

Delta Galil Industries Ltd.

2023 Periodic Report



February 25, 2024

Delta Galil Industries Ltd.

Chapter A

Description of the Corporation's Business As of December 31, 2023

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Preface

The Company, Delta Galil Industries Ltd., hereby submits this report to provide a comprehensive overview of the Company's business operations as of December 31, 2023. This report includes a detailed account of the Company's structure and the progression of its business activities throughout the year 2023 (“**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. In some cases, the report contains additional descriptive information to provide a comprehensive picture of the matter being described.

The description of the corporation’s business in Chapter A includes, in part, forward-looking information as defined in the Securities Law. Such information presented below and noted as forward-looking information, including forecasts, estimates, evaluations or other information in the nature of uncertain information that refers to a future event the realization of which is uncertain and not under the control of the Company and is based, inter alia, on the publications of the Central Bureau of Statistics, publications of the Bank of Israel, publications of other relevant professional entities and in addition on the Company’s internal assessments based on the Company’s past experience as accumulated over the years. The actual results may differ substantially from those predicted as part of the above stated forward-looking information, as a result of a large number of factors beyond the Company’s control, including as a result of the realization of all or part of the Company’s risk factors, as described in Section 48 of this Chapter A and everything as detailed in the specific reference to the looking forward information later on in the chapter. Sentences that include expressions such as: “Expected”, “intends”, “estimates”, “contract”, “expects” and similar expressions, indicate that this is forward-looking information. This information reflects the Company’s current point of view regarding future events that are based on estimates and are therefore subject to risks and uncertainties.

Glossary

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

“The Corporation,” “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.
“Delta Israel”	Delta Israel Brands Ltd.
“Schiesser”	Schiesser Group
“Eminence”	Eminence Group
“Bogart”	Bogart Group
“Dollar”	US dollar

Description of the Corporation's Business

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

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

The following is information on the Corporation's historical activities as of February 25, 2024.

- 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.
- 1.2. In July 2022, the Company acquired the Organic Basics online brand, a Company that markets underwear and active wear products. Organic Basics results were included in Delta's financial statements starting the third quarter of 2022 and are included within the "Other" segment.
- 1.3. On September 30, 2020, the Company announced that Delta Israel Brands Ltd., a subsidiary of the Company (hereinafter the "**Subsidiary**" or "**Delta Israel**"), had entered into a conditional split agreement with the Subsidiary ("**the Split Agreement**"), according to which - shortly before the completion of the IPO according to the draft prospectus, the Company will transfer to the Subsidiary the Company's "Delta Israel" segment (excluding non-material activities), in exchange for shares issued to it by the Subsidiary.

In March, 2021, the Split Agreement and the transfer of the said segment for tax purposes were completed retroactively as of September 30, 2020 and the Subsidiary shares began trading on the Tel Aviv Stock Exchange.

For further details, see the immediate report dated March 4, 2021 (reference no. 2021-01-026811).

- 1.4. The Group's sales are divided as follows:

- 1.4.1. Sales of Branded Products

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, Fix, and Organic Basics.

The products sold within this framework primarily consist of intimate apparel, socks, children's wear, leisurewear, active wear, denim, and outerwear.

These products are sold through chain stores owned by the Group as well as to leading retail chains such as: Nordstrom, Galería Karstadt Kaufhof, Leclerc, and Carrefour and leading online retailers such as Amazon, Zalando, and others.

Sale of products bearing brands to which the Company holds a license, such as Converse, Wilson, Tommy Hilfiger, Columbia, Original Penguin, Calvin Klein, Spalding, Disney, adidas, Wolford, and others. During 2023, the Company started selling Polo Ralph Lauren under a license agreement.

The products sold within the framework of license agreements mainly consist of intimate apparel, socks, children's wear, leisurewear, and active wear. The Company pays royalties to the license owner in return for using the brand name.

In 2024, the Company is expected to start selling products under the Passionata brand, the purchase of which was completed in the first quarter of 2024, and under the Florence By Mills, Lauren and Bath & Body Works brands for which it received a license.

1.4.2. Sale of Products bearing the Private Label of the Customers

Sales of products bearing the customer's private labels are made to leading customers such as Nike, Skims, Walmart, Target, Victoria's Secret, Spanx, TJ Maxx, Costco, Amazon, PVH Group, and others.

The products sold in this method mainly consist of Intimate apparel, socks, and active wear.

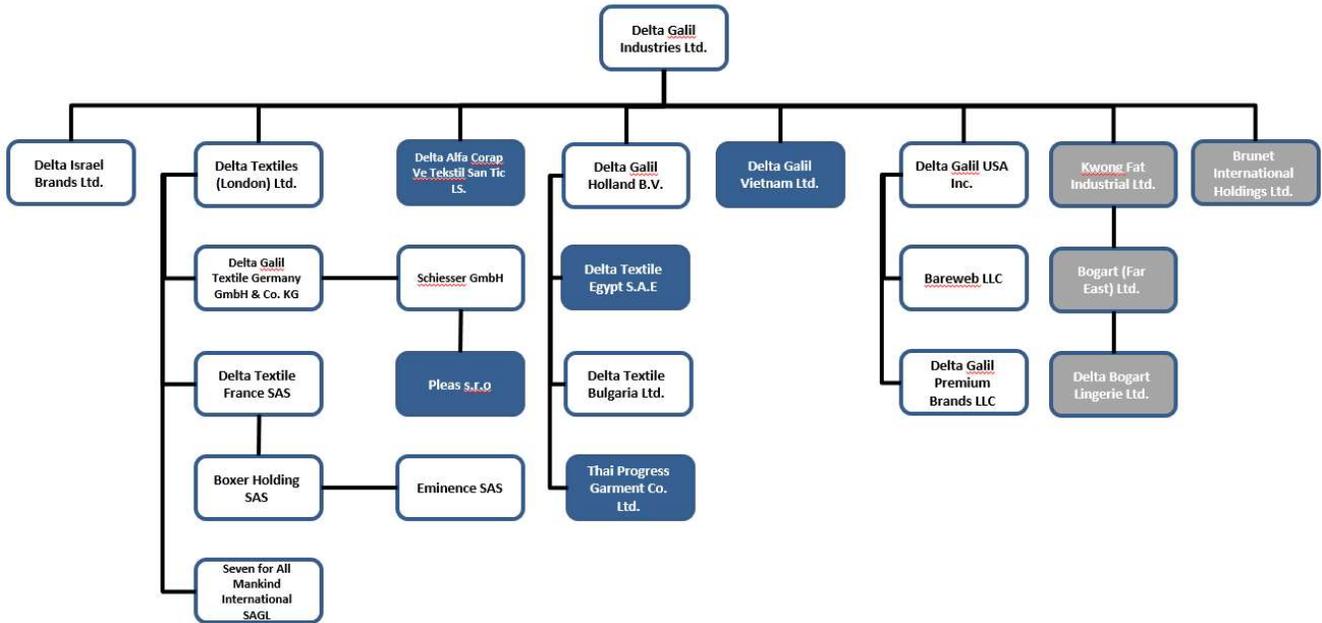
These products are sold to the customer who owns the brand. The customer then sells them to consumers through his distribution channels.

1.5. Marketing, Development, and Manufacturing Operations

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, the United States, China, and Hong Kong. The Company manufactures its products through subcontracting and in its factories in the Middle East, Europe and the Far East.

The following is an organizational chart of the Company's holdings in the key companies as of December 31, 2023. All the holdings in the following companies are 100%, except for Delta Israel Brands Ltd., in which the stake is 80%.



Some of the companies in Bogart Group

(1) These companies hold fully owned subsidiaries conducting manufacturing operations in China, Thailand, Vietnam, and Myanmar.



Manufacturing Companies

2. The Corporation's Segments

In 2021, there were changes in the Company, including a change in the organizational structure, in the compensation plan and changes in the way of internal financial reporting, as part of the Company's strategic plan for marketing its products. As a result of the above-stated changes, the Company reviewed the old segmentation of the segments. Due to the above stated changes in the Company's financial statements, starting with the Company's financial statements for the second quarter of 2021, the Company changed its reported segments to reflect the above changes. The Company's operations were divided into the following: Brands, Private Label, 7 for All Mankind, Delta Israel, and Online. Since the third quarter of 2022 and in these financial statements, the name of the Online segment has been changed to "Others." This Others segment includes the activities of Bare Necessities and Organic Basics, which was acquired during 2022, are not material in a way that requires their presentation as a reportable segment.

Following is concise information about the current segments including details regarding the ascription of the various operations to the current operational segments, as they now appear in the Company's financial statements:

Brands Segment – This segment includes the operations of Schiesser and Eminence, the activity of the PJ Salvage and Splendid brands, as well as activity under brands in license agreements such as Tommy Hilfiger, Columbia, adidas, Wolford, Polo Ralph Lauren and others, in the categories of lingerie, leisure wear, and sleepwear.

Private Label Segment – This segment includes the operations of private labels in all sales markets in which the Company operates, including the operations of the Bogart Group in lingerie, leisure, and sleepwear. Customers in this segment include Nike, Victoria's Secret, Walmart, Target, and others.

7 for All Mankind Segment – This segment includes the operations of the 7 for All Mankind jeans brand in the Premium Denim category for women, men and children and has significantly different characteristics from the Company's other branded products, primarily operating in the lingerie and leisure clothing categories, such as underwear, brassieres, pajamas, etc. The difference is also reflected in different production processes, different selling prices, different suppliers and competitors, different marketing and advertising efforts, and other differences. Considering the above, the Company presents this activity separately from the other brands it manages.

Delta Israel Segment – Under this segment, the Company engages in the development, design, and marketing of branded intimate apparel for women and men, sleepwear, socks, active wear, and children's wear, mainly under the "Delta", "Fix" and "Panta Rei" brands, distributed via the Company's chain of stores in Israel, its websites and wholesale activity to Israeli retail chains. In addition, Delta Israel sells the Victoria's Secret brand through the website.

For further details regarding the new license agreement with Bath & Body Works, see sections 16.1.3 and 16.2.3.3.

Other Segment - This segment includes the operation of Bare Necessities and Organic Basics.

This segment's operations fundamentally differ from those carried out on the Company's online websites in its other segments. For brands within this segment, the Company primarily purchases ready-made branded products, mainly in lingerie and swimwear, and sells them to end customers through the websites.

On the other hand, its online sites in the other segments constitute an additional sales channel through which the Company's brands are sold to end customers.

For an analysis of the business results of the segments, see section 2.3.5 in the report of the Board of Directors in Part B of this periodic report.

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

Over the past two years, no investments were made in the Corporation's capital. During that time, the Corporation is unaware of any other material transaction of the Corporation's shares outside the stock exchange. Except for the transfer of 667,311 Delta Galil shares with no recompense to the Dabah Family 2022 Trust Fund, controlled by Mr. Dabah and his family on August 29, 2023. For further details, see the report dated August 29, 2023 (ref. No. 2023-01-099498).

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 the date 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 considering the Company's financial results and financial and other needs, subject to the provisions of the law.

4.2. In 2022 and 2021, the Company distributed dividends, with no need for court approval, as follows:

Decision Date	Sum Distributed (in USD)	Distribution Date
February 14, 2022	Approximately 10.0 million	March 8, 2022
May 15, 2022	Approximately 6.0 million	May 31, 2022
August 14, 2022	Approximately 6.0 million	September 6, 2022
November 24, 2022	Approximately 6.0 million	December 6, 2022
February 14, 2023	Approximately 8.0 million	March 14, 2023
May 16, 2023	Approximately 4.0 million	June 6, 2023
August 8, 2023	Approximately 7.0 million	August 30, 2023
November 15, 2023	Approximately 7.5 million	December 5, 2023

On February 25, 2024, the Company's Board of Directors decided to distribute a dividend of 35 cents per share, or approximately \$9 million, which will be distributed on March 18, 2024. For further details, see the immediate report of February 25, 2024 (reference number 2024-01-019452).

4.3. 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 \$558.2 million.

4.4. 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 bonds (Series A and F), see Note 11 to the Financial Statements, Chapter C of this periodic report.

For details regarding restrictions on the Company's ability to distribute dividends by virtue of agreements with banks, see Note 19 E to the financial statement, Chapter C of this report.

Part B – Other Information

5. Financial Information Regarding the Corporation's segments

Following is financial information regarding the corporation's areas of operations for 2023 and 2022. For further details, see explanations in section 2.3.5 of the Board of Director's Report (chapter B of this periodic report) and note 5 to the financial statements (chapter C of this periodic report).

	Brands	Private Label	Delta Israel	7 for all Mankind	Others	Inter Company Adjustments and Cancellation	Total
In Thousands of Dollars							
For the year ended on December 31, 2022							
Sales to external customers	635,459	802,340	273,411	217,428	102,903	-	2,031,541
Inter segment	1,788	38,534	-	-	-	(40,322)	-
Total sales, net	<u>637,247</u>	<u>840,874</u>	<u>273,411</u>	<u>217,428</u>	<u>102,903</u>	<u>(40,322)</u>	<u>2,031,541</u>
Variable costs	406,257	492,144	158,430	109,319	78,265	(32,554)	1,211,862
Fixed costs	177,094	257,053	71,178	92,480	33,289	(1,654)	629,440
Total segment costs	<u>583,351</u>	<u>749,197</u>	<u>229,608</u>	<u>201,800</u>	<u>111,554</u>	<u>(34,208)</u>	<u>1,841,302</u>
Segment Profits (losses)	<u>53,896</u>	<u>91,677</u>	<u>43,803</u>	<u>15,628</u>	<u>(8,651)</u>	<u>(6,114)</u>	<u>190,239</u>
Segment Profits (losses) attributed to shareholders	<u>53,896</u>	<u>91,677</u>	<u>35,042</u>	<u>15,094</u>	<u>(8,651)</u>	<u>(6,114)</u>	<u>180,944</u>
Segment Profits (losses) attributed to minority	-	-	8,761	535	-	-	9,295
Impairment of Non-Financial Assets	4,133	-	-	2,759	1,230	-	8,122
Realignment Expenses	-	5,467	-	-	-	-	5,467
Change in fair value of contingent consideration of a liability	-	(9,621)	-	-	-	-	(9,621)
Impairment of Other Asset	-	-	-	-	-	1,220	1,220
Operational Profit							185,051
Financing expenses, net							37,271
Profit before taxes on income							147,780
Assets at the end of the year	<u>735,708</u>	<u>556,135</u>	<u>272,127</u>	<u>209,239</u>	<u>34,801</u>	<u>42,660</u>	<u>1,850,670</u>
Depreciation and amortization	<u>23,218</u>	<u>25,035</u>	<u>22,386</u>	<u>25,636</u>	<u>3,071</u>	<u>2,786</u>	<u>102,132</u>
Capital gain	<u>2,834</u>	<u>1,581</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>17</u>	<u>4,435</u>
Capital investments in fixed assets and in intangible assets	<u>17,937</u>	<u>28,720</u>	<u>5,204</u>	<u>3,742</u>	<u>2,246</u>	<u>3,432</u>	<u>61,281</u>

	Brands	Private Label	Delta Israel	7 for all Mankind	Others	Inter Company Adjustments and Cancellation	Total
In Thousands of Dollars							
For the year ended on December 31, 2023							
Sales to external customers	609,249	699,443	256,803	209,056	83,131	-	1,857,682
Inter segment	545	20,923	-	-	-	(21,468)	-
Total sales, net	<u>609,794</u>	<u>720,366</u>	<u>256,803</u>	<u>209,056</u>	<u>83,131</u>	<u>(21,468)</u>	<u>1,857,682</u>
Variable costs	360,459	394,476	144,257	101,066	77,340	-	1,077,598
Fixed costs	213,773	238,394	70,294	99,203	24,923	(19,523)	627,064
Total segment costs	<u>574,232</u>	<u>632,870</u>	<u>214,551</u>	<u>200,269</u>	<u>102,263</u>	<u>(19,523)</u>	<u>1,704,662</u>
Segment Profits (losses)	<u>35,362</u>	<u>87,496</u>	<u>42,252</u>	<u>8,787</u>	<u>(19,132)</u>	<u>(1,945)</u>	<u>153,020</u>
Segment Profits (losses) attributed to shareholders	<u>35,362</u>	<u>87,496</u>	<u>33,802</u>	<u>8,481</u>	<u>(19,132)</u>	<u>(1,945)</u>	<u>144,264</u>
Segment Profits (losses) attributed to minority	-	-	8,450	306	-	-	8,756
Realignment expenses	-	9,426	-	892	1,103	-	11,421
Change in fair value of contingent consideration of a liability	-	(4,000)	-	-	-	-	(4,000)
Acquisition costs	-	-	406	-	-	260	666
Operational Profit	-	-	-	-	-	-	<u>144,933</u>
Financing expenses, net	-	-	-	-	-	-	<u>37,932</u>
Profit before taxes on income	-	-	-	-	-	-	<u>107,001</u>
Assets at the end of the year	<u>709,722</u>	<u>492,047</u>	<u>329,810</u>	<u>217,101</u>	<u>35,721</u>	<u>4,186</u>	<u>1,788,587</u>
Depreciation and amortization	<u>22,448</u>	<u>27,889</u>	<u>21,241</u>	<u>19,642</u>	<u>2,181</u>	<u>2,593</u>	<u>95,994</u>
Capital gain (loss)	<u>(591)</u>	<u>(982)</u>	<u>(69)</u>	<u>-</u>	<u>161</u>	<u>(1)</u>	<u>(1,482)</u>
Capital investments in fixed assets and in intangible assets	<u>7,807</u>	<u>23,791</u>	<u>15,458</u>	<u>6,208</u>	<u>1,208</u>	<u>3,366</u>	<u>57,838</u>

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

6.1. Economic Environment and the Effects of External Factors on the Company¹

The following factors in the group's macroeconomic environment have had, and may continue to have, an impact on its activities:

The Company primarily targets the USA, Europe, and Israel as its main markets.

As a result of the slowdown in growth rates that began in the second half of 2022, during the fourth quarter and throughout 2023, the slowdown in economic activity in the target markets continued, in light of a number of main reasons including: The war in Ukraine, an increase in inflation and interest rates, logistical problems that arose after the Corona virus pandemic crisis and caused lengthening and delays in delivery times, and as a result, an accumulation of inventory at some of the group's customers, which led to the deferment of orders. For the above stated reasons, the slowdown is reflected in the reduction of purchasing power on the part of wholesale customers, which translated into a decrease in the group's sales and profitability compared to corresponding reporting periods in 2022. See section 2.3.1 of the Board of Directors' report, in part B of this periodic report.

a. The Effects of the "Swords of Iron" War

On October 7, 2023, the Swords of Iron war ("the war") broke out following a surprise attack on Israel by Hamas in the Gaza Strip. Later, fighting also erupted on the northern border with Lebanon. As of the date of the report, the war has significant impact on the entire economy, including, but not limited to, temporary closure of businesses and disruption in the education system, mainly in communities in areas close to the fighting and the extensive conscription of reserve military forces.

Since the beginning of the war, two international credit rating agencies (Fitch and Moody's) have placed Israel on watch and S&P downgraded Israel's outlook from "stable" to "negative", noting that this reflected the significant elevation of geopolitical and security risks that Israel faces in the wake of the war.

During the fourth quarter of 2023, the average exchange rate of the Shekel vs the US dollar decreased by approximately 9%, compared to the same figure in the corresponding quarter last year. However, towards the end of the quarter, the exchange rate returned to the level recorded in the first half of 2023.

A continued devaluation of the Shekel against the dollar may impact the results of Delta Israel, which purchases the products it sells in dollars, and due to the translation of its financial results since its functional currency is the Shekel. See also section C below.

On February 9, 2024, Moody's downgraded Israel's credit rating from A1 to A2 with a negative outlook. In addition, on February 13, 2024, Moody's downgraded the credit rating of the five largest Israeli banks to A3, with a negative outlook. This decision may impact the Israeli economy in several ways, including: higher borrowing costs for the government, or even difficulties to do so; lower investor confidence in the Israeli economy, and as a result, difficulty in attracting foreign entities to invest in Israel and in Israeli companies; reputational damage due to this perceived weakness; potential credit downgrading of Israeli banks, a drop in their capital adequacy ratios and even a tighter landing policy by those banks.

¹ This section, which includes, in part, forecasts regarding the increase in the rate of inflation, interest and transport, constitutes forward-looking information as defined in the Securities Law. This information is uncertain information that refers to a future event and is based, inter alia, on publications by various professional parties, as of the date of the report; The actual results may differ substantially from those predicted in the above stated forward-looking information, as a result of a large number of factors and are therefore subject to risks and uncertainties.

In the Company's estimate, in light of the fact that, at this stage, there is still no certainty as to whether and how the decision to downgrade will affect the Israeli economy and considering the relatively small part of the operations carried out in Israel of the group's total operations and also, in light of the fact that most of the group's financing carries fixed interest rates, the effect of the above stated downgrade will not be material for the group in the short term.

These factors and other factors, including the prevailing uncertainty regarding the current general environment as a result of the war and its potential consequences both locally and globally, may have a negative impact on the Company's activities and results.

As far as Delta Israel's operations are concerned, except for the first two weeks in October 2023, Delta Israel stores were (and still are) operating almost fully, except in the border areas where fighting is going on, and this in accordance with the instructions of the Home Front Command.

Except for the month of October 2023 as stated and throughout most of the fourth quarter of the year, 207 stores out of 210 Delta Israel stores were operating, with some of them working part of the time until an hour earlier than usual.

It should be noted that considering Delta Israel's operations in the field of underwear products, home wear and children's clothing, which are products for which the effect of the war on demand is low. In addition, Delta Israel's online commerce websites operate continuously, in parallel with the wholesale system that operates fully and supports sales to private, commercial and governmental entities, which increased due to the war.

In accordance with the above, Delta Israel presented record results in sales and profitability in the fourth quarter of 2023, achieving a 12.3% increase in same-store sales, compared to the same quarter last year. In addition, it should be noted that Delta Israel did not receive substantial concessions from the lessors of the properties, except for a non-substantial delay in the payment of the rent. It should also be noted that, as of the date of the report, the status of employees of Delta Israel did not change substantially during the war and the Company putting a minimum number of 10 employees on unpaid leave.

