report to the Chairman of the Audit Committee on the transaction and the results of the examination that he has conducted as soon as possible.

Despite the aforesaid, the Company is entitled to report on transactions with controlling interests even in cases in which it is not required to do so in accordance with the foregoing.

Note 19 – Additional information regarding the financial statements

a. Cash and cash equivalents

	As of December, 31	
	2019	**2018**
	Thousands of Dollars	
Cash at bank	63,258	70,534
Short-term deposits in banks	45,036	-
	108,294	70,534

b. Receivables

1. Customers

	As of December, 31	
	2019	**2018**
	Thousands of Dollars	
Outstanding debts	210,336	220,853
Checks receivables	1,975	3,166
	212,311	224,019
The item is presented net of a provision for loss in the amount of	4,248	6,683

a. As of December 31, 2019, a trade receivables balance of $ 5.1 million ($ 8.7 million as of December 31, 2018), is a balance exceeding the contractual payment date for which no provision for doubtful debts has been recorded and which has yet to be repaid by the approval of these financial statements. The balance is comprised of a large number of customers who are independent of each other, who do not have a history of insolvency.

The Company periodically reviews the aging of its customers and makes a provision to loss for customers which the Company believes are insolvent.

Note 19 – Additional information regarding the financial statements (Continued)

Movements in Company's provisions to doubtful debts in the customers items for 2017 are as follows:

	As of December, 31
	2017
	Thousands of Dollars
Balance at the beginning of the period	1,175
Increase in provision to doubtful debts	381
Exchange rate differences	64
Balance as the end of the period	1,620

b. Provisions for loss for the balance of customers for 2019 and 2018 made by the Company is as follows:

Balance as of January 1, 2018 - calculated according to IAS 39	
Impact of First Adoption of IFRS 9 - charged to Balance Sheet as of January 1, 2018	-
Balance of the provision for loss as of January 1, 2018 - calculated in accordance with IFRS 9	1,620
Debts for which the provision for loss was measured throughout the life of the customer	1,485
Consolidation	3,687
Exchange rate differences	(109)
Balance as of December 31, 2018	6,683
Debts for which the provision for loss was measured throughout the life of the customer	165
Amounts previously provided for and not utilized	(2,600)
Balance as of December 31, 2019	4,248

2. Other receivables and debit balances

	As of December, 31	
	2019	2018
	Thousands of Dollars	
Prepaid expenses	6,651	7,399
Government institutions	6,616	3,727
Income receivable	8,579	5,481
Advances to suppliers and sub-contractors	5,196	4,767
Receivables for the sale of fixed assets and assets designated for sale	-	172
Sundry	8,158	4,849
	35,200	26,395

The fair value of the monetary items that are included in other receivables approximates to the value at which they are presented in the accounting records. The balances that are included in other receivables in respect of non-monetary items to not include amounts whose settlement date has passed. The maximum exposure to credit risks as at the date of the statement of financial position in respect of other receivables is the fair value of each group of receivables less non-monetary balances (deriving from prepaid expenses) in respect of these receivables.

Note 19 – Additional information regarding the financial statements (Continued)

c. Inventory

Composition of Inventory:

	As of December, 31	
	2019	2018
	Thousands of Dollars	
Finished products	251,038	251,011
Goods in process	39,208	22,874
Raw materials	33,355	31,068
Packaging and other materials	4,507	4,692
	328,108	309,645

As of December 31, 2019, the inventory balance that had undergone depreciation is presented less the depreciation provision in the amount of $ 29.1 million (as of December 31, 2018 – $ 26.9 million). The balance of the inventory is presented at the lower of cost and realizable value less selling costs. The change in the provision for impairment in value is recorded in the statement of profit or loss or other comprehensive income under "cost of sales".

d. Short-term bank credit from banking corporations

1. Total including extra-balance sheet credit provided the Company by the banks for short and long-term amounted to $ 360 million as of December 31, 2019 ($ 279 million as of December 31, 2018), of which $ 260 million ($ 167 million as of December 31, 2018) have not been utilized. The credit lines utilized include the receipt of short-term credit and utilization for documentary credit. In addition to these credit lines, as at December 31, 2019 the Company has cash balances of $ 108 million, such that the Company's unutilized sources of credit amounted to $ 368 million as at December 31, 2019 ($ 236 million as of December 31, 2018). The abovementioned sources of credit include $ 121 million of non-binding lines. In the course of 2019, the Company extended the agreements covering the binding credit facilities with banks in Israel in an amount of $ 75 million. As of this report date, the interest rate on these short-term loans is LIBOR + 1.5% - 1.75% a year.

2. On June 3rd 2019, the subsidiary Delta USA signed a credit agreement with Bank Leumi and Discount Bank USA for a two years period. The total short-term revolving loan is $ 80 million. This credit agreement is secured by a floating lien in an unlimited amount on Delta USA's assets and rights and on some of the assets of its subsidiary companies.

   As at December 31, 2019, $ 2 million of this facility in the United States is as part of the short-term credit and for documentary credit. As at the date of this report, the interest rate on the short-term loans is LIBOR + 2.00% a year. In certain cases, it is possible to amend the agreement to loans bearing interest at the Prime rate. The credit agreement depends upon the following financial stipulations:

   a. Delta USA's net yearly profit shall not be less than $1.
   b. Tangible equity defined as equity less intangible assets (primarily goodwill) shall not be less than $ 28 million.
   c. The ratio between the tangible equity and total assets less intangible assets shall not be less than 20%.
   d. The cash flow from ongoing activity in the last 12 months shall be no less than $ 1.

   Notwithstanding the aforesaid, if the net balance of customers plus the cash and less the loans in Delta USA is less than $ 40 million, said stipulations will not be examined and the Company will be deemed as being compliant with the terms of the agreement.

Note 19 – Additional information regarding the financial statements (Continued)

As part of the credit agreement, the subsidiary, Delta USA was given the option of redeeming the loans granted by the Parent Company under the condition that it meet the abovementioned financial covenants.

As of the balance sheet date and as of this report, the Company has complied with the financial stipulations in question.

The fair value of the short-term loans is equivalent to their carrying value in the accounting records, since the impact of discounting is not significant.

e. Long-term loan from a banking corporation

On July 1, 2018, the Company signed a long-term loan agreement with an Israeli bank in the amount of € 70 million (approximately $ 81 million). The term of the loan is five years, half of which will be repaid in equal quarterly installments, and one half will be repaid at the end of the period in one installment. The annual interest rate is 1.99% fixed. The loan agreement is secured by an unlimited floating charge on the Company's rights, assets and property.

The loan is subject to the following stipulations:

1. The Company's equity shall not be less than $ 180 million.
2. The ratio of net financial debt to CAP will not exceed 60%.

Additionally,

The Company undertook to comply with the following conditions in order to approve the distribution of a dividend:

1. The total dividend distribution shall not exceed 50% of the distributable profits, as defined in the provisions of Section 302 of the Companies Law.
2. The balance of shareholders' equity will not fall below $ 220 million after the distribution of the dividend.
3. The ratio of net financial debt to EBITDA will not exceed 3.5 after distribution.