Considering the events of the ongoing war and its effect on a possible impact upon the supply of products from the owner of the Victoria's Secret brand, its subsidiary, Delta Israel, has informed that the opening of the first 2 Victoria's Secret stores, which were planned to open in November 2023, has been postponed for a period of up to 3 months. In order to enable the opening of the first stores of the brand in an optimal conditions, it was decided that the first 4 stores of the brand (out of 5 stores planned to open during 2024) will be opened in April 2024 and the owner of the brand agreed to help the Company with the postponement expenses.

The online commerce website of Victoria's Secret in Israel, which has been operating since December 2022, continues to operate regularly.

In addition, the launch of Bath & Body Works operation in Israel (a chain of stores and an online commerce website), which was planned for November 2023, was also postponed for a period of about 3 months, in order to launch the brand, for the first time in Israel, in an optimal conditions.

The brand owner and Delta Israel are working together to enable the optimal customer experience and, for this purpose, decided to postpone the opening date of the first 5 stores and the online commerce website to the second quarter of 2024. The brand owner has committed to assisting Delta Israel with the costs of the postponement, including the costs of retaining the employees designated to operate the brand until the above stated opening.

Delta Israel agreed to postpone the launch of the online commerce website and the first 5 stores until the second quarter, in accordance with its updated plan to open 8 stores during 2024.

In the estimation of the Company and Delta Israel, these delays in the opening of the stores of the two above stated brands are not expected to have a material effect on the group's operations and results.

Following attacks by the Houthis on shipping routes in the Red Sea, shipments from East Asia to Israel were prolonged by 10-14 days. Delta Israel estimates that this delay did not materially affect the results of the Company, as it normally adds this number of days to lead times as a safety cushion when ordering stocks.

In addition, due to the threat posed by the Houthis, sea shipping costs have gradually increased for Delta Israel during the second half of the fourth quarter of 2023 and during the first quarter of 2024, with rates increasing three-fold compared to their levels before the war.

In addition, it should be noted that the disruptions in the Suez Canal's shipping lanes due to the threat of terrorism also affect some of the shipments intended for the customers of the Delta USA subsidiary.

Other than the above, there are no additional effects due to the war on the supply chain and on the group's costs.

At this stage, it is not possible for the Company and Delta Israel to assess the future effects that the continuation of the war or the above stated military threat may have on their activities, if it continues, including, on the financial situation of the customers in Israel.²

The Company's donations during the war

On December 19, 2023, the Company's board of directors, after receiving approval from the audit committee in accordance with regulation 1(4) of the Company regulations (facilitation of transactions with an interested party), 2000 - 2000, approved the Company's engagement together with its controlling owner and his family for their transaction with one party whose terms in relation to the Company do not differ substantially from its terms in relation to the controlling owner, taking into account their relative share in the transaction as follows:

1. Donating by the Company an amount of NIS 5 million (approximately \$1.35 million) which will be designated to support the needs of orphans (with neither parents alive) of the events of October 7, 2023, over the years, with an emphasis on supporting them in their adult years. At the same time, Mr. Isaac Dabah, the controlling shareholder of the Company, who serves as the Company's CEO and as a Director, and his family members ("the controlling shareholder and his family") will donate an identical amount of NIS 5 million (the total contribution of the Company and the controlling shareholder will be NIS 10 million (or approximately \$3.7 million) ("the Donations")

The donations will be made equally by the Company and the controlling shareholder and his family members over a period of 8 years starting 2024, through the Company's and the controlling shareholder and his family members entering into an agreement with the non-profit Donor Sharing Fund, DAF Ltd. ("Keshet") which is a unique foundation for managing donations.

² This section, which includes predictions regarding the impact of the war, is considered forward-looking information as defined in the Securities Law. This information is uncertain information that refers to a future event and is based, among other things, on publications by various professional parties, as of the date of the report; The actual results may differ substantially from those predicted in the above stated forward-looking information, as a result of a large number of factors independent of the company, such as the continuation of the war, changes in the macroeconomic environment, changes in global trends, and also, from the occurrence of any of the risk factors detailed in section 48 of this Chapter.

2. Keshet will retain the donation funds, preserve their value and operate the donation funds in accordance with the instructions of a Management Committee established for this purpose by the Company and the controlling shareholder and his family. The Management Committee will consist of equal representatives of the Company and the controlling shareholder and his family and additional representatives as chosen by the members of the Management Committee. The decisions of the Management Committee will be taken by a majority of votes, provided that at least one member acting on behalf of the Company and one member acting on behalf of the controlling shareholder and his family agreed to each decision, and everything, in accordance with the procedure formulated in the matter between the Company and the controlling shareholder and his family.

For further details, see regulation 22 in part D of this periodic report (additional details about the corporation) and, section 4 below.

On February 25, 2024, the Company's Board of Directors approved the contractual association agreement with Keshet.

In addition, Delta Israel donated products (in terms of product cost) in the amount of approximately NIS 1.7 million (approximately \$0.5 million) to evacuees from specific settlements, as well as directly to soldiers and the wounded soldiers hospitalized in the various hospitals. Delta Israel also donated to several associations working to distribute products, mainly to evacuees from the southern settlements. In addition, Delta Israel granted specific discounts for purchases to soldiers and residents of the Gaza Strip in the amount of approximately 1.2 million NIS (approximately \$0.3 million), compared to the list price.

Government grants due to the war

Delta Israel filed a compensation claim under the Property Tax and Compensation Fund Regulations (Payment of Compensation) (War Damage and Indirect Damage) (Swords of Iron) (Temporary Order), 2023, mainly for damage to the profitability of the stores that were closed or partially operated due to the war and in which a decrease in their sales compared to the previous year, mainly in the months of October - November 2023, occurred.

It should be noted that the war did not have a materially negative impact on Delta Israel's results and that in the group's reports for 2023, income from this grant in the amount of NIS 1.6 million (approximately \$0.4 million) was included as part of Other income.

b. The Effects of the Increase in the Inflation Rate and Interest Rate³

During 2023, the rate of inflation increase slowed down and was in the range of between 2.9% and 3.4% in all target markets.

The forecast(*) of the expected inflation rate in 2024 is between 1.9% and 2.5% in the markets in which the Company operates.

The group is directly affected by the rate of inflation, mainly due to rent payments for some of the properties it leases, which are partly linked (mainly in Israel) to fluctuations in the Consumer Price Index. The effect of linking to the Index in 2023 is not material to the group's results. In addition, the inflationary pressures in the countries where the group produces and/or buys raw materials or products cause wage increases and increases in energy costs and other production costs.

The increase in wages and/or the increase in energy and other production costs are mostly offset by the devaluation of the exchange rates of the currencies, against the dollar, in the countries where the Company produces, so that they had no material effect on the Company's results in the fourth quarter of the year.

In an annual view, the Company's real production costs were reduced, due to the currency depreciation deducting the increase in wages and other costs, mainly in its operations in Egypt.

The group works with its customers to adjust the sales prices as far as the market conditions allow and in accordance with the rate of increase in costs and the environmental situation in the target markets, so that the above stated changes did not have a material impact on its results.

In parallel, in the Company's estimation, the continuation of an inflationary environment that is not accompanied by a process of adjusting prices for customers could impact upon the Company's results.

In parallel to the increase in the inflation rate, the interest rate increase trend continued in the fourth quarter of 2023, although at a lower rate compared to the increase in the first half of the year. According to the forecast⁴, the interest rate in the US is expected to decrease from an average rate of approximately 7.1% in 2023 to an expected rate of approximately 6.1% in 2024 and in Israel, the dollar interest rate is expected to decrease from a rate of 6.8% in 2023 to an expected average rate of approximately 5.7% in 2024.

In addition, in Europe, a decrease in the average interest rate is expected from 4.5% in 2023 to about 3.6% in 2024.

The group finances its activities from cash balances in its possession, from the positive cash flow from its current activities, short and long term bank guarantees and bonds. Most of the group's debt bears fixed interest, therefore the increase in the interest rate did not have a material effect on the group's financing expenses in the fourth quarter and in 2023.

³ This section, which includes in part forecasts regarding the increase in the rate of inflation and/or interest, constitutes forward-looking information as defined in the Securities Law. This information is uncertain information that refers to a future event and is based, among other things, on publications by various professional parties, as of the date of the report; The actual results may differ substantially from those predicted in the above stated forward-looking information, as a result of a large number of factors independent of the company such as changes in the macroeconomic environment, changes in global trends, decisions of bank governors in the world and in Israel, as well as, from the occurrence of any of the risk factors detailed in section 48 below.

⁴ Forecast published by Trading Economics website. For details on the inflation forecast, see: [Inflation Rate Forecast 2023/2024 \(tradingeconomics.com\)](https://tradingeconomics.com)

c. Fluctuations in the Currency Exchange Rate

In addition to inflation, foreign exchange rates against the US dollar (which is the Group's function currency) fluctuated significantly in 2023 in countries where the Group operates. This volatility was reflected in a significant devaluation of most currencies used by the Group (the Turkish lira, the Egyptian Pound and the Shekel) compared to the dollar. In the fourth quarter of 2023 the trend of exchange rate volatility continued, for example, the Egyptian pound was devalued in the fourth quarter of 2023 against the dollar by about 35% compared to the average rate in a corresponding quarter in 2022.

This devaluation decreased production costs in dollars terms, but was largely offset by an increase in payroll and production expenses in the countries where the Group has manufacturing, mainly in Southeast Asia, Egypt and Turkey.

As stated above, the Group collaborates with its customers to adjust the sales prices whenever the Group believes market conditions allow this. Thus, those changes had no material impact on its results.

d. The Effects of the Change in Freight Costs

A significant part of the products the Group sells are manufactured in plants under its ownership and/or purchased from third-party suppliers located in East Asia. In cases where responsibility for the goods is not assumed at the port of origin (FOB Shipping Point), the Group bears the cost of shipping products from these countries to the US, Europe and Israel.

Following the gradual and prolonged uptrend in 2021-2022, shipping costs throughout the world began to incrementally decrease in the fourth quarter of 2022, and late in 2022 reached levels similar to those prevailing before the price surge.

This downtrend in shipping costs continued through 2023 and contributed to the improvement in the gross profit rate compared to 2022.

For information about the effects of the Houthi threat on shipping routes and shipping costs, see section a above.

e. The Effects of the Judicial Reform

As of January 2023, the Israeli Government began to promote legislation for implementing fundamental changes in the Israeli judicial system, known in the media as the "Judicial Reform".

In July 2023, an amendment to Basic Law: the Judiciary (Amendment No. 3) came into force, which is the first step in the reform, limiting the ability of the Supreme Court to exercise judicial review over decisions of the Prime Minister and other Ministers.

After the reporting period, on January 1, 2024, the Supreme Court struck down the amendment of the Basic Law and determined that the court could apply judicial review of the government decisions and provide remedies based on reasonableness.

The proposed changes sparked widespread controversy and criticism, which according to the media coverage, led to strong reaction from both sides. According to some experts, this debate and the actions taken in response may influence the Israeli economy and its stability and may also impact the economic environment in which the Company operates, the cost of borrowing, the value of the local currency, the size of investments made in Israel and more.

Currently, it is unclear whether this legislation will be renewed, in what format and which legislative amendments will be accepted. Therefore, as of the date of issuing this report, the Company is unable to estimate the extent and scope of the consequences resulting from continuing to promote the changes in the legislation on the economy in Israel or on the results of the Company.

As of the date of this report, the Company has not identified any material impact on its operations due to the above legislation.

Part C – Description of the Corporation's

Business by Operating Segment

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

Private Label Segment

7. General Information

The following is a description of the operating segment regarding matters where business characteristics differ from the characteristics of the Company's other segments.

7.1. Structure of the Segment and Changes Occurring Therein

This segment deals in the development, design, manufacture, and marketing of men's and women's intimate apparel and active wear products and socks, most of which are manufactured in the Company's owned factories while the remainder is manufactured by subcontractors, for leading brands and retail chains in Europe, North America, and other countries.

The development, design, marketing, and sales activities for this segment are carried out in Israel, the United States, Hong Kong, and China. The manufacturing activity is carried out in the Company's factories in the Far East, Egypt and Turkey, through joint ventures in China and via subcontracting in the Middle East and the Far East.

Product sales in the underwear, Active wear, night wear and others category for women in the field of operations, accounted for approximately 25%, 26% and 23% of the Company's total sales in 2023, 2022 and 2021 respectively, and amounted to a total of approximately \$460 million, \$528 million and \$444 million, respectively.

7.2. Changes in Scope of Activity and Profitability of the Segment

As part of the Company's strategy to maintain a competitive and efficient cost structure, the Company is constantly acting to carry out realignment moves in the group.

The realignment steps taken by the Group, including related expenses, impacted upon the Company's results, as described in the Board of Directors Report, Paragraph 1.3.3 of Chapter B of this periodic report.

7.3. Developments in Markets of the Segment or Changes in Customer Characteristics

The primary target markets of the Company's products in the above segment are North America and Europe. The changes in the economic condition in these markets, as expressed in recent years, by way of a reduction in consumption and pressure to reduce prices, is liable to impact consumers' consumption habits and levels. In addition, the garment industry is subject to changes in fashion preferences and consumer fashion trends, which, by their nature change, and currently even more frequently than in the past, leading to an increase in the number of product collections needed.

7.4. Critical Success Factors in the Segment and Changes Therein

The Company estimates that success in the segment 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 and 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 constitutes added value in the product development core.

- 7.4.4. Adapting products to changing fashion dictates and to the needs of the relevant consumers while ensuring constant innovation.
- 7.4.5. Upholding a marketing and distribution system that allows the Company to penetrate new markets and establish itself there.
- 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 and through subcontractors, which will be robust, reliable, and flexible and will enable competitiveness and meeting short supply times.
- 7.4.8. Assuring product manufacturing quality and quality control for products in accordance with specifications and Company and customer demand.
- 7.4.9. Utilizing the Company's size advantage, both in the volume of purchase orders from its customers and in the number of items ordered from each manufactured model, which helps to reduce production costs.
- 7.4.10. An efficient operational structure and supply chain providing full support for sales' needs and meeting short supply times.

The Company estimates that these success factors have gained new validity considering the changes in its business environment, expressed in increased competition, the erosion of sales prices, and in shortening of the required supply times.

7.5. Main Entry and Exit Barriers

According to the Company's estimates, the main entry barriers are as follows:

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

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

Innovation in the development and design of fashion products.

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 array. Failure to meet the quality requirements and standards set by customers may lead to the end of the engagement with them.

The existence of efficient operational arrays, chains of supply, 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 this segment.

7.6. Alternatives for Products of the Segment

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 working to strengthen and preserve its products' advantage over alternative products by differentiating itself and standing out in innovation, cutting-edge fashion, quality, and developing special fabrics.

8. Customers in the Segment

As of the date of this report and in 2023 and 2022, the Group has no customers, defined as customers to whom sales constitute 10% or more of the Group's total consolidated sales.

Important Group customers in the segment include Target, Walmart, Kohl's, Ross Stores, Macy's, Skims, Victoria's Secret, Calvin Klein, Tommy John, Lulu Lemon, Nike, Hema, Spanx, Athleta, and Wacoal. Bogart customers include Hanes Australia & Europe, Jockey, Adore Me, Techstyle Fashion Group, and Inditex Clothing Company.

- 8.1. For a breakdown of sales by geography, see Note 5c to the Company's Financial Statements as of December 31, 2023, Chapter C of this periodic report, and Section 2.3.2 of the Board of Directors report, in Chapter B of this report.

8.2. Characteristics of Contractual Associations with Major Customers

The Group maintains long-term relationships with its customers. The relationship between the Group and its main customers is usually 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 factories' compatibility with the customer's needs, periodic inspections, and so on.

The quantities and delivery dates of the goods to the customers are determined in the purchase orders and they vary from order to order.

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

9. Marketing and Distribution in the Segment

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 in Europe and the United States, while a second selling and marketing group is responsible for customers in the United States low-end market. The Company has sales departments located in the USA, UK, Hong King, and Israel, and these set its marketing strategy in coordination with the Company HQ. The Company's sales offices are operated by professional staff who maintain long-term relationships with customers, keep direct ongoing contact, and provide an immediate and direct response to the customers' requirements.

The Company distributes its products in the United States through distribution centers as well as through direct supply from manufacturing facilities based on purchase orders. To its European customers, the Company mainly distributes its products directly from its factories. The Company takes care to maintain a sufficient inventory level at its distribution centers in order to satisfy its customers' demands.

The Company is not dependent on any particular one of its marketing channels.

10. Backlog in the Segment

The Company uses two sales methods: Ad hoc (specific) orders and replenishment-type sales.

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 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 a relatively short-duration backlog. Therefore, the Company believes that the backlog does not provide a full indication of the scope of orders that will be placed.

Below is a breakdown of the Company's backlog in the segment in the coming quarters in which recognition of revenues is expected (in millions of dollars):

	<u>Backlog as of February 7, 2024</u>	<u>Backlog as of December 31, 2023</u>
First quarter	117.8	145.4
Second quarter	109.0	66.1
Third quarter	22.7	11.3
Fourth quarter	<u>3.0</u>	<u>0</u>
Total	<u>252.5</u>	<u>222.8</u>

It should be noted that the backlogs included in the above table is not substantially different from the backlogs at the corresponding points in time the previous year.

11. Competition in the Segment:

11.1. General

The segment in which the Company operates is considered competitive. In recent years, there has been a trend of rising production costs in some of the countries where the Company operates. Competition in the field of intimate apparel revolves around three main parameters: Product price, product quality, and the level of customer service. The Company believes that it has several advantages over its competitors, among other things, 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 with attractive packaging. The Company invests significant amounts in innovative design and in developing fabrics and products. For further details, see section 40 below.

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

11.1.3. The unique status of free trade zones – the Company's activities in Israel, Egypt, and Myanmar allow it to benefit from favorable trade agreements.

11.2. Competitive Conditions in the Segment

In recent years, retail chains have trended away from outsourcing the design and development of intimate apparel to third parties in favor of entering direct relationships with manufacturers to reduce product costs. For details, see section 48.3.3 below.

11.3. Names of Main Competitors in the Segment and Market Size

The segment has dozens of competitors, mainly private companies from the United States and the Far East.

The Company's main competitors in this segment include, among others: Ariella Intimates, Saramax Apparel Group Inc., Komar Company, Jockey, Fruit of the Loom, MAS Holdings, Brandix Lanka Limited, Richard Leeds, Tefron, Gelmart, Clover, Regina Miracle, Renfro Corporation, Fillnet, Gildan Active Wear Inc., Haiyan Walt, Hop lun, Crystal Martin and Interloop.

The relevant market to this segment consists of different markets and spans various 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 significant resources in the design and development of its products to provide innovation and cutting-edge fashion to its customers, with the understanding that this innovation is what differentiates it from its many competitors.

Furthermore, in order to differentiate and create a competitive edge, the Company acts to increase its active wear, brassiere, and men's and women's undergarment and swimwear sales with existing customers. In addition, the Company invests in establishing new plants and joint ventures to strengthen its connection with its customers and improve its level of service.

12. Production Capabilities in the Segment

12.1. About 37% of sales in the segment are of products purchased from subcontractors, and about 63% of sales are of products manufactured in the Company's factories.

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

12.2. The Company has manufacturing plants in the Far East (China, Myanmar, Thailand, and Vietnam), as well as in Egypt and Turkey, as detailed in Paragraph 14.4.3 below. The Company is expanding its manufacture of socks and seamless knitting in Vietnam and in Egypt and, in parallel, closed the factory in Bulgaria.

The Company estimates that it has no restrictions on increasing production capabilities in its factories.

13. Intangible Assets in the Segment

The intangible assets attributed to the segment as of December 31, 2023, mainly include \$62.4 million for goodwill and \$44.1 million for customer relationships.

13.1. Goodwill

13.1.1. The Company's goodwill balance was created over several years mainly due to the purchase of three American companies and the acquisition of Bogart and is not amortized on an ongoing basis. For details, see Note 8 to the financial statements in Chapter C of this periodic report.

13.1.2. In 2023, 2022, and 2021, the Company did not carry out a write-down of the goodwill attributed to this segment, considering the annual examinations, which were conducted over the past years.

13.2. Customer Relationships

The Company's customer relationships in the segment were created over the years upon the acquisition of various American companies, Gibor in 2009 and Bogart in 2019.

The balance of customer relationships is amortized over a period of 20 years and, as of December 31, 2023, amounted to approximately \$44.1 million.

14. Raw Materials and Suppliers in the Segment

14.1. Main Raw Materials Used in the Segment

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

The raw materials used by the Group for owned manufacturing 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, which are sold at a broad price range. The Group purchases raw materials from several international and local suppliers and has not encountered any difficulties in the past in securing raw materials appropriate for manufacturing requirements.

Due to varying supply and demand conditions and other market factors which are beyond the Company's control, raw material prices are subject to fluctuations. The Company tracks these price fluctuations and adapts its thread and finished product inventory levels to meet sales projections at lower costs.

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

14.2. Manner of Contractual Associations with Suppliers

The Company maintains relations with dozens of suppliers, most 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 Company's suppliers are approved by customers, and some are mandated by them.

14.3. Dependence on Suppliers and Products in which Dependence on Suppliers Exists

The Company has no material dependence on the various suppliers of raw and finished materials due to a large and fragmented supplier base. However, the process of locating and onboarding a replacement supplier 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 array of high-quality products in accordance with their specific requirements at competitive prices. The Company manufactures some of these products itself and purchases some from subcontractors. The stages of the production process are outlined below:

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 to produce bras. 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 knits most of its fabric in-house and purchases the rest of its fabrics from suppliers.

14.4.3. Socks Knitting

The Company operates socks knitting machines in its factories in Turkey, Vietnam and Egypt and through a Chinese joint venture. During 2023, the Company closed the socks knitting factory in Bulgaria and transferred the production to its factories in Egypt and Vietnam.

14.4.4. Dyeing

The Company dyes most of the products it manufactures using its owned dye-houses 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 factories in Egypt, Thailand, China, Myanmar, and Vietnam, as well as occasionally through subcontractors.

14.4.7. Manufacture of Seamless Clothing

The Company utilizes “Santoni” brand knitting machines to apply a special “seamless” knitting technology, creating clothing in the undergarment, shapewear, and sportswear categories. The products are manufactured in the Company plants in Vietnam and Egypt 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 relations with subcontractors in China, Turkey, Pakistan, and Bulgaria for the manufacture of socks and in Egypt and several Far East countries (mainly in China and Bangladesh) for the manufacture of intimate apparel and seamless clothing for its other 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 garments it manufactures. For this purpose, it employs quality assurance (“QA”) teams that examine the products throughout the manufacturing process. The Company’s QA procedures are set considering the strict standards demanded by its customers.

Working Capital in the Segment

Following are details regarding the average inventory used by the segment and inventory days for 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Average inventory (million USD)	135.3	165.8
Inventory days (average)	92	98

The decrease in the average inventory and inventory days in 2023 compared to 2022, was due to strict management, a decline in equipping and the sale of old inventory.

For information regarding operational working capital of the entire group, see section 42 below.

15. Restrictions and Supervision of the Corporation's Activity in the Segment

15.1. Laws in the Countries in which the Company is Active

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

15.2. Free Trade Agreements

The Company currently enjoys free trade agreements between Israel and: The United States, Canada, and the EU. The trade agreements allow the Company to sell products manufactured in Israel to the countries in question (according to the terms of the agreement) exempt from customs. The United States has expanded the benefits covered by the U.S. – Israel free trade agreement to goods processed in the Company's factories in Egypt, so these products (which include some Israeli content) are exempt from customs as well.

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

Sales of this segment included in the free trade agreements detailed above constitute about 6% of total segment sales in 2023. The balance of sales, which constitutes about 94% of 2023 total sales, and which is not included above, is subject to customs.

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

To the best of the Company's knowledge, the Company holds appropriate licenses and operates according to the specific laws of the countries in which it operates.

Brands, 7 for All Mankind and Delta Israel Segments

16. General Information

The following is a description of the segments noted in the above heading in matters in which these segments have similar business characteristics, which are different from the characteristics of other segments.

16.1. Structure of the Segments and Changes Occurring Therein

16.1.1. Brands Segment

This segment includes the activity of the Schiesser Group, which was acquired in 2012, and the activity of the Eminence Group, which was acquired in July 2018. Brands activities also included in the segment are Splendid, which was acquired in 2016, P.J. Salvage, which was acquired in 2015, and activity under licensed brands in accordance with global license agreements that the Company entered into, such as: adidas, Wolford and Polo Ralph Lauren.

In this segment, the Group markets branded intimate apparel for men, women, and children, as well as socks, sleepwear, swimwear, and active-wear, with activity beginning from the designing and planning of the collection through purchasing, manufacturing, and finishing, to the marketing and distribution of the products.

Schiesser sells most of its products under its core brand – Schiesser, mainly in Germany and in other German-speaking countries, such as Switzerland and Austria, as well as in Benelux (Belgium, Netherlands, and Luxembourg). In addition, Schiesser manufactured and marketed intimate apparel under the licensed brand name Marc O'Polo. This agreement expired at the end of 2022.

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

Most sales of the P.J. Salvage and Splendid brands, as well as sales under license agreements, are made to customers in the United States.

The sales in the segment are carried out both through the Schiesser and Eminence store chains in Europe, through their e-commerce websites as well as to wholesale customers.

In the segment, the Group provides its products through the wholesale channel to thousands of selling points in Europe, including specialty undergarment and clothing retailers, hypermarkets, and department stores, through the wholesale sales channel.

In the retail channel, the segment sells its products through 100 Schiesser stores, 5 Eminence stores in France, 2 Liabel stores in Italy, and 18 Splendid stores in the United States, as well as through each brand's own e-commerce site.

The Schiesser undergarment products are sold in the upper-market tier and deliver a high level of comfort, durability, and product quality, as well as fashion innovation. Undergarments sold under the Eminence brand are marketed to customers in the upper and mid-market tiers, while products under the Athena brand are sold to customers in the mid- and mass-market tiers and products under the Liabel brand are sold to customers in the mass-market tier.

Outerwear products under the Splendid brand are sold in the premium market and primarily focus on the women's apparel category.

Approximately 46% of the segment sales in 2023 were in the women's undergarment category and about 38% were in the men's underwear category. The rest of the segment's sales were in children's and socks categories.

In 2023, product sales in the women's and men's underwear and active wear categories accounted for 15% and 12%, or \$280 and \$231 million, of the Company's consolidated sales, respectively.

Product sales in the underwear and active wear categories for women and men in the field of brand activity accounted for approximately 13% and 12%, respectively, of the Company's total consolidated sales in 2022, or a total of approximately \$270 million and \$237 million, respectively, compared to 15% and 12% respectively of the Company's total consolidated sales in 2021 and totaled approximately \$300 million and \$227 million, respectively.

In this segment, approximately 83% of the Company's sales are of products purchased from subcontractors in the Far East, Eastern Europe and North Africa, while the balance (approximately 17%) is produced at the Company's own production sites in the Czech Republic and France.

16.1.2. 7 for All Mankind Segment

Within the framework of this segment, the Group engages in developing, designing, marketing, distributing, and selling premium products under the "7 For All Mankind" label.

The "7 For All Mankind" brand is a leading global denim brand. The products of this segment are sold both through 7 For All Mankind's retail chain in the United States, in Europe, in Brazil and in Mexico, through the brand's e-commerce website and through the wholesale channel to retail marketing chain stores.

In this segment, the Group provides its products to thousands of wholesale points of sale in the United States and Europe. In the retail sector, the Group sells its products through 82 self-operated stores, of which 52 are in the United States, 20 are in Europe, 8 in Brazil, and 2 in Mexico, as well as through the brand's e-commerce.

Approximately 60% of products in the segment is for women, and the rest are for men.

Product sales in the jeans and branded outerwear category accounted for approximately 11%, 11% and 10% of the Company's total consolidated sales in 2023, 2022 and 2021, and totaled approximately \$209 million, \$217 million and \$198 million dollars, respectively.

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

Within this segment, the manufacture of the products is largely carried out by subcontractors in Italy, Turkey, Tunisia and Far East.

16.1.3. Delta Israel Segment

In Delta Israel segment, the Company designs, markets and sells a variety of intimate apparel, leisurewear, active-wear, socks and footwear in Israel. In the retail channel, the Company sells products through its chain of "Delta", "Fix" and "Panta Rei" retail stores, most of which it operates and some of which are operated by third parties. Furthermore, in the retail channel, the Company operates e-commerce websites. In addition, Delta Israel operates e-commerce website for the Victoria's Secret brand. Furthermore, the Company operates through marketing for retail chains, marketing for private stores and small chains, and marketing for private brands.

The majority of Delta, Fix and Panta Rei products are purchased from suppliers in the Far East. In addition, the Company markets, in Israel, products bearing several brands, some of which it owns and for some of which it has entered license agreements, the main one being Disney.

In addition, in March 2023, Delta Israel signed with the Company PCAB S.À R.L., U.S. Branch, an exclusive license agreement under which it was granted a license to establish and operate stores and an online commerce site in Israel for the sale of perfumes, cosmetics and skincare products, home perfumes, candles and other products of the Bath & Body Works brand.

It should be noted that in Delta Israel's segment, there is no group of products whose proportion constitutes 10% or more of the Company's total consolidated sales.

As of the date of the report, 210 stores operate within the segment, including 173 Delta chain stores and 31 Fix chain stores and 6 Panta Rei stores. Of the total number of stated stores, 175 are operated by the Company and 35 are operated by external operators who bear the rental costs of the stores.

As stated in section 1.3 above, the activity of this segment was transferred on March 5, 2021-effective retroactively from September 30, 2020-to the subsidiary Delta Israel, right before completing an IPO. In this context, details and data contained in this chapter and referring to the segment do not reconcile to those published in Delta Israel Brands Ltd., among other things, as a result of the fact that non-material activity under the licensed Puma brand was not transferred as part of the split, due to the fact that Delta Israel's reports are in NIS and Delta Galil's reports are converted into USD, as well as for other reasons.

16.2. Changes in the Scope of Activity in the Segments and their Profitability

16.2.1. Brands Segment

Sales in this segment are mainly for wholesale customers in Europe and in the USA. The fashion market is characterized by increasing competition and a decrease in points of sale.

The continued trend towards concentration in these markets-characterized by a reduction in the number of chains and points of sale and the strengthening of those remaining and those characterized by full verticality-coupled with the strengthening of online sales have precipitated significant challenges for the Company in this segment.

As detailed above, this segment includes premium brands and also operations under license agreements, including global license agreements with the brands adidas, Wolford and Polo Ralph Lauren.

During 2023, the Eminence subsidiary, which is part of the segment, completed the merger of the Liabel activity, in such a manner that the development functions, distribution, design and other headquarters functions that support the brand activity are now carried out in France. The completion of the merger will contribute to synergies in activity and better utilization of overheads.

In 2024, the Company is expected to start selling products under additional license agreements it has signed such as: Florence By Mills and Lauren as well as under the Passionata brand, the purchase of which the Company completed during the first quarter of 2024, see section 22.1 below.

16.2.2. 7 for All Mankind Segment

In this segment, the Group markets leading clothing labels in the categories of denim, outerwear, and accessories. The products of this segment are sold both through the retail chain deployed in the United States, Europe, and Brazil; through the websites; and through wholesale activity to leading retailers. During 2023, the Company opened 2 stores (1 in Europe, and 1 in Brazil) and closed 2 stores in Europe.

Products are purchased from suppliers in Mexico, Italy, Turkey, Tunisia and Far East.

16.2.3. Delta Israel Segment

Delta Israel sales have increased in recent years, mainly due to an increase in Delta's same-store retail sales, an increase in online sales as well as an expansion of product categories sold. In addition, the "Fix" brand has grown since its 2015 launch due to an expansion of its retail footprint and the launch of its website. In 2023, the chain of Panta Rei stores was launched, as well as an e-commerce website for the Victoria's Secret brand.

16.2.3.1. The Opening of the Panta Rei Sports Apparel Chain of Stores

At the beginning of 2021, Delta Israel announced the planned opening of a new sportswear chain under the name "Panta Rei". 6 stores were opened as of the end of 2023 as well as a dedicated website.

16.2.3.2. Agreement to Open and Operate Stores and a Commercial Website for the Victoria's Secret brand in Israel

In addition, Delta Israel announced that it had signed an agreement with Intimate Apparel Management LP, under which it was granted an exclusive license to open and operate stores and an e-commerce website in Israel for the sale of lingerie and cosmetics under the "Victoria's Secret" brand.

The first agreement period is set at ten years until the beginning of 2032. Delta Israel estimates that over the next five years, it will invest approximately NIS 70 million (\$20 M) of its capital in opening stores, establishing a dedicated website, and funding working capital. Delta Israel launched the Victoria's Secret sales website in 2022.

16.2.3.3. Impact on the Company's plans to open store chains of Victoria's Secret and Bath & Body Works®

In light of the events of the ongoing war and its effect on possible impact upon the supply of products from the owner of the Victoria's Secret brand, its subsidiary, Delta Israel, has informed that the opening of the first 2 Victoria's Secret stores, which were planned to open in November 2023, has been postponed for a period of up to 3 months. In order to enable the opening of the first stores of the brand in an optimal manner, it was decided that the first 4 stores of the brand (out of 5 stores planned to be opened during 2024) will be opened in April 2024 and the owner of the brand agreed to help the Company with the postponement expenses.

The online commerce website of the Victoria's Secret brand in Israel, which has been operating since December 2022, continues to operate regularly.

Also, the launch of the Bath & Body Works brand operation in Israel (a chain of stores and an online commerce website), which was

planned for November 2023, was also postponed for a period of about 3 months, in order to launch the brand, for the first time in Israel, in an optimal conditions.

The brand owner and Delta Israel are working together to enable the optimal customer experience and, for this purpose, decided to postpone the opening date of the first 5 stores and the online commerce website to the second quarter of 2024. The brand owner has committed to assisting Delta Israel with the costs of the postponement, including the costs of retaining the employees designated to operate the brand until the above stated opening date.

Delta Israel agreed to postpone the launch of the online commerce website and the first 5 stores until the second quarter, in accordance with its updated plan to open 8 stores during 2024. In the estimation of the Company and Delta Israel, these delays in the opening of the stores of the two above stated brands are not expected to have a material effect on the group's activities and results.

It would be prudent to clarify that the above-stated is forward-looking information as defined in the Securities Law, 1968, based on the information available to the Company at the date of the report and in the Company's assessments at the date of the report.

As of the report date, it is uncertain as to whether a contractual relationship with the owner of the BBW label will be established. If such a relationship does develop, it will be directly with Delta Israel and will depend on the progression of negotiations and the terms agreed upon, if any, with the brand owner and additional factors beyond the control of Delta Israel.

16.3. Developments in Markets of the Segments or Changes in Customer Characteristics

The primary target markets of the Company's products in the above segments are North America, Europe, and Israel. The changes in the economic condition in these markets, as expressed in recent years, by way of a financial crisis and concerns of a recession, a security situation (war) inflation, and increase in interest rates reduction in consumption, and pressure to reduce prices, may impact consumers' consumption habits and levels.

In addition, the garment industry is subject to changes in fashion preferences and consumer fashion trends, which by their nature, change today more often than in the past, leading to an increase in the number of product collections needed.

16.4. Critical Success Factors in the Segments and Changes Occurring Therein

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

- 16.4.1. Marketing and strengthening the Company brands through constant investment in advertising and e-commerce channels in order to differentiate the brands and emphasize their advantages, innovation, and cutting-edge fashion.
- 16.4.2. Investing resources in design and development to produce innovative fashion collections while focusing on local and global developments in intimate apparel and shifts in customer preferences, as well as on the development and design of a fashion collection, ensuring constant innovation.
- 16.4.3. Contractual engagement in license agreements that demonstrate the appreciation that brand owners afford the Company's capabilities in developing, manufacturing, and designing the products under their owned brands.
- 16.4.4. Wide deployment of retail stores and strategic location selection.

- 16.4.5. Maintaining a steadfast, reliable, and flexible manufacturing infrastructure at competitive costs through overseas subcontractors.
- 16.4.6. The existence of an effective product QA system.
- 16.4.7. The existence of efficient operational infrastructure, supply chains, and distribution systems providing full support for sales needs and meeting supply times which have shortened in recent years.

16.5. Main Entry and Exit Barriers in the Segments and Changes Occurring Therein

The Company believes the main entry barriers for the segments are as follows:

- 16.5.1. Development of brands with significant awareness in the fashion market and maintaining them on a long-term basis through significant investments in marketing and advertising.
- 16.5.2. Capital investments in the establishment of a retail chain and store maintenance.
- 16.5.3. The need for a critical mass of sales to allow a competitive operational cost structure.
- 16.5.4. The difficulty in establishing long-term relationships with primary wholesale customers.

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

16.6. Alternatives for the Products of the Segments and Changes Occurring Therein

There are many alternatives to the Company's products in the segments offered by local manufacturers and importers marketing at a variety of points of sale. The Company attempts to strengthen and preserve its products' advantage over alternative products by differentiating itself in terms of fashion, quality and cutting-edge design, development, competitive pricing, product variety and advertising on various media.

17. Customers in the Segments: Brands, 7 for All Mankind, and Delta Israel

17.1. Brands Segment

The Company's customers in the segment include wholesale customers and retail customers through its chain stores attributed to this segment in Western Europe Sales of the segment in 2023 amounted to approximately \$609.8 million, compared to about \$637.2 million in 2022. The decrease in sales in the Brands segment in 2023, compared to 2022, was mainly due to a decrease in sales under license agreements in the US and sales to other regions, due to relative weakness in demand mainly in light of the accumulation of inventory at some customers. This decrease was partially offset by an increase in sales to retail customers in stores and online commerce websites as well as sales under new Adidas, Wolford and Polo Ralph Lauren license agreements.

Approximately 71% of the 2023 sales were made through the wholesale channel through department stores, supermarkets, and hypermarkets, and approximately 29% of sales were through the retail chain and the Schiesser, Eminence, Splendid and P.J. Salvage websites.

The United States, Germany, and France constitute the largest markets of the segment, and sales therein constituted approximately 40%, 27%, and 12%, respectively, of 2023 sales. The remaining sales were in other Western European countries, mainly Switzerland, Belgium, Italy, and the Netherlands.

Important customers in the segment include Galeria Karstadt Kaufhof, Leclerc, Carrefour, Amazon, Zalando, Nordstrom, Bloomingdale's, Costco, Dillards and Marmaxx.

17.2. 7 for All Mankind Segment

The Company's customers in the segment include wholesale customers and retail customers through its United States, European, and Brazilian retail chain. Sales in the segment are primarily in the upper market, with the sales under the "Jen7" brand to the mid-market tiers. Approximately 38% of sales in the segment are sold through the wholesale channel.

Sales for the segment in 2023 amounted to \$209.1 million, of which about 58% were in the United States, about 35% in Europe, and about 7% in other regions.

Sales for the segment in 2023 and 2022 amounted to \$209.1 million and \$217.4 million, respectively.

The decrease in sales in 2023 compared to 2022 was due to a decrease in sales in the US, which was partially offset by an increase in sales in Europe due to the strengthening of the euro exchange rate against the dollar and an increase in sales in Brazil and Mexico.

Important customers in the segment in the United States include Nordstrom, Bloomingdale's, Neiman Marcus and Macy's.

17.3. Delta Israel Segment

The Company's customers in this segment are all located in Israel and consist of retail and wholesale customers. The Company's retail customers are the consumers shopping at the "Delta", "Fix," and "Panta Rei" retail stores and through e-commerce websites.

The Company's wholesale customers in Israel include department stores, supermarkets, and fashion chains.

The total sales of the segment in Israel in 2023, 2022, and 2021 amounted to approximately \$256.8 million, \$273.4 million and \$281.2 million, respectively.

Out of total sales in 2023, about 12% of sales were through the wholesale channel, meaning through department stores, supermarkets, and private stores, and about 88% of sales were through the retail channel, meaning through the Company's stores and through the Delta Israel e-commerce websites.

The Company does not believe it is dependent on any one customer in this segment.

18. Marketing and Distribution in the Segments: Brands, 7 for All Mankind and Delta Israel

The Company markets its products in the segment through the following two marketing channels: Wholesale marketing and retail, through its retail outlets and e-commerce website.

18.1. Wholesale Marketing

18.1.1. Brands Segment

The wholesale channel is the largest sales channel in the segment. Approximately 71% of 2023 sales were carried out through the wholesale channel. Customers in the wholesale channel are mainly specialty clothing stores, department stores, supermarkets, and hypermarkets, offering the segment's products to their customers.

Schiesser and Eminence handle wholesale distribution themselves in Germany, France, and Italy. Sales outside these countries (with respect to each of the companies separately) are mainly carried out by subsidiaries and through external commercial agents.

Schiesser develops its wholesale sales concept using the "shop-within-a-shop" method for primary customers, while Eminence does not use this approach.

18.1.2. 7 For All Mankind Segment

Approximately 38% of segment sales are through the wholesale channel. Customers in this channel are mainly specialty clothing stores and department stores offering branded products to their customers. Sales outside the United States and Europe (mainly in Canada, Brazil and China) are carried out by distributors.

18.1.3. Delta Israel Segment

The Company's products are sold to a variety of wholesale customers, including retail chains (such as the New Mashbir Latzarchan, H&O), boutiques and small chain stores and the marketing of private brands (such as SuperPharm's "Life" brand).

For marketing purposes, the Company employs a team consisting of sales agents, account executives, and sales retail sales associates and operates with some of its customers using the consignment method, whereby the inventory remains Company property until its sale to the end customer.

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

18.2. Retail Marketing

18.2.1. Brands Segment

In the retail sales channel, goods are sold through the Company's own retail shops, factory outlet stores, and e-commerce stores.

At the end of 2023, Schiesser's chain of stores included 100 stores, including 23 retail stores (of which 20 are in Germany) and 77 factory outlet stores (of which 64 are stores in Germany and 13 are in other Western European countries). Eminence Group operates 7 stores (of which 5 are in France and 2 in Italy), and Splendid operated 18 stores in the United States.

Retail stores are located in accessible locations in city centers or in malls with sales areas of about 120 m² each. Factory outlet stores are located at sites visited often by the public, such as outlet centers. The sales floor area in outlets is generally larger, reaching about 350 m² or more, and these stores sell a significant portion of the collection as well as surplus items. Schiesser intends to open additional stores in 2024 to increase sales to the end consumer.

In addition to the physical stores, the Company set as a goal for this field of activity the increase of sales to the end consumer through the online stores of the brands of the field of activity.

18.2.2. 7 for All Mankind Segment

The segment sells products in this channel through 82 branded retail stores—as of the end of 2023—in North America, Europe, Brazil and Mexico. The retail stores are mainly located inside malls and in city centers.

In addition to the above retail stores, the products of the segment are sold through the Company's e-commerce websites.

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

18.2.3. Delta Israel Segment

The segment sells products in this channel through its e-commerce websites and 210 brand shops (as of this periodic report). The retail stores are located inside malls, in town centers, and in "power centers" throughout Israel. For details on same-store sales, see section 2.3.5 of the Board of Directors' Report in Chapter B of this periodic report.

18.3. Distribution

18.3.1. Brands Segment

The segment's distribution centers are located in Radolfzell in Germany (Schiesser), in Aimargues in France (Eminence) and in Los Angeles, and in Tifton, Georgia, USA for Splendid, P.J. Salvage and other brands, where most of the finished products of the segment are stored.

18.3.2. 7 for All Mankind Segment

The United States distribution center for the segment is located in Los Angeles.

In Europe, the segment utilizes distribution centers in the Netherlands and the United Kingdom that are managed by a third party.

18.3.3. Delta Israel Segment

The Company's products are stored in the Company's distribution center in Caesarea and with subcontractors, from which they are distributed to Company stores, wholesale customers, and e-commerce customers. Retail, e-commerce, and department store orders are placed via a computerized system, while orders for other wholesale customers are made by agents that are sent to the logistics warehouse.

On November 28, 2021, Delta Israel signed a new lease agreement with Caesarea Properties Edmund de Rothschild (2001) Ltd., under which the Caesarea Properties Company will build a new distribution center—including office space - for Delta Israel in the southern part of Caesarea Business and Industrial Park, of an area of about 17,000 square meters, ("The New Logistics Center").

In the new logistics center, Delta Israel is investing in an automation system, smart systems for shelving and inventory management, and an advanced robotic system. These systems are expected to cost approximately NIS 150 million (approximately \$40 million) of which about NIS 40 million (approximately \$11 million) has been expended as of the date of this report.