As of the balance sheet date and as at the date of this report, the Company is in compliance with the financial covenants above.

f. Other payables

	As of December, 31	
	2019	**2018**
	Thousands of Dollars	
Expenses payable	43,738	36,357
Employees and institutions for salaries	43,226	33,957
Liability for minimal royalty payments	13,844	12,970
Institutions	9,023	6,437
Provision for an onerous contract	-	1,495
Provision for vacation and recuperation pay	7,360	7,412
Suppliers in respect of fixed assets	4,392	-
Current maturities of loans from suppliers	6,384	-
Expenses repayable in respect of re-organization, see Note 19G	1,435	5,234
Interest payable on debentures, see Note 11	3,036	1,803
Others	7,799	6,561
	140,237	112,326

Note 19 – Additional information regarding the financial statements (Continued)

The carrying value of other payables is reasonably close to their fair value since the impact of discounting is not significant.

g. Restructuring expenses

The 2018 program

During 2018, the Company included in its financial statements net restructuring expenses in the total amount of $ 5.4 million, mainly in the upper market segment.

Restructuring expenses in the upper market segment
As part of a strategy to reduce production costs and against the background of a decrease in the volume of production orders at its plant in Israel, the Company decided to close its socks production activity in Israel.

In addition, as part of the streamlining processes at the Company's plants, it was decided to reduce the number of employees in the Company's plants in Bulgaria and Turkey, as well as the closure of the Company's plant in Jordan
.
The total restructuring expenses involved in this decision amount to approximately $ 5.8 million, of which $ 4.9 million is for employee termination costs, $ 0.5 million is not in cash for depreciation of fixed assets and the balance for various costs involved in closing the plant in Jordan.

During the fourth quarter of 2019, the Company decided to cancel part of the restructuring plan of 2018, totaling $ 0.9 million. Such cancellation is recorded as income under the net restructuring expense item.

The 2017 program

In 2017, the Company recorded net restructuring expenses in an overall amount of US$ 2.8 million in its financial statements, in Delta Premium Brands and Delta USA segments.

Restructuring expenses in Delta Premium Brands
As part of the continuation of the efficiency program, which began with the acquisition of the field of activity in 2016, the Company has decided to consolidated warehouses and to reduce the accompanying overheads that are attributed to the warehouses and to the operations of the Splendid and Ella Moss brands. The total re-organization expenses that are involved in this decision amount to $ 4.6 million in respect of severance pay and other costs as a result of the termination of employee-employer relationships;

In the third quarter of 2017, the Company decided to cancel part of the 2016 restructuring plan, in respect of the transfer of the display rooms and the merger thereof into the Company's presentation rooms in New York, in an amount of $ 1.9 million. This cancellation has been recorded as income under re-organization expenses, net.

Restructuring expenses in Delta USA
In 2017 the Company decided to discontinue the wholesale operations of the Little Miss Matched brand. The total restructuring expenses that are involved in this decision amount to $ 0.2 million.

Note 19 – Additional information regarding the financial statements (Continued)

1. Movement in the provision for employees' costs, which are included in restructuring expenses in the years 2019, 2018 and 2017:

	For year Ending December 31		
	2019	2018	2017
	Thousands of Dollars		
Opening balance	5,239	2,458	2,016
Additional provisions during the year	-	4,941	4,729
Utilized during the year	(2,817)	(2,160)	(4,287)
Cancelation of provisions for restructuring expenses	(987)	-	-
Closing balance	1,435	5,239	2,458

2. **The main components of the net expenses in respect of the new restructuring plan are as follows:**

	For year Ending December 31		
	2019	2018	2017
	Thousands of Dollars		
Costs connected to reduction of manpower, see above	-	4,941	4,729
Impairment in value of fixed assets and intangible assets	-	481	-
Other income (expenses)	(987)	-	(1,897)
	(987)	5,422	2,832

h. Sales

See Note 5E regarding sales to a main customer

The following are details of costs of sales, selling and marketing and administrative and general expenses. These expenses in 2019 included expenses of the Bogart Group from its acquisition (second half of 2019) and were not included in previous years. In addition, expenses in 2018 included Eminence's expenses from its acquisition (second half of 2018) and were not included in 2017.

i. Cost of sales

	For year ending December 31		
	2019	2018	2017
	Thousands of Dollars		
Purchases from sub-contractors	650,704	639,561	592,049
Materials consumed	163,802	97,845	94,499
Salaries and social benefits	135,882	87,114	78,273
Haulage and customs	66,724	59,651	59,280
Royalties	28,064	24,487	23,748
Other production expenses	9,050	21,754	15,484
Depreciation and amortization	17,345	11,159	10,810
Decrease (increase) in inventory of finished products and products in process	14,434	(1,965)	(18,875)
	1,086,005	939,606	855,268

Note 19 – Additional information regarding the financial statements (Continued)

j. Selling, marketing, administrative and general expenses

	For year ending December 31		
	2019	2018	2017
	US$ thousands		
Selling and marketing:			
Salaries and social benefits	202,941	189,772	168,620
Rental and maintenance *	33,363	79,197	76,915
Advertising	39,138	41,469	29,674
Haulage, packaging, storage and customs	25,198	22,852	17,353
Commissions to franchisees and agents	18,694	17,203	17,539
Depreciation and amortization *	60,153	15,486	12,652
Amortization of intangible assets, except for software	4,689	2,639	2,749
Other expenses	45,529	37,514	35,004
Total selling and marketing expenses	429,705	406,132	360,506
Administrative and general:			
Salaries and social benefits	42,882	35,584	32,129
Professional fees	12,872	11,477	11,538
Office rental and maintenance *	316	4,669	4,885
Subsistence, entertaining and travelling	2,624	2,457	2,168
Office expenses	1,636	1,250	1,379
(Loss) from impairment of customers	(209)	2,998	879
Depreciation and amortization *	7,637	2,553	2,263
Other expenses	8,692	8,458	10,152
Total administrative and general expenses	76,450	69,446	65,393
Total selling, marketing, administrative and general expenses	506,155	475,578	425,899

* The increase in depreciation and amortization expenses and the decrease in rental expenses in 2019 is due to the implementation of International Accounting Standard 16.

k. Expenses by type

	For year ending December 31		
	2019	2018	2017
	Thousands of Dollars		
Purchases from sub-contractors	650,704	639,561	592,049
Salaries and wages	381,705	312,470	279,022
Materials consumed	163,802	97,845	94,499
Lease and maintenance *	35,690	85,161	82,766
Haulage, packaging, storage and customs	91,922	82,503	76,633
Depreciation and amortization *	89,824	31,837	28,474
Royalties expenses, net	28,064	24,487	23,748
Advertising expenses	39,138	41,469	29,674
Other expenses	96,877	101,816	93,177
Change in inventory of finished products and products in process	14,434	(1,965)	(18,875)
Total cost of sales, selling, marketing, administrative and general expenses and impairment in value of fixed assets	1,592,160	1,415,184	1,281,167

* The increase in depreciation and amortization expenses and the decrease in rental expenses in 2019 is due to the implementation of International Accounting Standard 16.