After its completion, Delta Israel will lease the new logistics center commencing from the date of the issue of the certificate of occupancy for the building and concluding 24 years and 11 months from the date of signing the lease agreement.

The logistics center is expected to commence operations during the second half of 2025.

19. Backlog in Segments: Brands, 7 for All Mankind and Delta Israel

The backlog does not constitute an indication of anticipated sales volume in these segments, in light of the fact that a significant portion of wholesale customers do not order products from the Company long in advance and due to the fact that a significant amount of the sales in these segments are direct to retail customers through retail stores and websites.

20. Competition in the Segments: Brands, 7 for All Mankind and Delta Israel

20.1. Brands Segment

The primary activity of this segment is in the undergarments market, which has multiple competitors in the industry in Europe. The primary competitors across men's, women's, and kids' labels are Hugo Boss, Mey, Triumph, Calida, Sanetta, Hunkemöller, Esprit, Dim, Hom, Pompea, France Freegun, Contonella, H&M and private labels of department stores. The main competitors of the Splendid operation in the US include Velvet, Rails, and others. Most of the competitors are active both in the retail and wholesale markets.

In this segment, Delta Galil competes in markets spanning various categories and geographic areas. Due to the above, and in the absence of relevant market research, the Company is unable to assess its market share.

In order to contend with the competition, the Company is investing, inter alia, in its online activities and in intensifying sales relationships with customers operating through the Internet.

20.2. 7 for All Mankind Segment

This segment is, as stated, in the denim category, in which the Company competes with various competitors. The Company's main competitors in this market include Paige, Frame, AG, Mother, Citizens of Humanity, J BRAND, and others.

20.3. Delta Israel Segment

This segment competes in a highly competitive market, including many entities such as manufacturers, importers, international fashion chains, local fashion chains, international and local e-commerce websites, and boutiques.

The Company's main competitors are: Afrodita, Intima, Hamashbir Latzarchan, H&O, Hoodies, Fox, AERIE, Golf Kids, H&M, Shilav, Zara Kids, Carter's, Next, Castro Kids, Femina, Lululemon, Alo Yoga, Laline, Body Shop, Yves Roche and others⁵. In addition, there are other chains that sell products similar to those sold by the Company, as part of the mix of products that they offer, and there are hundreds of boutiques that market clothing products similar to those marketed by the Company.

The relevant market to this segment consists of various market tiers and categories. Due to the above, and in the absence of relevant market research, the Company is unable to accurately assess its market share, but in light of the deployment of the stores, sales volumes, and the Company's awareness of the market, it estimates that its brands are market leaders and that it is one of the most prominent competitors.

Operating in a competitive environment, the Company strives to market to customers products that are differentiated from others in terms of their quality and technology. The Company combines various exclusive technologies in its products, sells innovative and on-trend products, prices its products competitively, and makes significant investments in marketing, advertising, and promotions to preserve its market position. Other factors that affect the Company's competitive position include brand awareness, reputation, design and innovation, logistics, the logistics system, store deployment and location, marketing systems, including the online marketing system and a customer loyalty program, as well as the critical success factors listed in section 16.4 above.

To the best of the Company's knowledge, it is a significant market leader in its segment. Brand awareness surveys commissioned by the Company in 2021 show that the Delta brand is the most well-known brand in Israel among women and men aged 15-50 in the categories of intimate apparel and loungewear.

⁵ It should be noted regarding H&O and Hamashbir Latzarchan that, in addition to being competitors, they are also the Company's customers, and some of the products they market are the Company's products.

The market relevant to this segment consists of different markets and spans different categories. Due to the above, and in the absence of relevant market research, the Company is unable to assess its market share.

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

21. Manufacturing Capabilities in the Segments: Brands, 7 for All Mankind and Delta Israel

21.1. Brands Segment

Approximately 17% of sales in this segment are manufactured in factories owned by the Group - in the Czech Republic, France, and Egypt - and the remaining products are purchased from various suppliers in Asia, Eastern Europe and North Africa. The Company estimates that it can increase its production capacity in its factories.

21.2. 7 for All Mankind Segment

The products of the segment sold in the United States and Europe are manufactured by several subcontractors. The Company estimates that it is not dependent on any of its suppliers, and it has no imitations on manufacturing that would make it difficult to supply products in the event of increased demand.

21.3. Delta Israel Segment

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

22. Intangible Assets in the Segments: Brands, 7 for All Mankind and Delta Israel

22.1. Brands Segment

The intangible assets of the Brands segment include Goodwill generated by the Company following the acquisition of a United States subsidiary as well as Eminence for approximately \$82.9 million, customer relationships, license agreements capitalized following the acquisition of Eminence, and brand names acquired as part of the acquisitions 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 book value of the rest of the brand names and trademarks owned by the Company amounts to \$71.4 million as of December 31, 2023.

Brands' useful life are not defined and are examined each year for impairment (see Note 2f in Chapter C of this periodic report). The brands' importance is material to this segment and these brands constitute a significant success factor and a barrier to entry for segment operations. Furthermore, the Company estimates that the brands create and preserve the Company's competitive differentiation.

In addition, the Group held a license for the *Marc O'Polo* brand, which expired at the end of 2022 and holds licenses for children's products, such as *Lilifee*, *Capt'n Sharky* and *EMOJY*.

Furthermore, the Company holds a license for the adidas, Wolford, and Polo Ralph Lauren labels.

During 2023, a subsidiary Company signed a license agreement with Florence By Mills. The Company's sales under this brand will begin in 2024.

The customer relationships balance under the segment in the Company's books as of December 31, 2023, amounted to approximately \$24.2 million and is amortized linearly over 20 years.

In 2022, the Company impaired the value of the brand name and other intangible assets of *Liabel* by \$2.2 million.

During the first quarter of 2024, the Company completed the purchase of the Passionata brand from Chantelle.

22.2. Agreements for Obtaining Usage Rights for Brands

In the Brands segment, the Company enters from time to time into agreements to obtain usage rights for international labels such as: Columbia, Converse, Wilson, Tommy Hilfiger, adidas, Wolford, Polo Ralph Lauren, Calvin Klein, Ted Baker and Spalding.

The license agreements are typically for a period of 3 to 4 years and include the payment of royalties and other payments to the licensor at a rate between 6% and 15% of revenue. Such agreements also usually contain a stipulation of minimum royalties determined by the minimum sales level during the agreement period.

These agreements regulate the obligations of the Company as a recipient of the license concession to manufacture branded products, (hereinafter in this section: "The Products") including the use of brand names, design and development of the products, and the transfer of annual sales plans to the license issuer.

The agreements generally include commitments on behalf of the Company to provide the party granting a prototype license and production molds of the products and an obligation to maintain quality, reputation, and the image of the products of the licensor. The licensor has the right to inspect and oversee the manufacture of the products.

Royalty expenses in the segments amounted to \$18.3 million, \$20.8 million and \$16.9 million in 2023, 2022, and 2021, respectively.

The Company estimates that brand usage rights constitute one of the factors behind the success of the segment, and they are essential to the Company's strategy to grow the segment (see section 46.5 below).

22.3. 7 for all Mankind Segment

The carrying amount of 7 For All Mankind's brand in the Company's books amounted to \$44.6 million as of December 31, 2023. The brand's useful life is not defined and is examined each year for impairment. The *7 For All Mankind* brand is material to the success of this segment and constitutes a significant success factor and barrier to entry. The Company estimates that the *7 For All Mankind* brand creates and preserves the Company's competitive differentiation. The carrying amount of customer relationships within the segment is \$2.7 million as of December 31, 2023.

22.4. Delta Israel Segment

The Group owns the following brands: *Delta*, *Yodfat*, *Matchtonim*, *Fix*, *Panta Rei* and others which are listed in the Israeli trademark's registry. These labels are carried on the Company's books at no cost.

In addition, the Group signed license agreements for the use of *Disney*, *Wilson*, *Victoria's Secret* and other brands for use in the intimate apparel, socks and children's categories.

The license agreements are generally for a period of 2 to 3 years (with the exception of *Victoria's Secret*, see below) and include the payment of royalties to the licensor of between 5% and 14% of sales. As a result of the relatively short agreement periods, the balance of the amortized cost of the license agreements in question is not material.

In the beginning 2022, Delta Israel entered into an agreement with Intimate Apparel Management. Under this agreement, Delta Israel was granted an exclusive license to set up and operate physical stores and an e-commerce website in Israel for selling lingerie and cosmetics under the Victoria's Secret brand. The initial term of the agreement is set for 10 years, lasting until the beginning of 2032.

The Company estimates that the brands and license agreements are very important for the segment and they constitute a material success factor and barrier to entry. In addition, the Company estimates that the labels and license agreements provide a competitive advantage that helps differentiate the Company.

In 2023, royalty expenses at Delta Israel amounted to \$8.7 million, compared to \$8.8 and \$9.3 million in 2022 and 2021, respectively.

23. Raw Materials and Suppliers in the Segments: Brands, 7 for All Mankind and Delta Israel

As stipulated above, approximately 17% of sales in the segment are self-manufactured. The raw materials and accessories serving production are purchased from subcontractors and suppliers.

In Delta Israel and 7 for All Mankind segments, the Group purchases finished products, so there is no use of raw materials.

24. Working Capital in the Segments: Brands, 7 for All Mankind and Delta Israel

24.1. Brands Segment

Following are details regarding the average inventory used by the segment and inventory days in 2023 and 2022:

	2023	2022
Average inventory (million \$)	170.3	180.3
Inventory days (average)	176	173

The decrease in inventory balance in 2023 compared to 2022 is due to strict management, slowing stocking and selling old stock. The increase in inventory days in 2023 is mainly due to a decrease in sales.

24.2. 7 for All Mankind Segment

Following are details regarding the average inventory used by the operating segment and inventory days for 2023 compared with 2022:

	2023	2022
Average inventory (million USD)	58.9	50.4
Inventory days (average)	260	225

The increase in inventory and in the average inventory days in 2023 compared to 2022 was mainly due to a decrease in sales, mainly to wholesale customers.

24.3. Delta Israel Segment

Following are details regarding the average inventory used by the operating segment and inventory days in 2023 and 2022 in the operating currency of the segment:

	2023	2022
Average inventory (million NIS)	189.5	200.3
Inventory days (average)	141	138

The decrease in the average inventory balance (and this despite an increase in the inventory balances for the new activities of Victoria's Secret and Bath & Body Works) was mainly due to a strategic decision to reduce the level of inventory.

25. Restrictions and Supervision of the Corporation's Operations in Segments: Brands, 7 for All Mankind and Delta Israel.

25.1. General

25.1.1. As a public Company registered for trading on the Tel Aviv Stock Exchange Ltd., the Company is subject to the provisions of the Securities Law 1968 and the Companies Law 1999, including regulations, orders and rules established pursuant to them.

25.2. Brands Segment

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

Imports and exports inside the European economic area are largely exempt from customs. The operating segment is also likely to be affected by all anti-dumping measures the European Union is likely to apply in accordance with its laws.

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

The e-commerce operations of the operating segment are subject to the laws of privacy protection in various countries.

To the best of the Company's knowledge, it is compliant with all the legal requirements in question and holds the appropriate licenses, as required.

25.3. 7 for All Mankind Segment

The operations in this segment largely take place in the United States, European countries, Brazil and Mexico, and are influenced by those countries' legal and tax environments, including in the matter of corporations, antitrust law, product liability, product marking, prohibition of unfair activity, trademarks, and consumer protection. European Union laws apply to activity in Europe.

The e-commerce website operations of the segment are subject to the laws of privacy protection in various countries.

To the best of the Company's knowledge, it is compliant with all the legal requirements in question and holds the appropriate licenses, as required.

25.4. Delta Israel Segment

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

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

The e-commerce website operations of the segment are subject to the laws of privacy protection in various countries. The website operations of the segment are subject to the laws of privacy protection in various countries.

To the best of the Company's knowledge, it is compliant with all of the legal requirements in question and holds the appropriate licenses, as required.

Others Segment

26. General Information Regarding the Segment

The Others operating segment includes the Bare Necessities and Organic Basics brands since the operations of the two brands are not material in a way that requires their presentation as a reportable segment. The CODM, the CEO of the Company, decided that these brands' results are presented together under "Others".

In this segment, the group mainly carries out operations in which it purchases ready-made branded products, mainly in the lingerie and swimwear categories, and sells them to end customers through the BareNecessities.com and OrganicBasics.com e-commerce websites.

26.1. The Structure of the Segment and the Changes Occurring Therein

The Others segment is mainly based on the activity of Bare Necessities which were acquired by the Company in 2020 and is a digital e-commerce platform that sells products under the existing Organic Basics brand.

As part of this activity, the Company offers for sale a very wide range of products from different brands,

In 2023, the Company launched a new private label, Bare™ by Bare Necessities.

The platform also contributes to the broader Group in terms of tools and expertise in e-commerce and digital marketing that are leveraged for the benefit of the Group's other e-commerce activities.

Realignment Plan – Bare Necessities

On February 25, 2024, the Company's Board of Directors approved a comprehensive realignment plan for Bare Necessities, with the aim of significantly reducing losses in the short term and moving to profitability in 2025, while implementing a new business model and reducing operating expenses.

As part of the plan, the current commerce platform operating mainly in the American market, in addition to the current activity, will be used for the marketing and sale of the Company's brands, those it owns and some of those to which it has received a license, as well as for the sale and launch of private brands owned by the Company such as Bare, Camio Mio, Reveal and others.

The current activity, which is mainly focused on the trade of leading brands that are not part of the Company's brands, will be significantly reduced while proactively reducing it to a few selected brands, while moving from the activity of purchasing products to a new business model of direct delivery of the products by the brands to the final customer (drop shipment) or of holding inventory on consignment, while the Company does not bear ownership or risks related to the inventory. The change in the business model and the reduction in the number of brands that Bare Necessities will market, as stated, will be accompanied by a significant reduction in overheads with an expected transition to profitability during 2025.

The one-time cost of the program of an amount of approximately \$3.8 million, will be included in the report of the Company for the first quarter of 2024 and will include compensation and other cash costs of an amount of about \$1.5 million due to the termination of the employment of about 30 employees.

The implementation of the plan will begin in the first quarter of 2024 and should be completed during the first half of 2025.

26.2. Changes in the Scope of the Segment and in Profitability

The segment's sales are mainly made to end customers in the United States. The Company's growth strategy regarding the operating segment is the launch of private label products, as detailed above, the redesign and rebranding of the Bare Necessities and the Organic Basics e-commerce websites, entry into additional categories, and expansion into additional geographic markets.

26.3. Developments in Markets of the Segment or Changes in the Customer Characteristics

In this segment, as in the entire apparel industry, we are witnessing changes in consumer fashion preferences and trends, which by nature change, and nowadays even more frequently than before. The Company works to increase the number of required product collections, over a period of time as well as of any point in time.

26.4. Critical Success Factors in the Segment and Changes Occurring Therein

In the Company's estimate, there are a number of main factors on which success in the operating segment depends, as detailed below:

- 26.4.1. Marketing and strengthening the brands through constant investment in advertising to highlight differentiation and benefits.
- 26.4.2. Ease of use of the platform.
- 26.4.3. Strengthening the relationship with the customer and personalizing the shopping experience to their needs.
- 26.4.4. Investing in the purchasing departments with a focus on local and global lingerie developments and customer preferences.
- 26.4.5. The existence of an operational system, supply chain, and distribution system that provide full and efficient support for sales needs and compliance with delivery times.

26.5. Main Entry and Exit Barriers of the Segment

The Company believes the main barriers to entry are:

- 26.5.1. Building a website with a significant awareness in the fashion market and maintaining it over time through significant financial investments in its development, marketing and advertising.
- 26.5.2. Capital investments in setting up a logistics warehouse and supporting an efficient supply chain.
- 26.5.3. The need for a critical mass of sales that will enable a competitive operating cost structure.

The Company estimates that the operating segment does not have significant exit barriers.

26.6. Alternatives to the Products of the Segment and the Changes Occurring Therein

The Company's products in the operating segment have many alternative products that are marketed at many points of sale, including many e-commerce websites. The Company acts to strengthen and preserve its advantages in differentiating the shopping experience, highlighting fashionable collections, offering competitive pricing, stocking a wide range of products, and launching an exclusive private label.

27. Customers in the Segment

The Company's customers in the segment are mainly women aged 30 and above. The operating segment's sales in 2023 amounted to approximately \$83.1 million, compared to about \$102.9 million in 2022.

The decrease in Others segment sales in 2023 compared to 2022 was due to a decrease in Bare Necessities sales due to a decrease in buyer traffic. For more details, see section 2.3.5 of the Board of Directors' report, in part B of this periodic report.

The Company has no significant customers in the segment since all customers are retail customers who purchase products for personal use through the platform.

28. Marketing and Distribution in the Segment

The Company markets its products in the segment through e-commerce websites and delivers them to the customer's home.

During 2023, the Bare Necessities distribution center in New Jersey was shut down and the operation was outsourced in Mexico. The distribution activity of Organic Basic is carried out from Copenhagen, Denmark by a third party.

29. Backlog in the Segment

The backlog is not an accurate indication of the expected sales volume of the segment in light of the fact that segment sales are to retail customers through an e-commerce website.

30. Competition in the Segment

Products sold in the operating segment are mainly from the lingerie and swimwear categories. These categories, like most of the apparel market, are characterized by elevated and fragmented competition. The end consumer can purchase products from these categories at a wide variety of physical and online outlets. The main websites that compete with the Company in the operating segment and have significant internet marketing systems in the segment's core categories are Nordstrom, Amazon, Heroom, Third Love, Adore Me, Yandy and Bloomingdale's.

The high competition requires the Company to price competitively; make large investments in marketing, advertising, and sales promotions; and invest in the breadth of products on the site, in the convenience of using the site and in an efficient logistics system.

31. Production Capacity in the Segment

The operating segment's products are purchased from different suppliers under the brand names of those suppliers, as well as from the Company's factories. In the Company's opinion, it does not depend on any one of these suppliers and has no restrictions that will make it difficult to supply products in the event of an increase in demand. When the Company enters into the sale of a private brand in the field of operations, the Company's intention is that the private brand will be produced by the Company, however, in its estimation, based on the sales volumes derived from the business plan, the Company does not have an effective limit on the production capacity in the segment.

32. Intangible Assets in the Segment

Intangible assets in the segment included goodwill created at the acquisition of Bare Necessities and Organic Basics of an amount of \$1.2 million and \$0.2 million, respectively, and a brand name of an amount of \$1.3 million and \$2.5 million, respectively. The domain and the brand are essential to the segment since most of the marketing and advertising activity is aimed at promoting the domain and brand name.

In 2022, the Company impaired the goodwill generated in the wake of the acquisition of Bare Necessities, by an amount of approximately \$1.2 million.

33. Raw Materials and Suppliers in the Segment

As stated above, products sold in the segment are purchased as finished products from suppliers in the segment.

34. Working Capital in the Segment

Following are details regarding the average inventory used in the segment and the inventory days in 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Average Inventory (\$ Millions)	24.1	26.9
Inventory Days	208	193

The decrease in inventory in 2023 was mainly due to the sale of old inventory. The increase in inventory days in 2023 compared to 2022 was due to a decrease in sales.

35. Restrictions and Supervision of the Corporation's Operations in the Segment

The segment operations are conducted mainly in the United States and Europe and are influenced by the laws and tax environments in those countries, including in corporate affairs, antitrust matters, product liability, product labeling, prohibition of discriminating activity, trademarks, and consumer protection.

To the best of the Company's knowledge, it complies with all provisions of the law.

Part D – Additional Information at the Corporate Level

Following is additional information at the corporate level pertaining to all of the Company's segments:

36. General Information on the Segments

36.1. Technological Changes That May Have a Material Impact on the Entire Company

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

36.2. Changes in the Supplier Structure and Raw Materials

In recent years there have been no material changes in the structure of the suppliers from which the Company purchases the raw materials used to manufacture its products, and in any event, the Company can purchase the raw materials and manufacture all of its products at a large number of other 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.

37. Company's Products

37.1. Women's Intimate Apparel and Active Wear

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

37.2. Men's Undergarments and Active Wear

The Company manufactures basic and designer undergarments for men.

37.3. Socks

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

37.4. Children's Apparel

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

37.5. Denim, Outerwear and Accessories

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

For details regarding the sales of the Company by product category, see note 5d of the financial reports, Part C of this periodic report.

38. Seasonality

The Company's revenues are characterized by fluctuations that derive from seasonal consumer purchases. The Company's revenues in the second half of the year generally exceed its sales in the first half due to increased consumer purchases in the "back to school" period and during the holiday period and in the Internet holiday period in November – December.

Following are the Group's sales by quarter over the past three years (in thousands of dollars):

	<u>1st quarter</u>	<u>2nd quarter</u>	<u>3rd quarter</u>	<u>4th quarter</u>	<u>Total</u>
2023 sales - \$	442,457	443,583	463,039	508,603	1,857,682
2023 sales - %	23.8%	23.9%	24.9%	27.4%	100%
2022 sales - \$	483,873	491,251	512,002	544,415	2,031,541
2022 sales - %	23.8%	24.2%	25.2%	26.8%	100%
2021 sales - \$	416,135	455,771	501,066	577,986	1,950,958
2021 sales - %	21.3%	23.4%	25.7%	29.6%	100%

39. Fixed Assets, Real Estate and Facilities

39.1. Real Estate and Facilities

The Group has manufacturing facilities in Egypt, Thailand, Vietnam, China, Myanmar, the Czech Republic, Turkey and France.

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

As of the date of this periodic report, the Company owns real estate property in Israel used for manufacturing and as a fabric's development center. Furthermore, the Group rents additional properties in Israel, serving as warehouses, offices, and stores. The rental agreements for the properties, including option periods for their extension, end between 2024 and 2043. In general, the Company believes that under current market conditions, it will be able to renew most of these rental agreements under terms similar to those in effect today.

The Group rents warehouses, shops and offices in the United States, Europe and China. The rental periods in these agreements are expected to expire between 2024 and 2035. In general, the Company believes that under current market conditions, it will be able to renew these rental agreements under terms similar 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 with respect to the Company's estimate due to it being based on information existing as of this periodic report. Its realization is dependent on factors external to the Company, such as market conditions, agreements with landlords, and other factors.

39.2. Real Estate Assets Intended for Sale

As of the date of this report, the subsidiary Company in Bulgaria has a real estate asset designated for sale, which is included at book value of approximately \$1.8 million, as part of current assets.

39.3. 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 sq. m.	Primary use	Rented/ owned	Amortized Cost in the Financial Statements as of December 31 st 2023 In Millions of Dollars	Annual rental fees in 2023 In Millions of Dollars
Israel	Carmiel	14,014 structure 24,000 land	Fabric development and dyeing, offices and warehouses	Ownership	5.7	
	Caesarea	Approximately 9,500	Logistics center	Rental	1.7	1.0
		Approximately 5,000	Offices	Rental	6.6	0.9
	Chain stores**	Approximately 32,865	Delta, Fix, and Panta Rei VS and BBW– national retail chain stores	Rental	10.3	17.5
Egypt	Cairo	29,125	Knitting, cutting, and sewing plant, offices and warehouses	Rental	2.2	0.3
	El-Meina	74,000	Knitting, cutting, and sewing plant, warehouses, offices and available land	Ownership	8.9	
Turkey	Duzce	9,400	Sock manufacturing plant	Rental	0.7	0.5
Vietnam	Binh Dinh Province	49,000	Intimate apparel manufacturing plant	Ownership and rental	3.0	0.1
	Phuong Thao	43,700	Intimate apparel and socks manufacturing plant	Ownership	10.6	
USA	New York	4,400	Offices	Rental	1.0	2.4
	Tifton, Georgia	46,000	Warehouse, logistics center and offices	Ownership	3.2	
	Los Angeles	465	Offices	Rental	0.1	0.1
	Los Angeles Fontana	29,600	Logistics center	Rental	0.6	1.8

Country	Town	Area in sq. m.	Primary use	Rented/ owned	Amortized Cost in the Financial Statements as of December 31 st 2023 In Millions of Dollars	Annual rental fees in 2023 In Millions of Dollars
	Chain of stores (7 FAM / Splendid)	Approximately 15,000	Retail chain	Rental	6.0	13.6
Czech Republic	Havirska	148,000	Knitting, cutting, and sewing plant, warehouses and offices	Ownership	6.3	
Germany	Radolfzell	70,547	Warehouse, logistics center and offices	Ownership	11.8	
	7 for all Mankind and Schiesser Chain of Stores	Approximately 35,000	Chain of stores	Rental	2.2	9.0
France	Aimargues & Sauve	27,975	Sewing, cutting plant, warehouses, offices and a logistics center	Ownership	3.3	
Western Europe (Excluding Germany)	7 for all Mankind and Schiesser Chain of stores	Approximately 10,000	Stores	Rental	2.2	5.1
Thailand	Ayutaya and Samut	51,633	Plant, offices and warehouses	Ownership and rental	3.9	
China	Panyu	76,182	Sewing plant, cutting plant, warehouses and offices	Ownership	-	
Myanmar	Yangon	7,971	Sewing plant, cutting plant and warehouses	Rental	0.6	0.3
Hong Kong	Kowloon	2,124	Offices	Rental	0.1	0.9
Brazil	Chain of stores	856	Stores and an office	Rental	0.4	0.7

** Excluding stores operated and rented by third parties.

39.4. 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.

40. Research and Development

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

The Company's development and design teams are based mainly in Israel, Germany, the United States, Switzerland, France, Hong Kong and China.

Design and development work is carried out using Delta Galil's proprietary Systematic Innovation Process ("SIP"). This method is designed for innovative thinking in order to bring about groundbreaking products for 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.

In addition, the Company incubates "enterprise wide" projects using the same method, placing emphasis on creative thinking designed to bring about design and technological breakthroughs for the Company's product categories.

The development and design teams are integrated with the Company's selling and marketing systems.

In addition, the Company operates a unique fabric development center in Carmiel, Israel, which constitutes added value in the product development core; a sock development center, which specializes in professional sports socks (Performance); and a seamless development center, specializing in shapewear and active wear for men and women. The Company also operates a strategic development center for socks at in collaboration with Nike located in the clients headquarter in the United States.

Development and design costs amounted to approximately \$52 million and about \$53 million in 2023 and 2022, respectively.

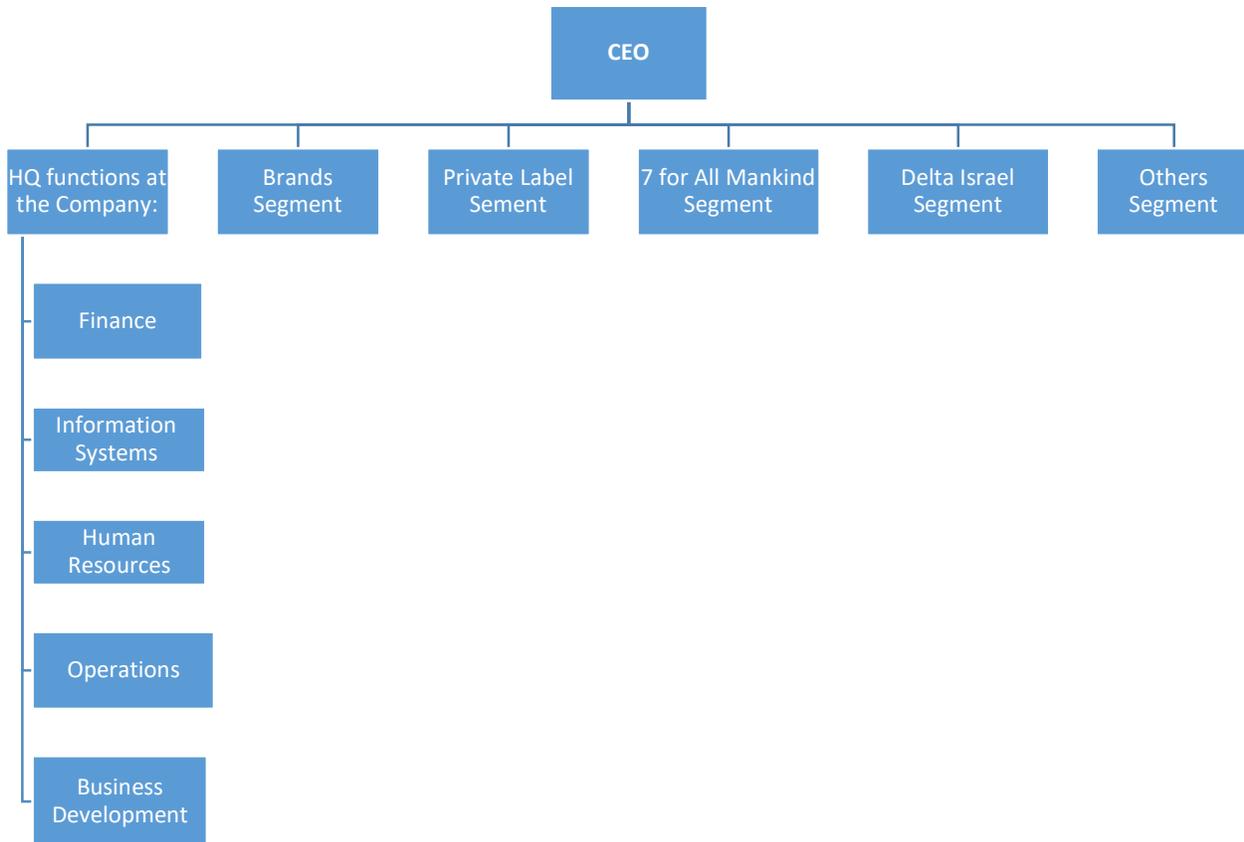
Development and design costs for 2024 are expected to amount to approximately \$56 million and constitute about 2.8% of expected sales.⁶

⁶The above information regarding the forecast of development, design and sales costs for 2024 is forward-looking information and an estimate only, which may or may not materialize or may differ from Company estimates and forecasts, due to circumstances outside of the Company's control. The estimate is based on information available held by the Company as of the report date.

41. Human Capital

41.1. Description of the

Following is a description of the Group management's organizational structure and its segments:



41.2. Workforce:

As of December 31, 2023, the Company employs about 24,320 employees.

41.3. Following is a breakdown of the employees by country and segment in which they are employed:

	<u>As of December 31,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
Thailand (Private Label)	4,425	4,915
China and Hong Kong (Private Label)	1,495	2,060
Myanmar (Private Label)	1,735	2,005
Vietnam (Private Label)	6,210	4,980
Egypt (Private Label)	4,485	4,120
U.S.A. (Brands, Private Label, 7 for All Mankind, and Others)	1,370	1,430
Israel (Private Label, Delta Israel and HQ)	1,480	1,310
Germany (Brands)	795	795
Czech Republic (Brands)	580	565
France (Brands)	455	470
Bulgaria (Private Label)	50	480
Turkey (Private Label)	770	825
Others (Brands, Private Label, 7 for All Mankind and Others)	470	445
Total employees	<u>24,320</u>	<u>24,400</u>

41.3.1. Following is the breakdown of employees in countries that constitute manufacturing centers.

	<u>As of December 31,</u> <u>2023</u>	<u>As of December 31,</u> <u>2022</u>
Thailand	4,425	4,915
China	1,427	1,979
Myanmar	1,735	2,005
Vietnam	6,210	4,980
Egypt	4,485	4,120
Czech Republic	580	565
France	195	220
Bulgaria	0	430
Turkey	770	825
Total employees in manufacturing centers	<u>19,827</u>	<u>20,039</u>

41.3.2. Following is the breakdown of employees in countries that constitute sales and marketing centers.

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
USA	1,370	1,430
Germany	795	795
France	260	250
Rest of Europe	435	430
Mexico and Brazil	85	65
Hong Kong	68	81
Total employees in sales and marketing centers	<u>3,013</u>	<u>3,051</u>

41.3.3. Following is the breakdown of employees in Israel

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
Sales and Marketing	1,175	1,010
Development	200	201
Headquarters	105	99
Total employees in Israel	<u>1,480</u>	<u>1,310</u>

41.4. Material Changes to the Workforce

The number of employees in December 2023 remains at a level similar to that of December 2022. As a result of Bogart's realignment plan and that in Bulgaria, as stated in section 1.3.3 of the Board of Directors' report in part B of this periodic report, the Company's factory in China (Shenzhen) was downsized and the production activity was transferred to Vietnam and the socks manufacturing plant in Bulgaria was shut down and the operation moved to Egypt, as reflected in the table above.

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

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

41.6. Plans for Human Capital Development

The Company invests in developing its human capital by holding courses and training programs with the goal of developing competencies in professional and in administrative areas. In addition, the Company offers lectures for all employees on various subjects such as business considerations, personal growth, and more, which encourage the employees to initiate and to self-develop, each in his own field.

41.7. Benefits and the Nature of Employment Agreements

The Company's engagement with most of its employees in Israel is according to general collective labor 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 the Schiesser subsidiary in the Czech Republic are also employed under similar collective agreements.

The employment contracts the Company signs with its Israeli employees include, among

other things, the following matters: Monthly salaries, social benefit rights such as annual leave, advance notice of termination, provisions for pension funds, executive insurance and advanced studies funds. Each party may end the contractual association by providing written notice of 1 to 2.5 days for each month of employment and one month's notice after one year of employment.

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

41.8.1. Agreements with Senior Executives (Excluding Internal Auditor)

The employment agreements of senior executives include, among other things, details of the senior executives' social benefits 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 a vehicle and mobile phone at the senior executive's disposal 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 confidential information even after the conclusion of their employment at the Company. As a rule, the Company or senior executive may terminate the senior executive's employment at the Company by providing 90 to 180 days' written notice, with certain exceptions.

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

41.8.2. Group Executive Remuneration Plan – PFP (Payment for Performance)

The Company maintains a remuneration plan for most of the Group executives. This plan consists of three components of remuneration: (a) remuneration based on 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 component mix 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 is approved by the Company's board.

41.8.3. Senior Executive Remuneration Policy

The Company's remuneration policy which was in force as of January 27, 2024, was revised and ratified on January 28, 2021. For further details, see the immediate report on the convening of the meeting on December 23, 2020, and the report on the results of the meeting on January 28, 2021 (ref. no. 2020-01-131575 and 2021-01-011611, respectively), included in this report by way of reference.

Amendments to the compensation policy were approved at a special general assembly of the Company's shareholders on January 24, 2023. For further details, see the revised immediate report regarding the convening of the meeting dated December 20, 2022 and the amendment thereto dated January 19, 2023 and the report of the results of the general assembly dated January 24, 2023 (references: 2022-01-121044, 2023-01-009894 and 2023-01-011088, respectively) included in this report by way of reference. The Company intends to act as soon as possible to approve an updated compensation policy in the Compensation Committee and the Company's Board of Directors, as well as to call a general assembly of the Company's shareholders for approval.

41.8.4. 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 a significant activity - mainly Thailand 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.

42. Operating Working Capital

Following is a composition of net operating working capital as of December 31, 2023, and 2022 on a consolidated basis, in millions of dollars:

	2023	2022
Current assets – as reported	831.0	966.5
Net of:		
Cash, restricted cash, derivative financial instrument, short-term deposits and Asset held for sale	<u>(179.4)</u>	<u>(195.3)</u>
Current operating assets	<u>651.6</u>	<u>771.2</u>
Current liabilities – as reported	481.7	611.3
Net of:		
Short-term credit from banks, current maturities of long-term loans from banks, maturities of bonds, derivative financial instruments and current maturities of liabilities due to leases	<u>(108.5)</u>	<u>(188.5)</u>
Current operating liabilities	<u>373.2</u>	<u>422.8</u>
Operating working capital, net	<u>278.4</u>	<u>348.4</u>
% of net operating working capital Net from sales	15.0%	17.1%

Operating working capital is a financial metric that is not in accordance with the generally accepted accounting practices, which the Company uses to measure the level of working capital used in its current operations. To the best of the Company's knowledge, this is an accepted metric used by other companies in the industry.

Operating working capital as a percentage of sales is calculated as follows: The difference between current assets, including trade receivables, inventory, receivables and income tax receivable and current liabilities, including trade payables, other payables, provisions for the realignment plan and tax payable, divided by annual sales.

42.1 Raw Material Inventory Holding Policy

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

42.2 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 inventory control so that its ability to satisfy customer demands is not impacted.

43. Finance

43.1. Financial Covenants

As of the date of the report, the Company met the financial covenants included in the trust deeds of the bonds and the standards included in the agreements with the banks.

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

For details regarding financial covenants included in deeds of trust for bonds (Series A and F), see Note 11 a (3) to the financial statements in Chapter C of this periodic report.

43.2. 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 19 d to the financial statements in Chapter C of this periodic report.

43.3. The Corporation's Credit Rating

For details regarding the credit rating of Company bonds, see the designated disclosure for bondholders detailed in section 8 of the Board of Directors' Report, in Chapter B of this periodic report.

43.4. The Corporation's Estimate Regarding the Need to Raise Sources of Finance

The Company finances its operations from its cash flow from current operations, bank credit lines, bank loans, and the proceeds from the issuance of bonds. From time to time, based on market conditions and changing needs, the Company explores alternative sources of capital, including the issuance of shares.

43.5. Bank Liabilities

From time to time, the Company has bank liabilities, mainly to finance working capital and investments in fixed assets, to fund acquisitions, and refinance debt. 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 letters of credit and issuing collateral. The Company's short-term loans have redemption dates with a period of less than one year. The redemption date of some of the loans is shorter in order to maintain flexibility in financial management.

Furthermore, the Company has long-term loans from commercial banks. For further details, see Note 19 e to the financial statements in Chapter C of this periodic report.

The Company has renewable credit facilities for a period of up to one year from several banks. The banks maintain liens on the Company's assets, including its share capital and goodwill. Interest for the credit facilities is set from time to time in negotiations between the Company and each of the banks separately. The banks have entered into an inter-creditor agreement asserting their Pari passu status with respect to the loan collateral.

43.6. Liabilities to Bond Holders

For further details regarding liabilities to bondholders and the cash flow swap agreements for bonds, see Note 11 to the financial statements in Chapter C of this periodic report.

44. Taxation

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

45. Judicial Processes

The Group does not have any significant pending judicial processes or processes that concluded during the reporting year.

46. 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 date 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.

46.1. General

The Company's main strategic goal is achieving growth in its business activities. The Company is interested in growing its activities 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, research, and development, streamlining the production process and supply chain and through branding. In addition, the Company is considering making strategic acquisitions that will complement its product lines and improve its relationships with customers.

For details regarding the Company's guidance regarding its results in 2024, see section 2.3.6 of the Board of Directors' report, in part B of this periodic report

46.2. 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 relationships with existing customers and allow penetration into new markets and with new customers. This is what was accomplished, for example, with the acquisition of Bogart in July 2019, which completed the Company's product lines (mainly in the field of brassieres), and with Bare Necessities, an American retail e-commerce Company, which the Company acquired in October 2020. These acquisitions allowed the Company access to new customers.

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

Due to the size of the American market, the Company has marked this market as a strategic target that can have a significant contribution to the Company's growth and profitability. By way of a series of acquisitions made by the Group in the American market in the early 2000s, the acquisition of Bogart in 2019, and the acquisition of Bare Necessities in 2020, the Company's presence has increased significantly in the American market in such a manner that the scope of sales to North America leapt from a total of \$47 million in 1998, which constituted 16% of the Company's sales that year, to about \$961.3 million in 2023, constituting 52% of all 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, 7 for All Mankind in August 2016, and Eminence in July 2018, increasing European sales from \$162 million or 24% of total sales in 2011 to approximately \$519.1 million or 28% of total sales in 2023.

46.3. Examining the possibility of an IPO to the investing public in the United States and listing of the Company shares for trading in the USA

The Company is considering the possibility of an IPO to the investing public in the US and listing the Company's shares for trading, also in the US, subject, inter alia, to the market conditions and the fulfillment of the appropriate conditions for this.

As of the date of this report, there is no certainty as to the implementation of this intention. It is also clarified that the above does not constitute an offer to sell securities or a solicitation for an offer to purchase the Company's securities.

As part of the Company's preparations for the possibility of conducting the above stated IPO, its financial statements were audited in accordance with the rules of the PCAOB. For further details, see section 5, in the Board of Directors' report, in part B of this periodic report.

46.4. Customers

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

46.4.1. Increasing Sales to Existing Customers

The Company wishes to increase the volume of sales of existing products and of new products to existing Company customers. The Company believes that the broad selection of products it offers - while placing emphasis on customer service and reliability - provides the Company with a competitive advantage over its competitors, as wholesale and private label customers 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.

46.4.2. Maintaining Relationships with Company Customers

The Company's presence in the United States and in Europe allows its design team to be constantly aware of the latest marketing and sales trends in Europe and the United States. Despite the fact that a large portion of the Company's products are sold under its customers' private labels, the Company's development and design experts cooperate closely with the Company's customers in designing and developing products. The development and design teams prepare presentations for customers that include, among other things, an analysis of successes and failures from previous seasons and develop - along with customers - the basic idea, the product, and the packaging, all in accordance with the customers' needs. The Company believes that the unique, comprehensive package of services it offers customers is a significant factor in the strength of its customer relationships.

46.4.3. Developing Relations with New Customers

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

46.4.4. 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, allow penetration of new categories, and preserve its competitive advantage.

46.4.5. Streamlining Production Processes and the Supply Chain

The Company constantly acts to streamline its production processes, transferring labor-intensive manufacturing processes to countries offering low-cost labor and by continued automation and upgrading of manufacturing processes.

The Company invests in developing its supply chain and recognizes its importance in guaranteeing high standards of service to its customers.

46.5. Branding

The importance of branding is constantly increasing and plays a major role in 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 private label manufacturer, understands the importance of investing in developing its branded businesses.

In addition, the Company enters into license agreements to market men's and women's intimate apparel, socks, and active wear under leading brand names. Accordingly, the Company intends to continue to act to acquire licenses for marketing under additional brand names, strengthening its position with the consumer.

46.6. Reinforcing and Expanding Branded Retail Activity

The Company aims to strengthen the branded retail activity while placing emphasis on the online channel of its business, whether by expanding existing operations in the segments of Brands, 7 for All Mankind and Delta Israel or by making new strategic acquisitions to strengthen its competitive positioning.

46.7. Strengthening and Expanding the Company's Innovation by Automating the Value Chain and Reinforcing E-Commerce Competencies

The Company aims to be at the forefront of technology in its areas of activity by implementing automation throughout its business value chain and strengthening its e-commerce sites. To this end, the Company worked with a retail innovation consulting firm in 2019 and, with its assistance, identified and communicated with innovative start-ups with the potential to help the Company address major challenges in its areas of operation. In 2020, the Company launched an innovation program under which it would incubate a number of start-ups with relevant technologies, from the proof-of-concept stage to the scale-up stage. In addition, as part of an effort to strengthen e-commerce, the Company acquired Bare Necessities—a leading e-commerce retailer in the United States—in October 2020 and Organic Basics, a sustainability brand, in July 2022.

46.8. Implementation of an ERP System

At the beginning of 2024, the group is expected to start implementing a new system for enterprise resource planning ("ERP").

The system will improve the Company's ability to provide important information to management, purchase and deliver products, send invoices and track payments, fulfill contractual obligations, accurately manage books and records and provide accurate and reliable reports.

Any such transformation involves the inherent risks of converting to a new computer system, therefore in order to reduce a significant disruption in the Company's normal operations, it intends to implement the system in one division first and, depending on the success of the implementation, to gradually complete it in other divisions.

47. Financial Data on Geographic Regions

The Company does not report in its financial statements according to geographical regions.

Details on sales and non-current asset balances are included in Note 5c to the financial statements in Chapter C of this periodic report.

48. Discussion of Risk Factors

Below 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 factors assuming the risk factors will be realized, and this does not constitute an assessment or the giving of weight to the chances of such realization.

48.1. Macro-Economic Risk Factors

48.1.1. 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 own factories located in Far East countries. Increases in the costs of finished products and self-manufacturing costs that may derive from an increase in raw material prices as well as a result of increased salaries, conveyance costs, and other inputs, among other things, as a result of the strengthening of local currencies vs. the USD, may erode the Company's gross profits.

48.1.2. Exchange Rate Fluctuations

As the Company is active in a variety of countries, it is exposed to risks deriving from fluctuations 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-determined price. The Company also acts to change the sales currency to the dollar.

At the same time, these hedging agreements will not protect the Company if the depreciation of these currencies against the USD continues after the end of the future contracts period. For further details, see section 3.6.3 of the Board of Directors' Report, Chapter B of this periodic report.