Note 19 – Additional information regarding the financial statements (Continued)

l. Other income, net

	For the year ended December 31		
	2019	2018	2017
	US$ thousands		
Capital gain (loss) on the sale of fixed assets	86	(99)	4,332
Gain (loss) from financial instruments	653	1,567	(4,282)
Compensation for termination of franchise agreement	3,000	1,000	-
Total other income, net	3,739	2,468	50

m. Financing expenses, net

	For year ending December 31		
	2019	2018	2017
	Thousands of Dollars		
Interest expenses on credit and loans from banking corporations	8,784	4,652	2,505
Interest expenses on debentures, see Note 11	14,751	12,840	12,095
Other interest expenses	353	430	575
Discount component on assets and long-term liabilities	3,670	3,064	3,839
Interest expenses and commissions on discounting arrangements with customers	1,489	1,269	930
Liabilities for leases	8,474	-	-
Total financing expenses	37,521	22,255	19,944
Interest income from banking corporations and others	(1,385)	(273)	(180)
Exchange rate income, net	(71)	(630)	(916)
Total financing expenses, net	36,065	21,352	18,848

Note 20 – Details of investee companies that are held directly and through subsidiary companies as of December 31, 2019:

Holding company	Name of the Company	Holding and control rate	
Delta Galil Industries Ltd.	Delta Galil USA. Inc.	100%	Consolidated company
	Delta Galil Holland B.V.	100%	Consolidated company
	Delta Textiles (London) Ltd	100%	Consolidated company
	Delta Galil Vietnam Co. Ltd	100%	Consolidated company
	Delta Galil Properties (1988) ltd.	100%	Consolidated company
	Kwond Fat Industrial Limited	100%	Consolidated company
	Brunet Industrial Holdings Limited	100%	Consolidated company
	Delta Alfa Corap Ve Tekstil San Tlc A.S.	100%	Consolidated company
Delta Galil Properties (1988) ltd.	Zhejiang Guangtai Delta Socks Co. Ltd.	50%	Affiliated company
	Delta Galil China Holdings Limited	100%	Consolidated company
Delta Galil USA. Inc.	Wundies Bangladesh Limited	100%	Consolidated company
	Delta Galil Premium Brand LLC	100%	Consolidated company
	Seven for All Mankind LLC	100%	Consolidated company
	Mo Industries LLC	100%	Consolidated company
Delta Galil Holland B.V.	Delta Textile Egypt - Free Zone S.A.E.	100%	Consolidated company
	Century Wear Corporation (WLL)	100%	Consolidated company
	Delta Textile Upper Egypt	100%	Consolidated company
	Thai Progress Garment Co. Ltd	100%	Consolidated company
	Delta Textile Bulgaria Ltd.	100%	Consolidated company
	Delta Galil Hong Kong Ltd.	100%	Consolidated company
	Dominion Hosiery mills Inc	100%	Consolidated company
	Delta Galil Hungary Kft	100%	Consolidated company
Delta Galil Hong Kong Ltd.	Delta Galil Limited Apparel (Guangzhou) Co. Ltd.	100%	Consolidated company
Delta Textiles (London) Ltd	Delta Galil Textile Germany GmbH & Co. KG	100%	Consolidated company
	Sport Socks Company (Belgium) Ltd	100%	Consolidated company
	Delta Galil Germany GMBH	100%	Consolidated company
	Seven for All Mankind International SAGL	100%	Consolidated company
	Delta Textiles France SAS	100%	Consolidated company
	Delta Galil Mexico SA de CV	100%	Consolidated company
	Seven For All Mankind Brazil IMPORTAÇÃO, COMÉRCIO E DISTRIBUIÇÃO S.A	50%	Consolidated company
Delta Galil Textile Germany GmbH & Co. KG	Schiesser AG	100%	Consolidated company
Schiesser AG	Schiesser Marken GmbH	100%	Consolidated company
	Schiesser International B.V Nederland	100%	Consolidated company
	Schiesser International A/S Denmark	100%	Consolidated company
	Schiesser Schweiz AG Switzerland	100%	Consolidated company
	Schiesser Ges m.b.H. Austria	100%	Consolidated company
	Schiesser International NV (Belgium)	100%	Consolidated company
	Pleas a.s.	100%	Consolidated company
	Gemtex a.s	100%	Consolidated company
	Reliable Global Sourcing Ltd, Hong Kong	100%	Consolidated company

Note 20 – Details of investee companies that are held directly and through subsidiary companies as of December 31, 2018 (Continued):

Holding company	Name of the Company	Holding and control rate	
Seven for All Mankind International SAGL	Seven for All Mankind Austria Gmbh	100%	Consolidated company
	Seven for All Mankind France SARL	100%	Consolidated company
	Seven for All Mankind Srl	100%	Consolidated company
	Seven for All Mankind Germany Gmbh	100%	Consolidated company
	Seven for All Mankind Netherlands B.V	100%	Consolidated company
	Seven for All Mankind Spain SL	100%	Consolidated company
	Seven for All Mankind Belgium BVBA	100%	Consolidated company
Delta Textile France SAS	Financiere Boxer SAS	100%	Consolidated company
Financiere Boxer SAS	Financiere Boxer SAS	100%	Consolidated company
Boxer Holding SAS	Eminence SAS	100%	Consolidated company
Eminence SAS	Liable SAS (Italie)	100%	Consolidated company
	Distrebem (France)	100%	Consolidated company
	Eminence Beneluxe (Belgique)	100%	Consolidated company
	Eminter (Espagne)	100%	Consolidated company
	AVS (Romanie)	100%	Consolidated company
Delta Galil China Holdings Limited	Delta Fashion Costume (Shanghai) Co, LTD	100%	Consolidated company
Kwond Fat Industrial Limited	Bogart (Far East) Limited	100%	Consolidated company
Bogart (Far East) Limited	Bogart Lingerie Limited	100%	Consolidated company
	Hangamania Limited	100%	Consolidated company
	Sun Hing Shing Fashion Factory Limited	100%	Consolidated company
	Bogart Garment (HK) Limited	100%	Consolidated company
	Bogart Lingerie (Thailand) Ltd.	100%	Consolidated company
	B&B Apparel Accessories Company Limited	100%	Consolidated company
	BL (Thailand) Limited	100%	Consolidated company
Bogart Lingerie Limited	Bogart Lingerie (Shenzhen) Limited	100%	Consolidated company
	Bogart Lingerie (Guangzhou) Limited	100%	Consolidated company
	Bogart Lingerie (Yangon) Limited	100%	Consolidated company
	B.Lingerie (Guangzhou) Limited	100%	Consolidated company
Sun Hing Shing Fashion Factory Limited	Sun Hing Shing (Shenzhen) Fashion Factory Limited	100%	Consolidated company
Bogart Garment (HK) Limited	Bogart Garment (Beijing)) Co., Ltd.	100%	Consolidated company
B&B Apparel Accessories Company Limited	B&B Apparel Accessories (Shenzhen) Company Limited	100%	Consolidated company
	B&B Apparel Accessories (Kaiping) Company Limited	100%	Consolidated company
Kwong Fat Industrial Limited	BL France Limited	100%	Consolidated company
	Brunet International (Hong Kong) Limited	100%	Consolidated company
	Intercontinental Lace Industry Limited	100%	Consolidated company
BL France Limited	BL Manufacturing Company Limited	100%	Consolidated company
	BL Industrial Company Limited	100%	Consolidated company
	BL Investment Company Limited	100%	Consolidated company
Brunet International (Hong Kong) Limited	Brunet International (Shenzhen) Limited	100%	Consolidated company

Note 21 – Events after the balance sheet date

a. Distribution of a dividend

On February 25, 2020, the Company decided to distribute a dividend of US$ 6.5 million, constituting 25.5 cents per share, which will be distributed on March 17, 2020, in accordance with the representative exchange rate of the Dollar as published on the day before the day of the payment.

The determining date – the "Ex" date for the distribution will be March 4, 2020.

b. Distribution of options

On February 25, 2020, the Company granted 60,000 stock options to an officer, of the options available for allocation under the 2009 Plan, at an exercise price of $ 26.42 per option.

The exercise addition determined equals the average share price in the previous 30 trading days of the decision day.

c. Acquisition of Brayola

In February 2020, the Company purchased from a liquidator the Brayola Company, which developed a technology platform for the purchase of brassieres online. The total purchase cost was $ 1.1 million.