48.1.3. Free Trade Agreements

The Company currently enjoys free trade agreements between Israel and the United States., Canada, the European Union, and the European Free Trade Association. These trade agreements allow the Company to sell the products manufactured in Israel to the relevant countries, exempt from customs and import quotas. Changes to global free trade agreements may lead to changes in customs and quotas regimes in the countries constituting the Company's chief target and production countries.

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

48.1.4. Economic Situation in Target Markets

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

48.1.5. Security and Political Situation

The political, economic, and security status of the State of Israel and of the countries in which the Company is active has a direct impact on the Company, the management, offices, and some of the manufacturing facilities which are located in Israel. Hostilities and 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 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 workforce 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. Manufacturing in Egypt supplied about 3% of the Company's sales in 2023. A worsening of the political, economic, or social instability in that country may impact the Company's activity. Products manufactured in Turkey constituted about 4% of the Company's sales in 2023.

48.1.6. Health-related emergencies

Health-related emergencies can affect consumers' habits and consumption in the segment as well as the Company's ability to purchase raw materials and products, the prices of raw materials and products, and the Company's ability to produce and sell products in a regular way.

48.2. Industry Risk Factors

48.2.1. Competition

The Company operates in a competitive market that includes a large number of different manufacturers who have economic, geographical and other advantages over the Company. The Company is in direct competition with a number of garment manufacturers who enjoy reduced manufacturing costs due to economies of scale, cheaper workforces, geographic proximity to consumers and suppliers, and who have larger economic and marketing resources at their disposal. Increasing competition on the part of competitors may lead to pressure to reduce prices or loss of market shares and thus have a negative impact on the Company's revenues and profitability. No certainty exists that the Company will successfully navigate competition with existing or new competitors.

48.2.2. 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 have undergone quarterly fluctuations in such a manner that the Company's sales in the last two quarters exceeded the Company's sales in the first two quarters thanks to the holiday and back-to-school purchases and the Internet Holidays period.

In light of this inconsistency, the results of the Company's activity on a quarterly basis might not reflect the Company's future performance. The above inconsistency may make it harder for investors to properly forecast the Company's future performance.

48.2.3. Changes in Fashion Preferences

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

48.2.4. Online Trade

The garment and fashion industry is subject to rapid changes and market trends. In recent years, one such trend has been the increase in the share of products, particularly labeled products, sold via e-commerce websites. The Company believes that its customers sell products purchased wholesale from Delta Galil online as well. At the same time, the Company has no precise data regarding the percentage of such sales from the total sales of any of its customers.

The Company operates several e-commerce websites of its own through which some of its branded products can be purchased in Israel, Europe, the United States and Brazil in Delta Israel, Brands and 7 for All Mankind segments, mainly under the Delta, Fix, Panta Rei, Victoria's Secret, Schiesser, 7 For All Mankind, Splendid, Eminence, Athena, Liabel and PJ Salvage labels.

Furthermore, the Company operates additional e-commerce websites following the acquisition of Bare Necessities in October 2020 and the acquisition of Organic Basics in July 2022.

The percentage of online sales out of total sales of the segment in question, in particular, and out of total Delta sales in general, is relatively low but increasing.

If any of the Company's customers fail to open their own online sales channels and, as a result, their sales levels are negatively impacted, the magnitude of sales of Company products intended for that customer may be indirectly impacted.

48.2.5. Cyber Defense and Privacy Protection

The Group views cyber risks as a critical factor that may affect the continuity of business activity and the protection of the personal information of our customers and employees. We are committed to maintaining high standards of control and responsible information security conduct, and for this purpose, a multi-layered protection framework was built that includes the operation of an outsourced SIEM/SOC (Security Information and Event Management/ Security Operations Center) for monitoring and alerting the Company of information security events across all companies in the Group.

For infrastructures and systems defined as critical, the Company operates a backup system at various sites whose purpose is to enable the restoration of the information systems when necessary.

The Group invests considerable resources and efforts to minimize the possibility of a cyber incident and, within this framework, operates programs to increase employee awareness of information and cyber security. These programs take place in all companies within the Group and in various languages.

In order to gauge the effectiveness of the strategy and work plans, the Group performs an annual measurement of our score in accordance with the American National Institute of Technology (NIST), which created the Cyber Security Framework (CSF) so that we can more effectively address the prevention, detection, and response to cyber-attacks. At the same time, the Group works to implement the standard Information security (ISO 27001), which defines the principles for establishing, managing and maintenance of data security systems at the Company, at headquarters and subsidiaries.

The Delta Galil Group is insured against cyber risks and operates a dedicated cyber security team managed by an information security manager who reports to the VP of Global Information Systems.

The group has a privacy protection committee led by the VP of information systems with the participation of the information security manager, the Group DPO, human resources representatives, and the Company's internal auditor. The committee meets once a month to review procedures and work plans and creates work tasks for the various positions.

The team builds and executes the security plans and is subject to independent annual audits. The team constantly monitors new risks and new regulations and updates our cyber security programs accordingly. The strategy, work plans, and budget for dealing with cyber threats were presented and discussed at the Company's Board of Directors' meeting.

48.2.6. Changes in Raw Material Costs and Freight Prices

The Company has no control over changes in the prices of raw materials it uses or changes in freight prices. Increases in the cost of raw materials or freight may harm the Company's profitability. The majority of raw materials used by the Company for the manufacture of its products are 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 freight prices, are unstable due to variable supply and demand conditions and market factors over which the Company has no control. Recently, and in the wake of the Corona virus pandemic, there has been a significant rise in maritime transport costs caused by the shortage of cargo ships carrying goods from the Far East. The Company might not be able to pass on these increases in costs to its customers. This situation affected and may continue to negatively impact the Company and its profitability.

48.2.7. Regulatory Developments

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

48.3. Risk Factors Unique to the Company

48.3.1. Dependence on Major Customers

A substantial part of the Company's sales is derived from sales to large customers. A reduction in orders from these customers may have a material negative impact on the Company's sales. 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, of the same quantity, or under the same terms and conditions as in the past. Any decrease in purchases on the part of these customers or on the part of any material customer may have a negative impact on the Company's economic results.

48.3.2. Completion of Integration and Operation Proceedings with Subsidiaries

In recent years, the Group has acquired several companies and/or activities, including the Bogart Group, in July 2019, and Bare Necessities in October 2020, the integration processes of which are still ongoing and require administrative resources.

The Group is also investing in the integration and administrative processes of the newly established factory in Vietnam and new factories in Egypt. There is a risk that the Company may not successfully complete these integration and operational processes.

The Company is actively working on integrating these acquisitions with the goal of consolidating facilities, IT systems, and personnel of the acquired subsidiaries into the Company and enhancing the operational efficiency of the factory in Vietnam.

The Company diverts a significant portion of the time input on the part of the Company's senior management and its daily activities, particularly in the United States and Europe, for purposes of this integration, leading to a substantial workload for the management team.

The completion of the integration process could be negatively affected by economic conditions, a failure in integrating economic and operational systems, reactions from competitors or customers, or regulatory developments, if any. The Company's inability to successfully complete the integration could have a negative impact on the Company's operations.

48.3.3. Direct Engagement by Retailers with Far East Manufacturers

In recent years, a number of large retailers have been trying to enter into direct manufacturing engagements with factories instead of entering into engagements with companies designing and developing undergarments, with the objective of having the manufacturers produce products for them.

The Company believes that this practice largely occurs with basic products intended for the general market, where the design and innovation element is less significant. The Company's sales may be impacted in the event that this practice continues to become more prevalent.

48.3.4. Reduction in the Market Share of Company Customers

The Company's sales are liable to be impacted in the event that customers are unsuccessful in competing in the competitive markets in which they are active. If its customers' sales decrease 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.

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

	<u>Level of Impact of Risk Factor on the Company</u>		
	<u>Major impact</u>	<u>Medium impact</u>	<u>Minor impact</u>
<u>Macro-economic risks</u>			
Increased Costs of Purchasing Finished Products from Far East 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	
<u>Industry Risk Factors</u>			
Competition	X		
Seasonal Factors			X
Changes in Fashion Preferences		X	
Online Trade		X	
Cyber Attack Risks		X	
Changes in Raw Material Costs and Freight costs	X		
Regulatory Developments		X	
<u>Risk Factors Unique to the Company</u>			
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.

Chapter B

**Report of the Board of Directors on
the State of the Corporation's Affairs
As of December 31, 2023**

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

For the Period Ending on December 31, 2023

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 fourth quarter and for the year ending December 31, 2023 (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, in all its associated parts, and the Periodic Report must be read as a whole in its entirety.

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, children's 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 Group's sales are divided as follows:

1.1.1 Branded Product Sales

Branded product sales are divided as follows:

- a. Sale of brands owned by the Company such as: Delta, Fix, Panta Rei, Schiesser, 7 For All Mankind, Splendid, Eminence, Athena, Liabel, P.J. Salvage, KN Karen Neuburger, and Organic Basics. The products sold within this framework consist of undergarments, socks, children's 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, Galeria Karstadt Kaufhof, Leclerc, and Carrefour as well as to leading online retailers, such as Amazon, Zalando, and others.
- b. Sale of brands for which the Group holds a license, such as: Adidas, Converse, Wolford, Spalding, Wilson, Tommy Hilfiger, Columbia, Original Penguin, Calvin Klein, as well as Ralph Lauren Polo and Disney and Victoria's Secret brands in Israel.

Products sold within the framework of licenses agreements consist primarily of intimate apparel, socks, children's wear, leisurewear and activewear. In return for the use of the brand name, the Company pays royalties to the licensor.

- c. In 2024, Delta Israel is expected to start selling perfumes, cosmetics and skin care products, home perfumes and others under the Bath & Body Works brand name, see section 1.3.1 A below, as well as to open the Victoria's Secret brand store chain.

In addition, the Company is expected ¹ to sell products under the Passionata brand, the purchase of which was completed during the first quarter of 2024, as well as under the Florence by Mills and Lauren brands, for which it obtained a license.

¹ It will be clarified that the Company's assessment regarding the date of commencement of sales of the Bath & Body Works, Passionata, Florence by Mills and Lauren brands, constitutes forward-looking information within the meaning of the Securities Law, 1968 ("Securities Law") which is based on an assessment of the Company as at the date of publication of the report, based on the data in the Company's possession and the forecasts of the Company's management team as at the date of publication of the report. The Company's assessment regarding the date of commencement of sales of the above stated brands may be fundamentally different from the manner in which it was predicted by the Company, and this, inter alia, in light of factors beyond the control of the Company, including the impact of the war (as defined below) and its global and local consequences and the uncertainty that exists in relation to the duration and scope of the war and its consequences and the decisions of third parties with whom the Company is associated arising from the war and its consequences, as a result of changes in the security and economic situation in Israel and the world and the realization of which of the risk factors detailed in section 48 of Chapter A of the periodical report for 2023 (Description of the Corporation's Business).

1.1.2 Sale of Products for Customer Private Label

Sales of products for the customer's private label are made to leading customers such as Nike, Skims, Wal-Mart, Target, Victoria's Secret, Spanx, Costco, Amazon, Calvin Klein, Tommy Hilfiger, Lululemon, Techstyle, Hanesbrands, American Eagle, and others. Private label products consist mainly of undergarments, socks, and active wear.

1.2 **Marketing, Development and Manufacturing Operations**

The Company markets its products in the geographical areas in which it operates through wholesale marketing, through retail stores owned by the Company and online, mainly in the United States, Europe and Israel. The Company designs and develops its products primarily in Israel, Germany, Switzerland, France, the United States, China, and Hong Kong. The Company manufactures the products it sells both via subcontracting and in its own factories in the Middle East, Europe, and the Far East.

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

1.3.1 The Economic Environment and the Effects of External Entities on the Company.

Following are macroeconomic factors that have influenced and may continue to influence the Group's operations:

As stated above, the Company's main target markets are the United States, Europe, and Israel.

Following the slowdown in growth rates that began in the second half of 2022, during the fourth quarter and throughout 2023, the slowdown in economic activity in the target markets continued, in light of a number of main reasons including: The war in Ukraine, an increase in inflation and interest rates, logistical problems that arose after the Corona virus pandemic crisis and caused lengthening and delays in delivery times, and as a result, an accumulation of inventory at some of the group's customers, which led to the deferment of orders. For the above stated reasons, the slowdown is reflected in the decrease in purchasing power on the part of wholesale customers, which translated into a decrease in the group's sales and profitability compared to the corresponding reporting periods of 2022, See section 2.3.1 below.

a. The Effects of the "Swords of Iron" War

On October 7, 2023, the Swords of Iron war ("the war") broke out following a surprise attack on Israel by Hamas in the Gaza Strip. Later, fighting also erupted on the northern border with Lebanon. As of the date of the report, the war has significant impact on the entire economy, including, but not limited to, temporary closure of businesses and disruption in the education system, mainly in communities in areas close to the fighting and also the extensive conscription of reserve military forces.

Since the beginning of the war, two international credit rating agencies (Fitch and Moody's) put Israel on watch and S&P downgraded Israel's outlook from "stable" to "negative", noting that this reflected the significant elevation of geopolitical and security risks that Israel faces due to the war.

During the fourth quarter of 2023, the average exchange rate of the Shekel vs the US dollar decreased by about 9%, compared to the same figure in the corresponding quarter last year. However, towards the end of the quarter, the exchange rate returned to the level recorded in the first half of 2023. A continued deflation of the Shekel against the dollar may impact the results of Delta Israel, because it purchases the products it sells in dollars, and due to the translation of its financial results from NIS to the functional currency of the Group. See also section C below.

On February 9, 2024, Moody's downgraded Israel's credit rating from A1 to A2 with a negative outlook. In addition, on February 13, 2024, Moody's downgraded the credit rating of the five largest Israeli banks to A3, with a negative outlook. This decision may impact the Israeli economy in several ways, including: higher borrowing costs for the government, or even difficulties to do so; lower investor confidence in the Israeli economy, and as a result, difficulty in attracting foreign entities to invest in public and private entities; reputational damage due to this perceived weakness; potential credit downgrading of Israeli banks, a drop in their capital adequacy ratios and even a tighter landing policy by those banks.

Based on Company's estimation, in light of the fact that, at this stage, there is still no certainty as to whether and how the decision to downgrade the rating will affect the Israeli economy and considering the relatively small part of the operations carried out in Israel of the group's total operations and also, in light of the fact that most of the group's financing carries fixed interest rates, the effect of the above stated downgrade will not be material for the group in the short term.

Those and other factors, including the uncertainty regarding the present and future impact of the war on both the local and global economic environment, may have a negative impact on the Company's activities and its results.

Regarding the activity of Delta Israel, with the exception of the first two weeks in October 2023, its stores have operated (and are still operating) almost full time, except for stores in border areas where fighting takes place, in accordance with the instructions of the IDF Home Front Command. With the exception of October 2023, as noted above, and throughout most of the fourth quarter of the year, 207 stores out of Delta Israel's 210 stores operated, with some opened part of the time and closed earlier than normally.

Note that Delta Israel is active in underwear, home wear and children's wear, and demand in those categories is affected by the war only to a limited extent.

In addition, Delta Israel's e-commerce websites have operated continuously while its wholesale operations have been working in full capacity and supported sales to consumers, commercial customers and government entities, which placed more orders due to the war.

In accordance with the above, Delta Israel posted record sales and profitability in the fourth quarter of 2023, achieving a 12.3% increase in same store sales, compared to the corresponding quarter last year.

In addition, note that Delta Israel did not receive substantial concessions from property lessors, with the exception of an immaterial postponement of the rent payment dates.

Additionally, as of the date of this report, Delta Israel's workforce has not significantly changed during the war and sent a minimal number of 10 employees on unpaid leave.

Given the continued war and its potential impact on the supply of products from the owner of the Victoria's Secret brand, the subsidiary, Delta Israel, announced that opening the first two stores of the Victoria's Secret brand, which were scheduled for November 2023, was put on hold for up to 3 months. To allow opening of the first stores of that brand in the best way, it was decided that the first 4 stores of the brand (out of 5 planned to open during 2024) will be launched in April 2024 and the owner of the brand agreed to help the Company with the costs of the postponement.

The e-commerce website of Victoria's Secret in Israel, which has been operating since December 2022, continues to operate regularly.

Also, the launch of the Bath & Body Works brand activity in Israel (chain of stores and an e-commerce website) which was scheduled for November 2023 was also postponed by about 3 months to allow for an optimal launch of this brand in Israel.

The brand owner and Delta Israel have been working together to provide optimal customer experience and to that end, they decided to defer the opening dates of the first five stores and the e-commerce website until the second quarter of 2024. The owner of the brand committed to help Delta Israel with the costs related to this rescheduling, including the costs of retaining employees assigned with managing brand operations until the above stated opening.

Delta Israel agreed to put on hold the launch of the e-commerce website and the first 5 stores to the second quarter, according to its updated plan to open 8 stores in 2024.

Based on estimation of the Company and Delta Israel, these delays in the opening of the stores of the two above stated brands, are not expected to have a material effect on the group's operations and results.

Following attacks by the Houthis on shipping routes in the Red Sea, shipments from East Asia to Israel were prolonged by 10-14 days. This delay did not materially affect the results of the Company, as it normally adds this number of days to lead times as a safety cushion when ordering stocks. Delta Israel estimates that this extension, as stated, does not materially affect its results and this is because this length of time is included in the planning of the times that it normally takes as secured when ordering stocks. In addition, due to the threat posed by the Houthis, sea shipping costs have gradually increased for Delta Israel during the second half of the fourth quarter of 2023 and during the first quarter of 2024, with rates increasing three-fold compared to their levels before the war.

In addition, it should be noted that the disruptions in the Suez Canal's shipping lanes due to the Houthi threat also affect some of the shipments intended for the customers of the subsidiary, Delta USA. With the exception of the above, there are no additional effects due to the war on the supply chain and on the group's costs.

Other than the above, the war did not have any additional impact on the supply chain and costs for Delta Israel

At this stage, the Company and Delta Israel are unable to assess any future impact on their activity that may be caused by the continuation of the war or the Houthi threat, as long as it lasts, including any change in the financial situation of customers in Israel. ²

The Company's Donations During the Course of the War

On December 19, 2023, the Company's Board of Directors approved, after obtaining the relevant approval from the Audit Committee, under Regulation 1(4) of the Companies Regulations (Reliefs for Transactions with an Interested Party), 2000 an engagement of the Company together with its controlling shareholder and his family with respect to their transaction with a party, whose terms and conditions in relation to the Company are not substantially different from its terms and conditions in relation to the controlling shareholder, taking note of their relative share in the transaction as follows:

1. The Company will provide a donation of NIS 5 million for long-term support to orphans who lost both parents on October 7, 2023, with emphasis on supporting them during their adult years. This donation was matched by Mr. Isaac Dabah, the controlling shareholder of the Company, CEO and director, and his family members (the "Controlling Shareholder and His Family"), and they will give the same amount of NIS 5 million (such that the combined donation of the Company and the Controlling Shareholder is NIS 10 million) (the "Donations").
2. The donations will be made in equal amounts by the Company and the Controlling Shareholder and His Family Members over an 8-year period, starting in 2024, through engagement of the Company and the Controlling Shareholder and His Family, in an agreement with the Donor Sharing Fund (Keshet) D.I.F. Ltd. (PBC) ("Keshet"), which is a unique fund for managing donations.
3. Keshet will hold donation funds and invest them to protect their value in accordance with the guidelines of a management committee that will be set up for this purpose by the Company, the Controlling Shareholder and His Family. The management committee will be composed of an equal number of representatives of the Company, the Controlling Shareholder and His Family and other representatives as will be chosen by the members of the management committee. Decisions by the management committee will be approved by a majority of votes, but provided that at least one member on behalf of the

² This section, which includes predictions regarding the impact of the war, is considered forward-looking information as defined in the Securities Law. This information is uncertain information that refers to a future event and is based, inter alia, on publications by various professional parties, as at the date of the report; The actual results may differ substantially from those predicted in the aforementioned forward-looking information, as a result of a large number of factors independent of the Company, such as the continuation of the war, changes in the macroeconomic environment, changes in global trends, and also, from the occurrence of any of the risk factors listed in section 48 of the periodic report for 2023

Company and one member on behalf of the Controlling Shareholder and His Family, agreed to every decision, based on the procedure formulated for this purpose between the Company and the Controlling Shareholder and His Family. For further details, see regulation 22 in Part D of this periodic report (Additional Details About the Corporation) and also, section 4 below.

On February 25, 2024, the Company's Board of Directors approved the engagement agreement with "Keshet".

In addition, Delta Israel donated NIS 1.7 million worth of products (in terms of product cost) to people displaced from specific communities, as well as directly to IDF soldiers and people hospitalized in the various hospitals. Delta Israel also donated to a number of charitable associations that distribute products, mainly to people from communities in the south that have been displaced from their homes. In addition, Delta Israel awarded NIS 1.2 million in discounts, compared to the list price, granted specifically to soldiers and residents of the Gaza Strip Envelope.

Government Grants As a Result of the War

Delta Israel applied for government assistance under Property Tax and Compensation Fund Regulations (Payment of Reparations) (War Damage and Indirect Damage) (Iron Swords) (Temporary Provision), 2023 primarily due to the hit to profitability it experienced, as stores in Israel remained closed or operated partially, leading to a reduction in their sales compared to the previous year, mainly in October and November 2023. The Group received a NIS 1.6 million (about US \$0.4 million) grant and recognized it in its 2023 reports, within other income. With this grant, Delta Israel did not experience a material impact on its results.

b. The Effects of the Increase in the Rate of Inflation and Interest Rates³

During 2023, inflation slowed down and was within the range of 2.9% to 3.4% in all target markets. Inflation for 2024 is forecasted to be between 1.9% to 2.5% in the Group's target markets.

The Group is directly affected by inflation, mainly due to CPI-linked rent in some properties it leases (mainly in Israel). The effect of this inflation linkage was not material to the Group's results in 2023.

In addition, inflationary pressures in the countries where the Group is manufacturing and/or buying raw materials or products cause an increase in wages, energy costs and other manufacturing costs.

In annualized terms, the real production costs of the Company were reduced, due to currency deflation, whereas salary and other costs increased, mainly in its activity in Egypt.

The Group works with its customers to adjust selling prices wherever market conditions allow this, in step with the pace of increase in costs and the situation in target markets, in order to avoid material impact of those changes on its results.

However, the Company believes that persistent inflation that is not accompanied by price adjustments to costumers may adversely affect results of the Company.

In parallel to the increase in the inflation rate, the trend of an increase in the interest rate also continued in the fourth quarter of 2023, although at a low rate compared to the increase in

³ This section, which includes, in part, forecasts regarding the increase in the rate of inflation and / or interest, constitutes forward - looking information as defined in the Securities Law. This information is uncertain information that refers to a future event and is based, inter alia, on publications by various professional parties, as at the date of the report; The actual results may differ substantially from those predicted in the above stated forward - looking information, as a result of a large number of factors and are therefore subject to risks and uncertainties.

the first half of the year. According to the forecast ⁴, the interest rate in the US is expected to decrease from an average rate of approximately 7.1% in 2023 to an expected rate of approximately 6.1% in 2024 and in Israel, the dollar interest rate is expected to decrease from a rate of about 6.8% in 2023 to an expected rate of approximately 5.7% in 2024. Also, in Europe, a decrease in the average interest rate is expected from 4.5% in 2023 to about 3.6% in 2024.

The Group finances its activities using its cash balances, positive cash flows from operating activities, short- and long-term bank borrowings and bonds. As stated in note 19E of the financial statements, most outstanding debt of the Group bears fixed interest rates, and therefore, the higher interest rates had no material impact on its financing costs in 2023.

c. Fluctuations in the Foreign Currency Exchange Rate

In addition to inflation, foreign exchange rates against the US dollar (which is the Group's function currency) fluctuated significantly in 2022 in countries where the Group operates. This volatility was reflected in a significant deflation of most currencies used by the Group (the Turkish lira, the Egyptian Pound and the Shekel) compared to the dollar. In the fourth quarter of 2023 the trend of exchange rate volatility continued, for example, the Egyptian pound was devalued in the fourth quarter of 2023 against the dollar by about 35% compared to the average rate in a corresponding quarter in 2022.

This deflation decreased production costs in US dollars terms, but was largely offset by an increase in payroll and production expenses in the countries where the Group has manufacturing, mainly in Southeast Asia, Egypt and Turkey.

As stated above, the group works with its customers to adjust the selling prices whenever the group believes market conditions allow this, so that, in the group's estimation, the above stated changes did not have a material effect on its results.

d. The Effects of the Changes in Freight Costs

A significant part of the products the Group sells are manufactured in plants under its ownership and/or purchased from third-party suppliers located in East Asia. In cases where responsibility for the goods is not assumed at the port of origin (FOB Shipping Point), the Group bears the cost of shipping products from these countries to the US, Europe and Israel.

Following the gradual and prolonged uptrend in 2021-2022, shipping costs throughout the world began to incrementally decrease in the fourth quarter of 2022, and late in 2022 reached levels similar to those prevailing before the price surge.

This downtrend in shipping costs continued through 2023 and contributed to the improvement in the gross profit rate compared to 2022.

For information about the effects of the Houthi threat on shipping routes and shipping costs, see section A above.

e. The Effects of the Judicial Reform

As of January 2023, the Israeli Government began to promote legislation for implementing fundamental changes in the Israeli judicial system, known in the media as the "Judicial Reform".

In July 2023, an amendment to Basic Law: the Judiciary (Amendment No. 3) came into force, which is the first step in the reform, limiting the ability of the Supreme Court to exercise judicial review over decisions of the Prime Minister and other Ministers.

After the reporting period, on January 1, 2024, the Supreme Court struck down the amendment of the Basic Law and determined that the court could apply judicial review of the government decisions and provide remedies based on reasonableness.

⁴ A forecast published by the Economics Trading website. For details on the inflation forecast, see: Inflation Rate Forecast 2023 / 2024 (tradeingeconomics.com)

The proposed changes sparked widespread controversy and criticism, which according to the media coverage, led to strong reactions from both sides. According to some experts, this debate and the actions taken in response may influence the Israeli economy and its stability, and may also impact the economic environment in which the Company operates, the cost of borrowing, the value of the local currency, the size of investments made in Israel and more.

Currently, it is unclear whether this legislation will be renewed, in what format and which legislative amendments will be accepted. Therefore, as of the date of issuing this report, the Company is unable to estimate the extent and scope of the consequences resulting from continuing to promote the changes in the legislation on the economy in Israel or on the results of the Company.

As of the date of this report, the Company has not identified any material impact on its operations due to the above legislation.

1.3.2 Distribution of a Dividend

Announcement Date	Distribution Amount		The Determining Date / "X" Day,	Distribution Date
	(In cents per share)	In millions of dollars)		
February 14, 2023	31.2	About 8.0	February 22, 2023	March 14, 2023
May 16, 2023	15.6	About 4.0	May 24, 2023	June 6, 2023
August 8, 2023	27.2	About 7.0	August 17, 2024	August 30, 2023
November 15, 2023	29.2	About 7.5	November 23, 2023	December 5, 2023

For further details, see immediate reports regarding dividend distribution from February 15, 2023 (reference number: 2023-01-017460), May 16, 2023 (reference number: 2023-01-052674), August 8, 2023 (reference number: 2023-01-091350) and November 15, 2023 (reference number: 2023-01-124662).

Declaration of dividend distribution after the balance sheet date

Announcement Date	Distribution Amount		The Determining Date / "X" Day,	Distribution Date
	(In cents per share)	In millions of dollars)		
February 25, 2024	35.0	About 9.0	March 5, 2024	March 18, 2024

The dividend distribution will be made according to the representative rate of the dollar as published the day prior to the distribution date. For further details, see the immediate report regarding dividend distribution dated February 25, 2024 (reference number: 2024-01-019452).

1.3.3 2023 Realignment Plan⁵

- a. During the first quarter of 2023, the group decided, as part of its strategy to focus on attractive countries for it and its customers, while improving the structure of the costs and the bolstering of the competitive advantage, on the realignment plan. The program includes closing the distribution center of the Bare Necessities operation in the USA and the transfer of the logistics activity to outsourcing, closing a factory for the production of socks in

⁵ This section, which includes in part forecasts regarding expected cost savings due to planned operational moves, constitutes forward-looking information, as defined by law Securities. Forward-looking information is uncertain information about the future based on information that exists in the Company on the date of this report, and includes forecasts and estimates of the Company is at the date of the report, considering the Company's experience and various assessments and it depends on many external factors that are beyond the Company's control. The actual results are liable to be substantially different from those predicted in the above stated forward-looking information, as a result of a large number of independent factors in the Company such as changes in the macroeconomic environment as well as from the occurrence of any of the risk factors detailed in Section 48 of the Periodic Report for 2023.

Bulgaria (which was carried out in parallel to the construction of a new factory in Egypt) transferring Cut & Sew products production activity from the group's factory in Cairo to that at Al Miniya in Egypt and the consolidation of overheads in the field of 7 For All Mankind operations.

The non-core cost of the program in the amount of approximately \$5.4 million, was included as an expense in the report for 2023 and included approximately \$3.9 million in cash for severance and other costs due to termination of the employment of about 600 employees, and about \$1.5 million that are not in cash and are attributed to the reduction in value of fixed assets, in the group's factories.

The execution of the program is planned to be completed during the course of 2024.

The group estimates that the implementation of the plan will result in cost savings of approximately \$7.0 million on an annual basis, so that the realignment expected return is less than one year.

As of the end of 2023, the Company closed the Bare Necessities distribution center and the socks factory in Bulgaria and completed the consolidation of the overheads in the field of 7 For All Mankind operations and in total carried out about \$4.7 million out of the total program.

- b. During the second quarter of 2023 and as reported by the Company in the first quarter report for 2023, the Company decided, as part of its strategy that strives for constant improvement in flexibility and operational efficiency, to reduce Bogart's production operation in China. The non-core cost of the program is about \$6.0 million. This cost was included as an expense in the 2023 report and includes \$5.3 million in cash, for compensation and other costs for terminating the employment of about 550 employees of the subsidiary and about \$0.7 million that are not in cash and are attributed to a reduction in the value of fixed assets, at a factory in China.

The implementation of the plan should be completed by the end of the second quarter of 2024.

The group estimates that the implementation of the plan will result in cost savings of approximately \$4.5 million on an annual basis, so that the realignment expected return is approximately one year.

As of the end of 2023, the Company has implemented approximately \$3.1 million of the total plan.

1.3.4 Credit Rating Reports

- a. On January 31, 2024, Midroog Ltd. confirmed the rating of the Company's bonds (series A and F) as Aa3 with a stable outlook. For further details, see an immediate report dated January 31, 2024 (reference number: 2024-01-011982).
- b. On April 4, 2023, Ma'alot S&P Ltd. confirmed the rating of the Company's bonds (series A and F) – as AA with a stable outlook. For further details, see a report dated April 4, 2023 (reference number: 2024-01- 038415).

1.3.5 Allocation of Options and Restricted Stock Units

- a. On May 16, 2023, the Company's Board of Directors, after obtaining the approval of the Compensation Committee, approved a non-material and non- exceptional, private offer, based on the outline for the offer, of securities to officers and employees, of 22,248 options and 9,250 restricted stock units for employees and officers at the company. For further details, see an immediate report dated May 17, 2023 (reference number: 2023-01-052845).
- b. On August 8, 2023, the Company's Board of Directors approved a non-material and non- exceptional private offer, based on the outline for the offer of securities to subsidiaries officers and employees, of 34,588 options and 12,021 restricted stock units for employees at the Company's subsidiaries. For further details, see an immediate report dated August 8, 2023 (reference number: 2023-01-091353).

- c. On September 19, 2023, the Compensation Committee of the Company approved a non-material and non-exceptional private offer, based on the outline for the offer of securities to an employee of a subsidiary Company of 15,403 options and 6,423 restricted stock units. The private offer took effect on October 2, 2023, upon the commencement of the employee's employment. For further details, see an immediate report dated October 2, 2023 (reference number: 2023-01-111879).
- d. On November 15, 2023, the Compensation Committee of the Company approved a non-material and non-exceptional private offer, for the offering of securities of 77,363 options and 8,420 restricted stock units to a number of employees in the Company and its subsidiaries. For further details, see an immediate report dated November 15, 2023 (reference number: 2023-01-124722).
- e. On December 19, 2023, the Company's Board of Directors approved an outline for the allocation, to employees, of up to 500,000 options, registered in their name, which are not registered for trading, which are vested over time and which can be exercised for up to 500,000 ordinary shares of NIS 1 par value each of the Company (subject to adjustments), according to the Company's option allocation plan or according to the Company's Incentive Plan. As part of the outline, the trustee was allocated 500,000 options as a pool that will be used for future allocations, in accordance with the Company's guidelines (this is in addition to the 386,240 options and 736,372 restricted stock units that remain with the trustee as part of the previous allocations and are held by him for the benefit of future allocations). Also, on the outline date, 224,000 exercisable options for up to 224,000 ordinary shares of the Company were allocated to 8 officers and 7 additional employees (who are not service providers and do not serve as directors and/or as the CEO of the Company). For further details about the outline and the allocation to offices and employees within it, see the Company's immediate report of December 20, 2023 (reference number: 2023-01-138330) and as amended on January 8, 2024 (reference number: 2024-01-004293).
- f. On February 25, 2024, the Company's Board of Directors approved a non-material and non-exceptional private offer, to offer securities of 8,910 options and 1,938 restricted stock units, for two employees of the Company and a subsidiary. For further details, see an immediate report from February 25, 2024.

1.3.6 Signing a license agreement for the Bath & Body Work brand

According to the report of the subsidiary, Delta Israel, in March 2023, the subsidiary signed with the PCAB S.À R.L., U.S. Branch Company, a private Company incorporated in Luxembourg ("The licensor") on an exclusive license agreement for a period of 7 years with an option to extend it for a further 7 years, under which it was granted a license to establish and operate stores and an online commerce website in Israel for the sale of perfumes, cosmetics and personal care products, home fragrance, candles and other products of the Bath & Body Works brand ("BBW products" and "BBW", respectively).

BBW products are complementary products to the products currently offered by Delta Israel to its customers, and they fit into its strategy to expand the range of products and brands offered by it.

For the purpose of entering into the license agreement and in accordance with the request of the licensor, the Company and the controlling shareholder and CEO of the Company, Mr. Isaac Dabah, who also serves as Chairman of the Board of Directors of the subsidiary, gave the subsidiary, free of charge, an undertaking according to which they will refrain, for the duration of the license agreement and for one year after the termination thereof, from carrying out any action which will result in the subsidiary breaching its obligations to the licensor for exclusivity, non-damage to reputation and non-soliciting of employees, as stated by it within the framework of the license agreement.

For further details regarding the opening date of the stores and the website, see section 1.3.1 above.

1.3.7 The Company's shelf prospectus

On May 23, 2023, the Company published a shelf prospectus dated May 24, 2023 ("the Shelf Prospectus") for the issuance of various securities, which will be issued from time to time, according to the Company's needs.

For further details regarding the shelf prospectus, see the Company's immediate report dated May 23, 2023 (reference number: 2023-01-055179).

1.3.8 Termination of negotiations for the purchase of Golf A. K. Ltd. ("Golf")

Further to the Company's immediate report of June 13, 2023 (reference number: 2023-01-064866), the negotiations of the subsidiary, Delta Israel, for the purchase of all of Golf's shares, ended without the agreement of the parties on the terms of the deal.

1.3.9 Amendment of the management agreement between the Company and Delta Israel

On May 22, 2023, the Company's Board of Directors approved the amendment of the management agreement between the Company and Delta Israel, after obtaining the approval and recommendation of the Audit Committee. According to the existing management agreement, which was signed between the parties on February 21, 2021, the Company undertook to provide Delta Israel with management services in various fields, in exchange for the payment of management fees of an amount equal to 1.05% of Delta Israel's total annual sales up to and including NIS 850 million, plus an amount equal to 0.5% for total annual sales over NIS 850 million ("The Current Management Agreement").

The amendment to the current management agreement is that to the current tiers relating to sales of up to NIS 850 million (1.05%) and from this amount onwards (0.5%) – a third tier will be added that will apply to Delta Israel's annual sales exceeding NIS 1,020 million, for which Delta Israel will pay the Company an additional 0.25% - up to a total annual ceiling of NIS 11 million in total.

It should be noted that the above stated amendment was approved on June 27, 2023 by the general assembly of Delta Israel by a special majority, and this after obtaining the approval of the Audit Committee and the Board of Directors of Delta Israel, and it is retroactively valid as of January 1, 2023.

1.3.10 Postponement of the deadline for convening the general assembly

On December 19, 2023, the Company's Board of Directors decided, in accordance with the provisions of Section 9 of the Law on Extension of Periods and Postponement of Deadlines (Temporary Order – Swords of Iron) (Administrative Procedures, Tenure Periods and Corporations), 2023 ("Law on Extension of Periods and Postponement of Deadlines") and taking into account the current situation that has arisen due to the "Swords of Iron" war, to postpone the annual general assembly of the Company's shareholders. The meeting will be held no later than four months after the original date required for the meeting, that is, no later than April 30, 2024. In light of this, the term of tenure of the current directors (with the exception of the external directors) and the auditors will also be postponed until the date of the convening of the annual general assembly in question.

1.3.11 Extending the validity of approval of the tenure and employment conditions of Mr. Isaac Dabah

On December 19, 2023, the Company's Board of Directors decided, in accordance with the provisions of Section 11(a) of the Law on Extension of Periods and Postponement of Deadlines, to extend the validity of the approval given to the terms of tenure and employment of Mr. Isaac Dabah, the controlling shareholder of the Company, in his position as CEO of the Company as well as in his position as a director of the Company. The extension will be for an additional period of four months, so that the conditions of his tenure and employment (including the insurance and indemnity arrangement) will remain in effect and will continue to apply between the parties, together with all the terms thereof, until April 30, 2024.

1.3.12 Examining the possibility of an IPO to the investors public in the US and registering the Company's shares in the US

The Company is considering the possibility of an IPO to the investors public in the US and listing the Company's shares for trading, also in the US, subject, inter alia, to the market conditions and the fulfillment of the appropriate conditions for this.

As at the date of this report, there is no certainty as to the implementation of this intent. It is also clarified that the above stated does not constitute an offer to sell securities or a solicitation for an offer to purchase the Company's securities.

As part of the Company's gearing up for the possibility of effecting the above stated IPO, its financial statements were audited in accordance with the PCAOB standards. For further details, see section 5 below.

Board of Directors' Explanation of the Corporate State of Affairs

2. Analysis of Financial Position

2.1 Statement of Financial Position

Following are explanations regarding developments occurring in balance sheet items, in \$ millions (some of the data in the table have been rounded off):

Item	December 31 2023	December 31 2022	Explanation of the Key Changes
Cash and Cash Equivalents, Restricted Cash and Short Term Deposits	177.4	194.9	The decrease in the cash balance as at December 31, 2023, compared to December 31, 2022, drives mainly from the net redemption of bonds and short and long term bank loans totaling approximately \$109 million, net investments in fixed assets and other assets totaling approximately \$59 million and the payment of a dividend totaling \$29 million which were partially offset by cash flow from operating activity, excluding IFRS 16 in 2023, totaling approximately \$182 million.
Current Assets	831.0	966.5	The decrease in current assets as at December 31, 2023, compared to December 31, 2022 drives mainly from a decrease in inventory balances due to stringent management and the clearance sales of old inventory.
Non-Current Assets	957.5	884.2	The increase in non-current assets as at December 31, 2023, compared to December 31, 2022, driven mainly from an increase in the fixed assets balance due to investments in the Company's factories and in rights of use assets due to signing of new lease agreements.
Total Balance Sheet	1,788.6	1,850.7	The decrease in total balance sheet as at December 31, 2023 compared to December 31, 2022 drives mainly from a decrease in the balance of current assets, which were partially offset by an increase in non-current assets, as explained above.
Current Liabilities	481.7	611.3	The decrease in current liabilities as at December 31, 2023, compared to December 31, 2022, drives mainly from a decrease in trade payables and others and also due to the settlement of short term bank loans and current maturities of long term bank loans, as explained above.
Non-Current Liabilities	538.5	529.0	The increase in non-current liabilities as at December 31, 2023, compared to December 31, 2022, drives mainly from the increase in lease liabilities, which were partially offset by bonds redemption.
Equity	768.4	710.3	The increase in equity balance as at December 31, 2023, compared to December 31, 2022, drives mainly from the total comprehensive income in 2023 of approximately \$ 85 million, offset by dividends of approximately \$ 29 million.
Total liabilities and equity	1,788.6	1,850.7	The decrease in total liabilities and equity as at December 31, 2023, compared to December 31, 2022, drives from the decrease in the current liabilities items, which was partially offset by an increase in capital and in non-current liabilities as detailed above.

2.2 Operating Results

Following is a summary of the Group's profit and loss statements for 2023 and in a quarterly spread for 2023 as well as for 2022 and for the fourth quarter of 2022, in which certain sections are arranged differently than in the financial statements in order to allow for analysis and comparison with corresponding reporting periods. An adjustment of the profit before non-core items is presented in section 2.2.2 below.

The data is presented in \$ thousands (excluding per-share data):

	Year		Quarterly Breakdown				
	2023	2022	Q4.2023	Q3.2023	Q2.2023	Q1.2023	Q4.2022
	Audited			Unaudited			
Sales	1,857,682	2,031,541	508,603	463,039	443,583	442,457	544,415
Cost of sales	1,097,084	1,246,354	289,468	273,578	264,492	269,546	328,096
Gross profit	760,598	785,187	219,135	189,461	179,091	172,911	216,319
% of sales	40.9%	38.6%	43.1%	40.9%	40.4%	39.1%	39.7%
Selling and marketing expenses	522,214	515,035	141,364	127,314	123,897	129,639	137,119
% of sales	28.1%	25.4%	27.8%	27.5%	27.9%	29.3%	25.2%
General and Administrative Expenses	93,334	86,695	25,048	20,397	24,559	23,330	20,557
% of sales	5.0%	4.3%	4.9%	4.4%	5.5%	5.3%	3.8%
Other (income) expenses, net and share of profit of investees accounted for using the equity method	(7,970)	(6,782)	(3,433)	(4,373)	(265)	101	1,716
Operating Profit Before Non-core Items	153,020	190,239	56,156	46,123	30,900	19,841	56,927
% of sales	8.2%	9.4%	11.0%	10.0%	7.0%	4.5%	10.5%
Non-core items, net See Section 2.3.3.2	8,087	5,188	-	-	2,666	5,421	(279)
Operating Profit	144,933	185,051	56,156	46,123	28,234	14,420	57,206
Financing expenses, net	37,932	37,271	8,635	8,788	9,927	10,582	9,769
Profit before taxes on income	107,001	147,780	47,521	37,335	18,307	3,838	47,437
Income Tax Expenses	21,660	32,402	9,741	7,839	3,257	823	9,771
Net profit	85,341	115,378	37,780	29,496	15,050	3,015	37,666
Net profit before non-core items, see section 2.2.2	91,600	120,566	37,780	29,496	16,552	7,772	37,387
Attribution of net profit for the year:							
To the Company shareholders	79,210	109,476	34,366	28,722	14,005	2,117	35,531
To non-controlling interests	6,131	5,902	3,414	774	1,045	898	2,135
	85,341	115,378	37,780	29,496	15,050	3,015	37,666
Net profit attributed to the shareholders before non-core items	85,407	114,664	34,366	28,722	15,445	6,874	35,252
Diluted earnings per share attributable to Company shareholders – in USD	3.02	4.14	1.31	1.09	0.53	0.08	1.35
Diluted earnings per share before non-core items net of tax, attributable to Company shareholders – in USD	3.25	4.33	1.31	1.09	0.59	0.26	1.34

** Some of the data in the table are rounded.

2.2.1 Following is a table for key data in \$ millions*:

	Fourth Quarter		Year	
	2023	2022	2023	2022
Sales	508.6	544.4	1,857.7	2,031.5
Operating Profit before non-core items	56.2	56.9	153.0	190.2
Operating Profit	56.2	57.2	144.9	185.1
EBITDA	78.8	81.6	246.8	284.2
Net profit before non-core items	37.8	37.4	91.6	120.6
Net profit before non-core items attributed to Company shareholders	34.4	35.3	85.4	114.7
Net profit attributed to the Company shareholders	34.4	35.5	79.2	109.5
Cash flow from operating activity	93.7	97.5	230.8	31.5
Cash flow from operating activity excluding IFRS 16 effect	82.3	85.1	181.9	(19.3)

Calculating EBITDA ⁽¹⁾ in \$ millions*:

	Fourth Quarter		Year	
	2023	2022	2023	2022
Net profit - as reported	37.8	37.7	85.3	115.4
Income Tax Expenses	9.7	9.8	21.7	32.4
Financing expense, net	8.6	9.8	37.9	37.3
Non-core items:				
Change in Fair Value of liabilities with respect to contingent consideration attributed to Bogart's acquisition	-	(9.6)	(4.0)	(9.6)
Impairment of non-financial assets	-	9.3	-	9.3
Realignment expenses	-	-	11.4	5.5
Expenses attributed to acquisition transactions	-	-	0.7	-
Depreciation and amortization	<u>22.6</u>	<u>24.7</u>	<u>93.8</u>	<u>94.0</u>
EBITDA	78.8	81.6	246.8	284.2
EBIDTA excluding IFRS 16 effect	62.9	65.6	182.6	224.2

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

- (1) EBITDA is a benchmark, which is not in accordance with GAAP, used by the Company to measure its results from continued operations, in a manner that allows a more accurate comparison of the operating results over the long term, while excluding non-core items that change between periods.