Delta Galil Industries Ltd.
Chapter D

Additional Information Regarding the Corporation
As of December 31 2019

Chapter D – Additional Information Regarding the Corporation

Regulation 10a – Summary Quarterly Statements of Consolidated Earnings

See Paragraph 2.2 of the Report of the Board of Directors.

Regulation 10c – Use of the proceeds of securities

The Company issued debentures during the reporting year. The proceeds of the offerings were used by the Company to repay existing financial debt and to replace the use of short-term bank credit facilities, as detailed in the shelf offering reports.

Regulation 11 – List of investments in material subsidiaries, directly and indirectly, as of the report date

Fully-controlled and fully-held subsidiaries (100%)	Number of shares held by the company, of any type	Par value of the shares Foreign currency	Cost of investment in thousands of Dollars	Balance sheet value in thousands of Dollars	Loans and capital notes in thousands of Dollars
Delta Galil USA Inc.	100	10USD	39,126	116,887	96,000
Delta (Textile) London Ltd.	10,002	10,000GBP	12,941	168,836	98,476
Delta Galil Holland B.V.	250	21,000USD	21	98,286	-

Regulation 12 – Changes regarding investments in material subsidiaries

Regulation 13 – Revenues of material subsidiaries and the corporation's revenues therefrom as of the report date

	2019 In Thousands of Dollars			
Name of subsidiary	**Profit (loss) before tax**	**Net profit (loss) (after tax)**	**Total consolidated earnings**	**Interest revenues received from subsidiary (1)**
Delta Galil USA Inc.	(19,145)	(13,911)	(14,164)	4,352
Delta (Textile) London Ltd.	44,525	37,081	31,634	-
Delta Galil Holland B.V.	13,858	12,661	12,661	-

(1) Data is on a cumulative basis and refers to interest income received or that the Company is entitled to receive from subsidiaries for 2019.

Regulation 20 – Stock market trade – securities listed for trade – dates and reasons for trade discontinuation

Except for the exercise of (non-tradable) options by Company employees over the course of 2019, the Company issued no shares.

In the report year, 245,000,000 par value debentures (series A) and 253,470,000 debentures (series F) were listed for trading.

During the reporting period, trade of the Company's securities listed for trade on the stock exchange did not stop.

Regulation 21 – Remuneration of interested parties and senior officers

a. The following are details of the cost to the Company of the remuneration (remuneration given in the reporting year, including the Company's remuneration obligations for the reporting year) for the five most highly compensated of the Group’s senior officers, including the three senior officers with the highest remuneration in the Company who were remunerated in connection to their service in the Company itself, in USD and in NIS:

Recipient of the remuneration					Remuneration for Services [1]							
Name	Position	Scope of employment	Gender	Holdings in the Corporation’s equity [3]	Salary, social benefits and associated costs	Current bonus	Signing bonus	Long-Term Bonus [4]	Total bonus	Share based payment [2]	Total	Total in NIS (according to average exchange rate)
							In US Dollars					
Isaac Dabah	CEO and Director	100%	M	48.73%	852,067			675,000	675,000		1,527,067	5,442,466
Gil Shimon	Manager of the Global Division Upper Market	100%	M		460,475	216,632			216,632		731,722	2,607,857
Yossi Hajaj	Deputy CEO and Chief of Operations	100%	M		505,769	185,185	100,000		185,185		709,176	2,527,505
Inbar Schwartz	Senior Vice President of Business Development	100%	F		427,472	151,515			151,515		655,878	2,337,548
Iric Browndorf		100%	M		575,911	33,000			33,000	38,212	647,123	2,306,348

(1) In terms of annual cost to the Company.

(2) Share-based payment includes the benefit component for options and blocked share units granted to executives as part of the Company’s 2009 plan and 2014 plan, when the benefit component is calculated according to the B&S Model, and is included as an expense in the Company’s statements in the reporting year. This component was not paid in cash. For further information regarding the exercise price and the value of the options see Note 13 to the Financial Statements, in Chapter C of this periodic report. For details regarding the officers’ holdings in Company shares and convertible securities see the Company’s immediate report from January 7th 2020 (ref. no. 2020-01-002949), included herein by way of reference.

(3) Mr. Dabah’s holdings noted in the above table include holdings of Isaac Dabah Children's Trust at a rate of 0.04% but does not include the holding in Sterling Macro at a rate of 4.95% (which is a fund managed by Mr. Dabah).

(4) The long-term grant was not actually paid and refers to compliance with the Company's performance in 2021 if achieved. Company management estimates that there is a

high likelihood that the conditions for payment of the grant will be met and that it is expected to be fully paid.

b. The following are details of the remuneration paid to interested parties and to directors (excluding Mr. Isaac Dabah, who was included in the table detailed in Section A above), in USD and in NIS:

Name	Position	Scope of employment	Holdings in the Corporation's equity	Remuneration for Services [1] Salary, social benefits and associated costs	Bonus	Share based payment	Total	Total in NIS
				In US Dollars				
Directors [2]	7 in number		9.97%[3]				383,702	1,351,580
Gloria Dabah [4]	GM of Splendid Kids, Ladies and Men	100%	-	339,670	26,250		365,920	1,304,139
Itzhak Weinstock	Director and Chief Operating Officer, Delta U.S.A.		0.43%	486,037	35,420	25,128	546,585	1,948,028

(1) In terms of annual cost to the Company.

(2) Refers to all the directors who served during the reporting year as directors in the Company and received remuneration from the Company in connection with their tenure as directors: As of December 31, 2008, the Company has seven directors.

(3) Refers to the holding of 9.97% by Mr. Noam Lautman and 0.04% by Mr. Israel Baum.

(4) For further information regarding the terms of employment of Ms. Gloria Dabah, see Note 17 to the Financial Statements, in Chapter C of this periodic report as well as regulation 22 below.

Remuneration sums for directors Tzipporah Carmon, Rinat Gazit, Shlomo Sharf and Richard Hunter are each paid to companies under their full control: “Tzippah Carmon Exports Ltd.”, "Gaia Nona Ltd.", "S. Sharf Ltd." and "Hunter Consulting and Management Ltd.", respectively.

Mr. Isaac Dabah, Company CEO and Director

Mr. Isaac Dabah began working in the Company in 2008.

With regard to the terms of his office and his employment as CEO of the Company in 2019 and thereafter, as approved by the Remuneration Committee, the Board of Directors and the General Meeting of the Company, see Section 2 of the report on the convening of the meeting of the Company of October 29th 2018 (ref. 2018-01-102015) and the immediate report on the outcome of the meeting dated December 5th 2018 (ref. 2018-01-112150), included herein by way of reference. The remuneration of Mr. Dabah is paid as follows: 84% of the salary and the bonus to which he is entitled is paid by the subsidiary Delta Galil USA and the balance is paid by the Company.

Mr. Gil Shimon, Manager of the Global Division Upper Market Operating Segment

Mr. Shimon began working at the Company n February 2017; the following are the key terms of his employment:

Mr. Shimon's gross monthly salary is NIS 110,000.

Mr. Shimon is entitled to social benefits and reimbursement of various expenses as is customary in the Company.

According to his employment agreement, Mr. Shimon is entitled to an annual bonus based on Company policy and on goals set by the Company's Remuneration Committee and Board of Directors. The annual bonus Mr. Shimon is entitled to will not exceed 6 monthly salaries. The Company's Remuneration Committee and Board of Directors set with respect to Mr. Shimon the following goals for the receipt of the annual bonus: Meeting the Company's operating profit target (EBIT) (20% of the bonus), meeting the operating profit target (EBIT) of the operating segment (60% of the bonus) and meeting measurable personal targets (20% of the bonus), and approved for Mr. Shimon a bonus totaling $216,632 in respect of 2019.

As of the date of this report, 54,729 options and 4,053 restricted share units, conditional on achieving operational objectives, have been allotted to Mr. Shimon.

Mr. Shimon's employment agreement is for an indefinite period and each party may terminate it by giving 6 months' prior written notice to the other party.

Mr. Yossi Hajaj, Deputy CEO and Chief Operations Officer

Mr. Hajaj began working at the Company June 1997; the following are the key terms of his employment:

Mr. Hajaj’s gross monthly salary is 110,000 NIS.

Mr. Hajaj is entitled to social benefits and reimbursement of various expenses, as is customary in the Company.

According to his employment agreement, Mr. Hajaj is entitled to an annual bonus based on the Company's policy and on goals to be determined by the Company's Remuneration Committee and Board of Directors. Mr. Hajaj's annual bonus will not exceed 12 monthly salaries. The Company's Remuneration Committee and Board of Directors set the following goals for Mr. Hajaj for the purpose of receiving an annual bonus: Meeting the Company's operating profit target (EBIT) (50% of the bonus) and meeting measurable personal targets (50% of the bonus), and has approved Mr. Hajaj a total bonus of USD185,185 in respect of 2019.

Mr. Hajaj’s employment agreement is not limited in time and each party may terminate it by giving advance written notice to the other party. The Company may terminate Mr. Hajaj’s employment with 180 days’ written notice, while according to the parties’ written agreement made after the signing of the agreement, Mr. Hajaj may terminate his employment with the Company with 90 days’ written notice.

As of the date of this report, 33,206 restricted share units, conditional on achieving operational objectives, have been allotted to Mr. Hajaj.

Ms. Inbar Schwartz, Senior Vice President of Business Development

Ms. Schwartz began working at the Company in August 2014; the following are the key terms of her employment:

Ms. Schwartz's gross monthly salary is 90,000 NIS.

Ms. Schwartz is entitled to social benefits and reimbursement of various expenses, as is customary in the Company.

According to her employment agreement, Ms. Schwartz is entitled to an annual bonus based on the Company's policy and on goals to be determined by the Company's Remuneration Committee and Board of Directors. Ms. Schwartz's annual bonus will not exceed 6 monthly salaries, but meeting the goals at a higher rate may entitle her to an increase in the bonus due to her, up to a maximum rate to be set in advance in the bonus program, but in any event no more than 12 monthly salaries, as set in the Company's remuneration policy. In 2019, the Company's Remuneration Committee and Board of Directors set the following goals for Ms. Schwartz for the purpose of receiving an annual bonus: Meeting the Company's operating profit target (EBIT) (50% of the bonus) and meeting measurable personal targets (50% of the bonus). In view of the aforesaid and in accordance with the goals set for Ms. Schwartz, Ms. Schwartz is entitled to a total bonus of USD151,515 in respect of 2019.

As of the date of this report, 51,377 options and 885 restricted share units, conditional on achieving operational objectives, have been allotted to Ms. Schwartz.

Ms. Schwartz's employment agreement is not limited in time and each party may terminate it by giving 90 days' written advance notice to the other party.

Ms. Schwartz's terms of service and employment include a 12-month restriction on employment period and a non-solicitation obligation for a period of 12 months from the end of her employment in the Company.

Mr. Iric Browndorf, Vice President of Manufacturing and Sourcing at Delta U.S.A.

Mr. Browndorf began working at the subsidiary on July 2016; the following are the key terms of his employment:

Mr. Browndorf gross annual salary is $550,000.

According to his employment agreement, Mr. Browndorf is entitled to an annual bonus not exceeding 6 monthly salaries, based on the Company's policy and on goals to be determined by the Company's Remuneration Committee and Board of Directors. In 2019, the Company's Remuneration Committee and Board of Directors determined in respect of Mr. Browndorf the following goals for the purpose of receiving an annual bonus: Meeting the Company's operating profit target (EBIT) (20% of the bonus), meeting the operating profit target (EBIT) of the operating segment (60% of the bonus) and meeting measurable personal targets (20% of the bonus). In view of the aforesaid and in accordance with the goals set for him, Mr. Browndorf is entitled to a total bonus of $33,000 in respect of 2019.

By virtue of the agreement, Mr. Browndorf is entitled to various social benefits, as is customary at Delta U.S.A.

Mr. Browndorf employment agreement was set for a period of one year, at the conclusion of which it will be renewed for periods of one year for three further years, unless Mr. Browndorf gave one year's written advance notice of his desire to terminate the agreement.

Mr. Browndorf shall be entitled to an adaptation bonus equal to 12 monthly salaries, including social benefits.

As of the date of this report, 2,693 restricted share units and 26,398 options, conditional on achieving operational objectives, have been allotted to Mr. Browndorf.

Mr. Browndorf terms of service and employment include a 12-month restriction on employment period and a non-solicitation obligation for a period of 12 months from the end of his employment at Delta U.S.A.

Company Board of Directors – as of this report, the Company's directors[1] are entitled to an annual compensation and remuneration for participation to the maximum amounts as per the Companies Regulations (Rules Regarding Remunerations and Expenses for External Directors), 2000 ("**the Remuneration**

1 Excluding Mr. Isaac Dabah, so long as he serves as Company CEO and Mr. Itzhak Weinstock, so long as he serves as a COO in a subsidiary – regarding each of whom different terms of service were set, detailed in this section above.

Regulations") according to the Company's grade. The directors are entitled to annual compensation of 112,000 NIS and to remuneration for participation of 4,312 NIS per meeting. The sums in question are linked to the consumer price index.

Gloria Dabah, daughter of the Company's controlling shareholder, GM of Splendid Kids, Ladies and Men's at a subsidiary

On January 2nd 2017 the general meeting of the Company shareholders approved the new terms of the employment of Mrs. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company's CEO and controlling shareholder, as Vice President Kids Division DG Premium Brands. Mrs. Dabah's new terms of employment came into effect starting January 1st 2017, in accordance with the recommendations of the Company Remuneration Committee and Board of Directors. For further information on the terms of her employment see Section 3.1 of the complementary report published by the Company on December 28th 2016 (reference no.: 2016-01-092952) and the immediate report on the results of the meeting of January 2nd 2017 (reference no.: 2017-01-000970), included herein by way of reference.

On February 14th 2018, the Company's Board of Directors approved an update to Gloria Dabah's job title to GM of Splendid Kids, Ladies and Men, including adding responsibilities without changing the terms of employment approved by the Company's competent organs. For further information, see the immediate report of February 15th 2018 (reference no.: 2018-010-015496), included herein by way of reference.

Mrs. Dabah is entitled to an annual bonus based on Company policy and goals set – meeting the Company's operating profit goal (EBIT) (10% of the bonus) and that of the operating segment she is the manager of (70% of the bonus) and meeting measurable personal goals (20% of the bonus).

In light of Mrs. Dabah's compliance with the goals set for her, she is entitled to a bonus of $26,250 for 2019.

On February 18th 2019 the Remuneration Committee and Board of Directors approved a new employment agreement with Mrs. Gloria Dabah, daughter of Mr. Isaac Dabah, the controlling shareholder, as President of Splendid Kids, Ladies and Men, whereby her annual salary will stand at, as of April 1st 2019, $350,000, and she will be entitled to an annual bonus of up to 50% of her annual salary, subject to her meeting the goals. Said employment agreement was approved by the general meeting of the Company shareholders.

Regulation 21 – Control of the Corporation

The Company' controlling shareholder is Mr. Isaac Dabah, holding the Company shares directly and through holdings under his control.

Regulation 22 – Transactions with the Controlling Shareholder

Transactions Listed in Section 270(4) of the Companies Law, 5759 – 1999

Identity of the parties	Description of the transaction	Identity of the organ approving the transaction and approval date
Delta USA and Mrs. Gloria Dabah, daughter of the Company's controlling shareholder	On February 18th 2019 the Remuneration Committee and Board of Directors approved a new employment agreement with Mrs. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company's controlling shareholder, as President of Splendid Kids, Ladies and Men, whereby her annual salary will stand at, as of April 1st 2019, $350,000, and she will be entitled to an annual bonus of up to 50% of her annual salary, subject to her meeting the goals. The new employment agreement is subject to the approval of the general	The Company Board of Directors Remuneration Committee and – February 18th 2019

Identity of the parties	Description of the transaction	Identity of the organ approving the transaction and approval date
	meeting of the Company shareholders that will be convened pursuant to the provisions of the law	
	Approval of Ms. Dabah's terms of employment in a subsidiary for a period of three years from January 1st 2017. On February 14th 2018, the Company's Board of Directors approved the update of Gloria Dabah's position to that of GM of Splendid Kids, Ladies and Men (for further details see Regulation 21 above)	The Company Board of Directors – February 14th 2018 regarding the change of her position; The general meeting – January 2nd 2017; The Company Board of Directors – November 15th 2016 The Remuneration Committee – November 15th 2016
The Company and Company officers and directors who are controlling shareholder or their relative	Re-issue of letters of undertaking to compensate Company officers and directors who are the controlling shareholder or their relative (for further information see Regulation 29a below).	The general meeting – January 2nd 2017; The Company Board of Directors – November 15th 2016; The Remuneration Committee – November 15th 2016.
The Company and Mr. Isaac Dabah, Controlling shareholder in the Company, director and CEO	Approval of the terms of employment of Mr. Dabah as Company CEO for three years from January 1st 2019 (for further information see Regulation 21 above), which includes the granting of letters of indemnification and amendment of the remuneration policy with respect thereto.	The general meeting – December 5th 2018; The Company Board of Directors – October 17th 2018; The Remuneration Committee – October 11th 2018.

Transactions Not Listed in Section 270(4) of the Companies Law, 5759 – 1999

The Company – Shenkar	Donation of NIS 100,000 to Shenkar in 2018, and NIS 100,000 in 2019.	The Company Board of Directors – October 18th 2018; The Audit Committee – September 5th 2018.

Regulation 24 – Holdings of interested parties and senior executives

For details regarding shares and securities held by interested parties and by senior officers at the Company, see the immediate report dated January 7th 2020 (ref. no. 2020-01-002949), included herein by way of referral.

For details regarding the dormant shares held by the Company, see the immediate report dated January 7th 2020 (ref. no. 2020-01-002949).

Regulation 24a – Registered capital, issued capital and convertible securities

For details regarding registered capital, issued capital and convertible securities, including options and blocked shares granted to Company employees; see Note 13 to the Financial Statements in Chapter C of this periodic report.

Regulation 24b – Register of the Corporation's Shareholders will be updated

For details regarding the register of the corporation's shareholders see the immediate report dated December 29, 2019 (ref. no. 2019-01-114762), included herein by way of referral.

Regulation 25a – The Corporation's registered address and details

Address: 45 Ha'eshel, Caesarea Industrial Park, 3088900 Israel

Telephone no: 972-76-8177009; Fax: 972-76-8177280

Email: Asaf.Alperovitz@deltagalil.com

Website: www.deltagalil.com

Regulation 26 – Corporate Directors as of the Report Date

a. Members of the Board of Directors

Director's name		ID number	Address			Date of appointment		
Last name	First name		City	Street	House no.	Year	Month	Day
Lautman	Noam	24407280	Tel Aviv	Ha'Rav Amiel	34	01	11	30
Dabah	Isaac	054907852	New York, USA	Park Avenue	2	05	11	15
Baum	Israel	005172796	Rishon Letzion	Ein Hakoreh	22	05	12	26
Weinstock	Itzhak	6139265	New Jersey, USA	Harmon Plaza	1	07	10	21
Carmon	Tzipporah	051528933	Savion	Hatichon	9	09	10	20
Hunter	Richard	011179538	Ra'anana	Dganya	18	18	10	21
Sherf	Shlomo	030223549	Tel Aviv	Rothschild	1	18	10	21
Gazit	Rinat	024441628	Tel Aviv	Bnei Moshe	16	18	10	21
Gold	Yehosua	051744415	Tel Aviv	Emil Zola	28	18	12	05

b. Additional information regarding board members

Director's name – Chairman of the Board of Directors	Noam Lautman
ID number	24407280
Citizenship	Israeli
Date of birth	April 16' 1969
Address for service of court documents	34 Ha'Rav Amiel, Tel-Aviv, Israel
Date of commencement of office	November 30, 2001
Membership of Board committee/ committees	No
External or independent director	No
Established as having accounting and financial competency or professional qualifications	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No

Director's name – Chairman of the Board of Directors	Noam Lautman
Education and occupation in past five years	**Education:** 2000 – M.B.A. – New York University 1995 – B.Sc. – Mathematics and Computer Sciences – Tel-Aviv University **Employment:** 2006 – to date – 2gether Capital Ltd – CEO
Other corporations in which he serves as a director	Babcom Centers Ltd, Adinoam Properties Ltd, N.D.R.L Investments 1998 Ltd, Shefa Media
Family member of another interested party in the corporation	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Director's name - CEO and Director Responsible for the market risks management in the Company	Isaac Dabah
ID number	054907852
Citizenship	Israeli; American
Date of birth	August 11, 1957
Address for service of court documents	2 Park Avenue, New York, NY, USA
Date of commencement of office	November 15, 2005
Membership of Board committee/ committees	None
External or independent director	No
Established as having accounting and financial competency or professional qualifications	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	Yes – Company CEO; and the person responsible for market risk management at the Company
Education and occupation in past five years	**Education**: Attended Baruch College of the City University of NY **Employment**: 2008 – to date – Company CEO
Other corporations in which he serves as a director	Subsidiaries: Delta Galil USA Inc. ,Delta Textile (London) Ltd. , Schiesser AG (Supervisory Board) , Delta Textile Egypt SAE , Garment Co. Ltd. Thai Progress
Family member of another interested party in the corporation	Yes
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Director's name – COO of Delta USA and Company director	Itzhak Weinstock
ID number	6139265
Citizenship	Israeli; American
Date of birth	November 25, 1946
Address for service of court documents	1 Harmon Plaza, NJ, USA
Date of commencement of office	October 21,st 2007
Membership of Board committee/ committees	No
External or independent director	No
Established as having accounting and financial competency or professional qualifications	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	Chief Operating Officer at subsidiary (Delta Galil USA) starting January 1, 2011
Education	CPA – Certified Public Accountant M.B.A. – Columbia University
Other corporations in which he serves as a director	No
Family member of another interested party in the corporation	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Director's name	Tzipporah Carmon
ID number	051528933
Citizenship	Israeli
Date of birth	December 7, 1952
Address for service of court documents	9 Hatichon, Savion, Israel
Date of commencement of office	October 20, 2009
Membership of Board committee/ committees	Remuneration Committee
External or independent director	No
Established as having accounting and financial competency or professional qualifications	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education**: M.B.A. – International Marketing and Trade – UCLA, California B.A. – Sociology and Education – Hebrew University, Jerusalem **Employment**:

Director's name	Tzipporah Carmon
	1993 – to date – Manager and owner of T.C. Export
Other corporations in which he serves as a director	Azrieli Group Ltd., Rafael Advanced Defense Systems Ltd.
Family member of another interested party in the corporation	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Director's name	Israel Baum
ID number	005172796
Citizenship	Israeli
Date of birth	January 24, 1938
Address for service of court documents	22 Ein Hakoreh, Rishon Letzion, Israel
Date of commencement of office	December 26, 2005
Membership of Board committee/ committees	No
External or independent director	No
Established as having accounting and financial competency or professional qualifications	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education**: B.SC – Manufacturing Engineer - Temple University, Philadelphia **Employment**: Provided consulting services to the Company until 2012
Other corporations in which he serves as a director	No
Family member of another interested party in the corporation	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	No

Director's name	Rinat Gazit
ID number	024441628
Citizenship	Israeli
Date of birth	July 27, 1969
Address for service of court documents	16 Bnei Moshe, Tel Aviv
Date of commencement of office	October 21, 2018
Membership of Board committee/ committees	Committee for Approval of Financial Statements, Audit

Director's name	Rinat Gazit
	Committee
External or independent director	Independent director
Established as having accounting and financial competency or professional qualifications	Yes, has accounting and financial expertise
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education**: MSc in Business Administration, Recanati School of Business Administration, Tel Aviv University; B.A Political Science and Sociology and Anthropology from the University of Haifa. **Employment**: Advising in the field of mergers and acquisitions for international companies such as: Ormat Technologies, Magal Security Systems, GP Minerals and TSC Capital.
Other corporations in which he serves as a director	The Edmond Benjamin de Rothschild Property Corporation (2001) Ltd.; The Edmond Benjamin de Rothschild Caesarea Development Corporation Ltd.; Vitania Real Estate Ltd.; Alium Medical Ltd., Melisron Ltd.; Ratio Petroleum Energy – Limited Partnership; Panaxia Israel.
Family member of another interested party in the corporation	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	Yes

Director's name - External director	Shlomo Sharf
ID number	030223549
Citizenship	Israeli
Date of birth	September 10, 1949
Address for service of court documents	1 Rothschild St., Tel Aviv
Date of commencement of office	October 21, 2018
Membership of Board committee/ committees	Audit Committee, Remuneration Committee, Committee for Approval of Financial Statements
External or independent director	Yes
Established as having accounting and financial competency or professional qualifications	Yes
Expert external director	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education**: B.Sc. in Mechanical Engineering - Ben Gurion University

Director's name - External director	Shlomo Sharf
	<u>Employment</u>: 2011-2013 CEO of the Azrieli Group Ltd. 2006-2010 CEO of Electra Real Estate Ltd.
Other corporations in which he serves as a director	External director in Midroog Ltd.; external director in Melisron; S. Sharf Ltd.
Family member of another interested party in the corporation	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	Yes

Director's name - External director	Shuki Gold
ID number	
Citizenship	Israeli
Date of birth	December 24, 1952
Address for service of court documents	28 Emil Zola, Tel Aviv
Date of commencement of office	December 5, 2018
Membership of Board committee/ committees	Audit Committee, Committee for Examination of Financial Statements**,** Remuneration Committee,
External or independent director	External director
Established as having accounting and financial competency or professional qualifications	Yes
Expert external director	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**<u>Education</u>**: BA in Economics with specialization in Business Administration, Ben Gurion University. MA, MSc in Economic Management, Ben Gurion University. **<u>Employment</u>**: Chairman of OPC Rotem Ltd. (until 2016); Executive Vice Chairman of IC Power Ltd. (until 2016); Owner of NPV Economic Consulting Ltd. (until 7/2018).
Other corporations in which he serves as a director	None
Family member of another interested party in the corporation	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	Yes

Director's name - External director	Richard Hunter
ID number	011179538
Citizenship	Israeli
Date of birth	August 24, 1969
Address for service of court documents	18 Dganya, Ra'anana
Date of commencement of office	October 21, 2018
Membership of Board committee/ committees	Audit Committee, Committee for Examination of Financial Statements**,** Remuneration Committee,
External or independent director	External director
Established as having accounting and financial competency or professional qualifications	Yes, has accounting and financial competency
Expert external director	No
Position as employee of the corporation, a subsidiary, an associate or an interested party	No
Education and occupation in past five years	**Education**: LL. B Graduate of Law at the College of Management, Rishon LeZion; MBA from Insead. **Employment**: CEO of McCann Tel Aviv (2012-2015) Chairman of the Board of Holmes Place (a public company). Partner in the Green Lantern Group and has invested in Private Equity through Holmes Place International Ltd., in Gad Dairies Ltd. and Palco Ltd.
Other corporations in which he serves as a director	Icon Fitness Israel Ltd., Dizengoff Club Ltd.; Green Lantern HP Israel 1 Limited Partnership; Green Lantern Consultants 2 Ltd; Green Lantern Management Ltd; Green Lantern Management 2 Ltd., Green Lantern Management Ltd.; Gal Heatid Ltd.; Middle East Automobile Agency Ltd., Holmes Place Ltd.; Gad Dairies Ltd.; Partner Communications Ltd.; Palco Ltd.; Gilro Ltd.
Family member of another interested party in the corporation	No
Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?	Yes

Regulation 26a – Senior Officers in the Company[2]

Name of senior officer	Victoria Wandegrif
ID number	Passport no. 506672486
Date of birth	August 29, 1967
Date of commencement of office	September 2011

[2] Excluding officers whose tenure has ended prior to the report date.

Name of senior officer	Victoria Wandegrif
Position in the company, in a subsidiary or in an interested party therein	Manager of the Brands Division in Delta USA
Education and occupation in past five years	**<u>Education</u>**: B.S.- Fashion Institute of Technology **<u>Employment</u>**: Manager of business units at Delta Galil USA Inc.
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Steve More
ID number	Passport no. 524323447
Date of birth	November 8, 1970
Date of commencement of office	July 15, 2019
Position in the company, in a subsidiary or in an interested party therein	President of the Mass Market Unit at Delta USA
Education and occupation in past five years	**<u>Education</u>**: BS Michigan State University MBA Wake Forest University **<u>Employment</u>**: Gildan VP Sales 8/2016 - 7/2109 Hanes VP Sales prior to 8/2016
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Iric Laurence Browndorf
ID number	Passport no. 530928023
Date of birth	November 20, 1962
Date of commencement of office	August 1, 2016
Position in the company, in a subsidiary or in an interested party therein	Executive Vice President Sourcing and Production Delta Galil USA
Education and occupation in past five years	**<u>Education</u>**: Communications – Arizona State University **<u>Employment</u>**: September 2012 to July 2016 – SVP Global Sourcing and Manufacturing in Li & Fung USA
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Yossi Hajaj
ID number	023543572
Date of birth	June 15th 1968
Date of commencement of office	October 28th 2015
Position in the company, in a subsidiary or in an interested party therein	Deputy CEO and COO Director in a number of subsidiaries
Education and occupation in past five years	**Education**: Certified Public Accountant B.A. in Accounting and Economics – Tel-Aviv University **Employment**: 2004 to 2015 – Company CFO
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Asaf Alperovitz
ID number	024933285
Date of birth	March 3, 1970
Date of commencement of office	October 22, 2019
Position in the company, in a subsidiary or in an interested party therein	Chief Financial Officer Responsible for management of market risk associated with exchange rates and interest Director in a number of subsidiaries
Education and occupation in past five years	**Education**: Business Administration certification – Tel Aviv University B.A. in Accounting and Economics – Tel Aviv University **Employment**: 2012 to 2019 - CEO of Allium Medical Solutions Ltd.
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Inbar Schwartz
ID number	025086612
Date of birth	November 25, 1972
Date of commencement of office	August 24, 2014
Position in the company, in a subsidiary or in an interested party therein	SVP of Business Development
Education and occupation in past five years	**Education**: Law degree – Harvard Law School

Name of senior officer	Inbar Schwartz
	BA in History – Columbia College **Employment**: 2007 to 2013 – VP at Tene Growth Capital 2009-2014- Director – Fishman Thermal Technologies
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Miki Laxer
ID number	024557480
Date of birth	October 24. 1969
Date of commencement of office	October 20, 2015
Position in the company, in a subsidiary or in an interested party therein	VP of Finance and Company Secretary Director at a number of subsidiaries
Education and occupation in past five years	**Education**: Certified Public Accountant M.B.A. – Tel-Aviv College of Management B.A. – Accounting and Business Education – Tel-Aviv College of Management **Employment**: 2004 to 2015 – Company Accountant and Secretary
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Yaniv Bendek
ID number	43056407
Date of birth	April 18. 1981
Date of commencement of office	October 20.h 2015
Position in the company, in a subsidiary or in an interested party therein	Company comptroller
Education and occupation in past five years	**Education**: Certified Public Accountant Certification in Business Administration – Tel-Aviv University BA in Accounting and Economics – Hebrew University in Jerusalem **Employment**: Starting October 2015 – Company Comptroller 2011 to 2015 – Deputy Company comptroller

Name of senior officer	Yaniv Bendek
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Einat Menachem Amitay
ID number	028666857
Date of birth	July 27, 1971
Date of commencement of office	April 7. 2014
Position in the company, in a subsidiary or in an interested party therein	SVP Human Resources
Education and occupation in past five years	**Education**: M.B.A – Ben Gurion University BA – Education and Literature – Tel-Aviv University **Employment**: 2012 to 2014 – Senior VP Human Resources – Ness Technologies
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Avi Avital
ID number	55090567
Date of birth	January 26th 1958
Date of commencement of office	July 3rd 2008
Position in the company, in a subsidiary or in an interested party therein	VP of Information Systems
Education	The Technion – School of Computer Engineering
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Gil Shimon
ID number	022459655
Date of birth	July 3, 1966
Date of commencement of office	February 7. 2017
Position in the company, in a subsidiary or in an interested party therein	President of Global Upper Market Division
Education	B.A. in Economics and Business Administration – Haifa University
Employment	July 2013 to January 2017 – CEO of Tefron March 2013 to June 2013 – CEO of the Garden Warehouses Division at Keter Plastic
Interested party in the Company or family member of	No

Name of senior officer	Gil Shimon
interested party or other senior officer in the Company	

Name of senior officer	Anat Bogner
ID number	038350900
Date of birth	December 21, 1975
Date of commencement of office	February 19, 2019
Position in the company, in a subsidiary or in an interested party therein	Manager of the Delta Israel operating segment
Education and occupation in past five years	**Education**: LL. B Graduate of Law from Tel Aviv University and a licensed lawyer. Working in Delta since February 2, 2015. **Employment**: Prior to that, she managed fashion chains in the Golf AQ Group
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Name of senior officer	Moshe Cohen
ID number	51209971
Date of birth	April 3, 1952
Date of commencement of office	January 27. 2013
Position in the company, in a subsidiary or in an interested party therein	Internal Auditor
Education and occupation in past five years	**Education**: Certified Public Accountant B.A. in Economics and Accounting – Tel Aviv University. **Employment**: 2003 – to date – senior partner at Chaykin Cohen Rubin & Co.
Interested party in the Company or family member of interested party or other senior officer in the Company	No

Regulation 26b – Independent Authorized Signatory

The Company has no independent authorized signatories except in the case of the execution of confidentiality agreements.

Regulation 27 – The Company's CPAs

Accountant Name: PwC Israel (Kesselman and Kesselman)

Office Address: 25 Hamered, Tel Aviv, Israel

Regulation 28 – Changes to Memorandum of Association or Articles of Association

In the reporting year, no change was made in the memorandum or in the articles of association.

Regulation 29 – Recommendations and decisions by the Board of Directors; resolutions of the special general meeting

The following are the resolutions of the special general meeting during or after the reporting period:

On April 8, 2019, a special general meeting was held of the Company's shareholders. Its agenda included a resolution for approval of the terms of employment of Ms. Gloria Dabah, daughter of the controlling shareholder in the Company, in her capacity as President, Splendid Kids, Ladies & Men. Her terms of employment were approved by the general meeting in said meeting. For further information, see the immediate report on the convening of the meeting of February 28, 2019 (ref. no. 2019-01-017968) and the immediate report on the results of the meeting of April 8, 2019 (ref. no. 2019-01-034849), included herein by way of reference.

On December 26,[h] 2019, an annual general meeting was held of the Company's shareholders. Its agenda included: (a) the reappointment of directors serving in the Company (who are not external directors), Messrs. Noam Lautman, Isaac Dabah, Itzhak Weinstock, Tzippah Carmon, Israel Baum, Rinat Gazit and Richard Hunter, for an additional period up to the end of the first annual general meeting following the appointment; (b) the reappointment of the of PWC Israel accounting firm (Kesselman and Kesselman) as the Company's auditing accountant up to the date of the next annual general meeting of the Company; (c) a discussion of the Company's Financial Statements and Board of Directors' Report for the year ending December 31, 2019. For further information, see the immediate report on the convening of the meeting of November 19, 2019 (ref. no. 2019-01-09985) and the immediate report on the results of the meeting of December 26, 2019 (ref. no. 2019-01-114396), included herein by way of reference.

Regulation 29a – Corporate Decisions

The following are the Company's resolutions regarding exemptions, insurance or undertaking for the indemnification of officers, in effect on the reporting date:

Directors' and Officers' Liability Insurance Policy

In accordance with the revised remuneration policy for Company officers, without derogating from the provisions of the law, the Remuneration Committee shall be entitled to approve, from time to time and as long as the remuneration policy is in effect, the Company's engagement in an insurance policy to cover the liability of all Company officers, including directors (and including officers and directors who are controlling shareholders in the Company), provided the annual coverage included in the policy for a specific year will be up to $50 million, the deductible does not exceed $300,000 and the premium does not exceed $250,000 per annum.

In accordance with the above, the Company has a policy covering the liability of directors and officers serving in it and in its subsidiaries. The policy has a liability limit of $10 million, for any insurance event and in aggregate for the insurance period. The insurance period starts May 1, 2019 and ends April 30, 2020. The total premium for said policy is $31,000.

Indemnity for directors and officers

On January 2, 2017 the Company's general meeting approved, after receiving the approval of the Remuneration Committee and the Board of Directors, to re-issue the letters of undertaking to indemnify Company directors and officers, including Company directors and officers who are controlling shareholders in the Company or are related to them, according to the wording of the letters of indemnification which were attached as an appendix to the report on the convening of the meeting of December 28, 2016 (ref. no. 2016-01-092952). On December 5, 2018, the terms of employment of Mr. Isaac Dabah as CEO of the Company were approved for a period of three years from January 1, 2019 (for further details, see Regulation 21 above), which include the granting of letters of indemnification.