To the best of the Company's knowledge, the EBITDA is a benchmark commonly used by other companies in the Company's operating sectors.

EBITDA is calculated as follows: Profit plus income tax expenses, financing expenses, net, depreciation and amortization, excluding non-core items. The EBITDA excluding IFRS 16 impact, excludes in addition to all that stated, also lease payments.

2.2.2 Following is the adjustment between Net Profit reported for the period and Net Profit before non-core items, in \$ millions *:

	Fourth Quarter		Year	
	2023	2022	2023	2022
Net profit - as reported	37.8	37.7	85.3	115.4
Excluding:				
Change in Fair Value of liabilities with respect to contingent consideration attributed to Bogart's acquisition	-	(9.6)	(4.0)	(9.6)
Impairment of non-financial assets	-	9.3	-	9.3
Realignment expenses	-	-	11.4	5.5
Expenses attributed to acquisition transactions	-	-	0.7	-
Minus tax impact due to non-core items	-	-	(1.8)	-
Net profit before non-core items	37.8	37.4	91.6	120.6

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

2.3 Analysis of Operating Results (as Shown in Table 2.2.1 Above)

2.3.1 Sales

Sales of the Group in the fourth quarter of 2023 and in 2023 decreased by approximately 7% and 9%, respectively, compared to corresponding reporting periods previous year.

In constant currency terms, the Company's sales in the fourth quarter and in 2023 decreased by approximately 6% and approximately 8% respectively, compared to corresponding reporting periods in the previous year.

Sales through the websites of the brands owned by the Company (excluding Bare Necessities sales) in the fourth quarter and in 2023 increased by 16% and 17% respectively, compared to corresponding reporting periods in the previous year.

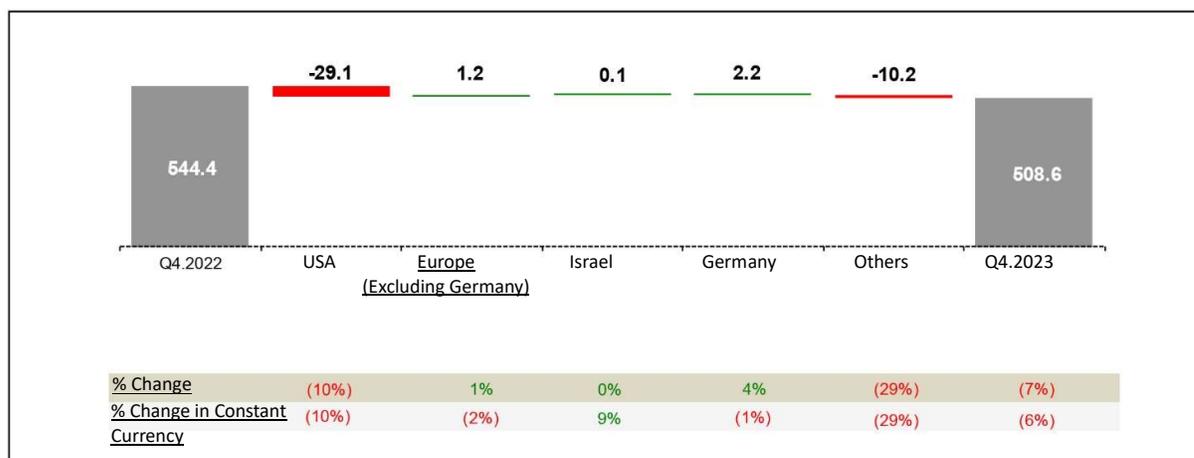
2.3.2 Following is the Distribution of Company Sales by Geographical areas, in millions of dollars*:

	Fourth Quarter						Year					
	% of change in constant currency	% of change	2023	% of total	2022	% of total	% of change in constant currency	% of change	2023	% of total	2022	% of total
USA	(10)	(10)	258.4	51	287.5	53	(10)	(10)	961.3	52	1,066.9	53
Europe (excluding Germany)	(2)	1	82.9	16	81.7	15	(8)	(7)	327.8	18	351.2	17
Israel	9	0	84.1	17	84.0	15	2	(7)	258.9	14	277.3	14
Germany	(1)	4	58.3	11	56.1	10	(8)	(6)	191.3	10	202.5	10
Others	(29)	(29)	24.9	5	35.1	6	(11)	(11)	118.4	6	133.6	7
Total	(6)	(7)	508.6	100%	544.4	100%	(8)	(9)	1,857.7	100%	2,031.5	100%

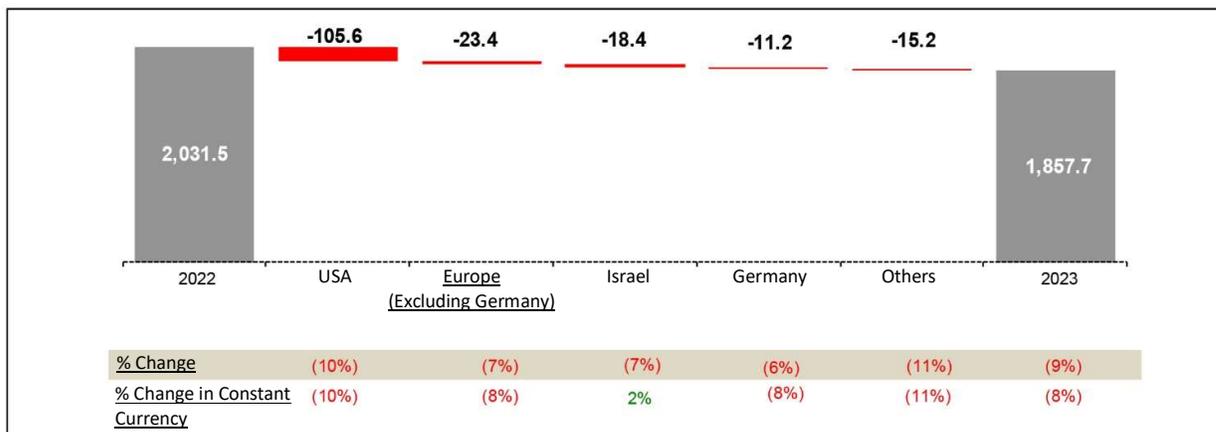
* Some of the data in the table are rounded.

The following figures show the change in the Company's sales in the various geographical area for the fourth quarter of 2023 and for 2023 compared to the corresponding periods in the previous year, in \$ millions.

Fourth Quarter



Year



USA

The decrease in sales in the USA in the fourth quarter and in 2023, compared to the corresponding reporting periods previous year, was due to a decrease in sales to wholesale customers in all operating segments, which were partially offset by an increase in sales to end customers (DTC).

Europe (Excluding Germany)

The sales in Europe (excluding Germany) remained almost without change in the fourth quarter of 2023 compared to the corresponding quarter of previous year.

The decrease in sales in Europe in 2023 compared to 2022 was mainly due to a decrease in sales in the private label segment, which was partially offset by an increase in sales in the brand segment.

Israel

Sales in Shekels in the fourth quarter of 2023 and in 2023 increased by 9% and by 2%, respectively, compared to the corresponding reporting periods in the previous year.

The increase in sales as stated was mainly due to an increase in same stores sales in all chains, from an organic increase in sales on Delta Israel's online commerce websites and an increase in sales on the Victoria's Secret website.

Germany

The increase in sales in Germany in the fourth quarter of 2023 was due to the strengthening of the euro exchange rate against the US dollar by approximately 6%, compared to the average exchange rate in the corresponding quarter in the previous year.

The decrease in sales in Germany 2023, compared to 2022, was due to decreased sales in the Brand segment and mainly from sales to wholesale customers of Schiesser.

Others

The decrease in sales in other geographic areas in the fourth quarter and in 2023 compared to the corresponding periods in the previous year, was due to a decrease in sales in the Private Label and Brand segments.

2.3.3 Analysis of Operating Results :

	Fourth Quarter		Explanation of Key Changes
	2023	2022	
	% change	Unaudited	
Sales	(7%)	508,603	544,415
			The decrease in sales in the fourth quarter of the year compared to the corresponding quarter was due to a decrease in most operation segments in light of the global slowdown and the accumulation of inventory by some of the Company's customers, as well as the deflation at the exchange rate of the Shekel against the dollar by approximately 9%, which was partly offset by an increase in sales of brands owned by the Company to end customers (DTC) and due to a strengthening of approximately 6% in the exchange rate of the euro compared to the dollar. For further details, see sections 1.3.1, 2.3.1 and 2.3.2 above.
Gross profit	1%	219,135	216,319
			The increase in gross profit in the fourth quarter of 2023 compared to the corresponding quarter of previous year, resulted mainly from an improvement of margin which was achieved despite a the decrease in sales.
% of sales		43.1%	39.7%
			The increase in gross margin in the fourth quarter of the year compared to the corresponding quarter of previous year, drives mainly from an improvement in the customer mix and a decrease in freight costs, an increase in sales portion to end customers (DTC) and due to change in the operating segment mix as well as due to an increase in the profitability of the factories, which were partially offset by an increase in discounts and promotions in the majority of the operating segments.
Selling and marketing expenses	3%	141,364	137,119
			The increase in selling and marketing expenses in the fourth quarter of the year drives mainly from new license agreements and from new operations, in which sales are expected to grow upon the launch thereof or progress in the operation, See 2.3.3.1 below.
% of sales		27.8%	25.2%
			The increase in the rate of selling and marketing expenses from sales in the fourth quarter of the year compared to the corresponding quarter of previous year, drives mainly from a decrease in sales and due to an increase in expenses with respect to new license agreements and from new operations, as stated above.
General and Administrative Expenses	22%	25,048	20,557
			The increase in general and administrative expenses in the fourth quarter of the year compared to the corresponding period previous year, drives mainly from an increase in expenses of doubtful debts and professional fees, mainly due to PCAOB audit services as part of the Company preparation for a possible IPO in the USA.
% of sales		4.9%	3.8%
			The increase in the rate of general and administrative expenses from sales in the fourth quarter of 2023 drives mainly from a decrease in sales and an increase in expenses, as stated.
Other (income) expenses, net and share of profit of investees accounted for using the equity method		(3,433)	1,716
			Other net income in the fourth quarter of 2023 mainly consisted of capital gains and income for an insurance claim due to the theft of goods that were intended for sale in the USA, in an amount of \$1.2 million. In previous year other expenses, included mainly losses from hedging transactions.
Operating profit before non-core items	(1%)	56,156	56,927
			The decrease in operating profit before non-core items in the fourth quarter of 2023 compared to the corresponding period previous year, drives mainly from an increase in selling, marketing, general and administrative expenses, which was partially offset by other income, as stated above..
% of sales		11.0%	10.5%
Non-core items, net		-	(279)
			See Details in Section 2.3.3.2
Operating profit		56,156	57,206
Financing expenses, net	(12%)	8,635	9,769
			See Details in Section 2.3.3.3
Profit before taxes	0%	47,521	47,437
Income Tax Expenses		9,741	9,771
			The effective tax rate in the fourth quarter of the year remained at a similar level as the fourth quarter of the previous year.
Net profit	0%	<u>37,780</u>	<u>37,666</u>
Net profit before non-core items	1%	<u>37,780</u>	<u>37,387</u>
			The net profit before non-core items, net of tax, remained at a similar level as the fourth quarter of the previous year.

	Year		Explanation of Key Changes
	2023	2022	
	% change	Audited	
Sales	(9%)	1,857,682	2,031,541
			The decrease in sales in 2023 compared to 2022 drives from a decrease in sales in all operating segments and markets of the Company, in light of the global slowdown and the accumulation of inventory among some of the Company's customers as well as the deflation at the exchange rate of the Shekel against the dollar, which was offset in part due to an increase in sales of brands owned by the Company to end customers (DTC), as well as from the strengthening of the exchange rate of the euro against the dollar. For further details, see sections 1.3.1, 2.3.1 and 2.3.2 above.
Gross profit	(3%)	760,598	785,187
% of sales		40.9%	38.6%
			The decrease in gross profit in 2023 compared to 2022 drives from the decrease in sales. The increase in gross margin in 2023 compared to 2022, drives mainly from an improvement in the customer mix, decrease in freight costs, an increase in the portion of sales to end customers (DTC) and a change in the operating segments mix which were partially offset by an increase in discounts and promotions in the majority of operating segments and by a decrease in the profitability of the factories, due to a decrease in the manufacturing level.
Selling and marketing expenses	1%	522,214	515,035
% of sales		28.1%	25.4%
			The increase in selling and marketing expenses in 2023 compared to 2022 drives mainly from new license agreements and new operations in which sales are expected to grow upon the launch thereof or progress in the operation, as well as due to the strengthening of the Euro exchange rate against the average rate of the dollar the previous year, which was partially offset due to the deflation at the exchange rate of the Shekel against the dollar. The increase in the rate of selling and marketing expenses from sales in 2023, compared to 2022, drives mainly from decrease in sales and an increase in expenses due to new license agreements in which the sales of which are expected to grow upon the launch thereof or progress in the operation.
General and Administrative Expenses	8%	93,334	86,695
% of sales		5.0%	4.3%
			The increase in general and administrative expenses in 2023 was driven mainly from an increase in doubtful debts and professional consulting fees expenses, as well as due to the inclusion of the expenses of Organic Basics, which was consolidated as of July 2022 over the course of a full year. Furthermore, the general and administrative expenses increased due to the strengthening of the Euro against the dollar, which was partially offset due to the deflation of the exchange rate of the Shekel against the dollar. The increase in the rate of general and administrative expenses from sales in 2023, compared to 2022, resulted from a decrease in sales and an increase in expenses, as stated above.
Other income, net and share of profit of investees accounted for using the equity method		(7,970)	(6,782)
			Other income in 2023 mainly included income from insurance claim due to the theft of goods that were intended for sale in the US in an amount of \$5.0 million, as well as capital gains and gains from hedging transactions. In 2022, other income included mainly capital gains from the sale of real estate in the US and Europe and profits from hedging transactions, offset by other expenses.
Operating profit before non-core items	(20%)	153,020	190,239
% of sales		8.2%	9.4%
			The decrease in operating profit before non-core items in 2023 compared to 2022 was driven mainly from decrease in gross profit due to decrease in sales, and increase in selling, marketing, general and administrative expenses, which were partially offset by an increase in other income, as stated above.
Non-core items, net		8,087	5,188
			See details in section 2.3.3.2
Operating profit	(22%)	144,933	185,051
Financing expense, net		37,932	37,271
			See details in section 2.3.3.3
Profit before taxes	(28%)	107,001	147,780
Income Tax Expenses		21,660	32,402
			The decrease in income tax expenses in 2023 compared to 2022, drives mainly from a decrease in the profit before taxes.
Net profit	(26%)	85,341	115,378
Net profit before non-core items	(24%)	91,600	120,566
			The decrease in the net profit before non-core items in 2023 compared to 2022, was driven mainly from a decrease in operating profit which was partially offset by a decrease in income tax expenses.

2.3.3.1 Analysis of selling and Marketing Expenses by segment

Following is a table showing the breakdown of selling and marketing expenses in the various segments for the fourth quarter of 2023 and for 2023, compared to the corresponding reporting periods of previous year, in \$ millions (some of the data in the table were rounded off):

	Fourth Quarter		Year	
	2023	2022	2023	2022
Brands	54.8	47.9	190.8	176.3
% of total Brand sales	29.4%	24.5%	31.3%	27.7%
Private Label	16.0	14.6	61.5	63.5
% of total Private Label sales	9.5%	7.3%	8.5%	7.6%
Delta Israel	29.5	31.5	107.1	112.8
% of total Delta Israel sales	35.2%	37.8%	41.7%	41.3%
7 for All Mankind	27.2	30.3	107.9	107.3
% of Total 7 for All Mankind Sales	47.0%	47.9%	51.6%	49.3%
Others	13.9	12.7	54.9	55.0
% of total Others Sales	76.4%	62.8%	66.1%	53.5%
Total selling and marketing expenses	141.4	137.1	522.2	515.0
% of selling and marketing expenses out of total sales	27.8%	25.2%	28.1%	25.4%

The increase in selling and marketing expenses in the brands segment in this year's reporting periods compared to the corresponding reporting periods of previous year, drives mainly from an increase in expenses due to operations under new license agreements, mainly adidas, Wolford and Polo Ralph Lauren, as well as expenses due to license agreements and a new owned brand for which sales are expected to commence during 2024 including: Florence by Mills, Lauren and Passionata.

Also, selling and marketing expenses in the segment increased due to the strengthening of the exchange rate of the euro against the dollar.

The increase in the rate of selling and marketing expenses from sales in the brands segment in the reporting periods of 2023 is due to the decrease in sales and an increase in expenses for the above stated new license agreements, in which sales are expected to increase with the launch or progress of the operation.

The increase in the rate of selling and marketing expenses from sales in the private label and others segments in the reporting periods of 2023 compared to the corresponding reporting period of previous year, is due to the decrease in sales.

The decrease in the rate of selling and marketing expenses in Delta Israel segment in the fourth quarter of 2023, drives from the Company's proactive reduction in advertising and marketing expenses due to the "Swords of Iron" war, as well as to an increase in sales in same stores and on the online commerce websites of all of the brands segment, which are based on a fixed operational set-up. In US dollar terms, selling and marketing expenses of Delta Israel decreased in 2023, due to a deflation of approximately 10% in the average exchange rate of the Shekel against the dollar, compared to the corresponding average rate of previous year.

In Shekels, selling and marketing expenses in Delta Israel segment increased in 2023 mainly due to an increase in sales as well as the expansion of the store chain, the effect of the change in the consumer price index and due to the addition of an online commerce website for the Victoria's Secret brand.

The increase in selling and marketing expenses in the 7 for all Mankind segment in 2023 compared to 2022, was due to the decrease in sales.

2.3.3.2 Non-core Items

Following are details of non-core items in the fourth quarter of 2023 and in 2023, compared to the corresponding period of previous year:

Nature of Expense	Segment	Fourth Quarter		Year	
		2023	2022	2023	2022
		\$ Millions		\$ Millions	
Realignment expenses	Private Label	-	-	9.4	5.5
Realignment expenses	7 for all Mankind	-	-	0.9	-
Realignment expenses	Others	-	-	1.1	-
Changes in fair value of liabilities with respect to contingent consideration	Private Label	-	(9.6)	(4.0)	(9.6)
Impairment of non-financial assets	Brands	-	4.1	-	4.1
Impairment of non-financial assets	7 for All Mankind	-	2.8	-	2.8
Impairment of non-financial assets	Others	-	1.2	-	1.2
Impairment of other asset	Other adjustments	-	1.2	-	1.2
Expenses due to a transaction that did not been executed	Delta Israel	-	-	0.4	-
Expenditure due to acquisition transactions	Other adjustments	-	-	0.3	-
Total non-core items		-	<u>(0.3)</u>	<u>8.1</u>	<u>5.2</u>

2.3.3.3 Financing Expenses, Net

The following table shows the composition of financing expenses in the fourth quarter of 2023 and in 2023 compared to the corresponding reporting period of previous year, in \$ millions*:

	Fourth Quarter		Year	
	2023	2022	2023	2022
Interest and commission expenses, net	4.4	6.6	21.1	23.8
Exchange rate expenses	0.3	2.4	3.3	2.9
Capitalization component for liabilities and IFRS 16	<u>3.9</u>	<u>0.8</u>	<u>13.5</u>	<u>10.5</u>
Total financing expense, net	<u>8.6</u>	<u>9.8</u>	<u>37.9</u>	<u>37.3</u>

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

The decrease in financing expenses, in the fourth quarter of 2023, driven mainly from a decrease in interest expenses due to a decrease in the credit utilization level and from a decrease in exchange rate expenses, mainly due to a sharp deflation of the Egyptian pound against the dollar that caused high expenses in the corresponding quarter of previous year, which were partially offset by an increase in financing expenses for the liability capitalization component and IFRS 16.

In 2023, financing expenses remained almost unchanged compared to 2022 – the decrease in interest expenses, as stated, was offset by an increase in expenses for the liability capitalization component and IFRS 16.

2.3.4 Following is a summary of the Company's consolidated business results, split into the four reportable accounting segments in the financial statements, for the fourth quarter of 2023 and for 2023 and 2022, in \$ thousands:

Fourth Quarter ending on December 31							
Unaudited							
	Sales				Operating profit (loss)		Non-Core Items
	2023	2022	% change	% change in constant currency	2023	2022	2022
Brands	186,061	195,571	(5%)	(7%)	14,403	15,969	4,133
% of sales					8%	8%	
Private Label	168,902	199,610	(15%)	(15%)	24,897	25,216	(9,621)
% of sales					15%	13%	
Delta Israel	83,789	83,302	1%	9%	21,455	14,582	
% of sales					26%	18%	
7 for All Mankind	57,898	63,202	(8%)	(11%)	2,284	5,337	2,759
% of sales					4%	8%	
Others	18,157	20,236	(10%)	(10%)	(5,941)	(4,021)	1,230
% of sales					(33%)	(20%)	
Intersegment Sales cancellation	(6,204)	<u>(17,506)</u>					
Other adjustments					(942)	<u>(156)</u>	<u>1,220</u>
Total sales and operating profit before non-core items	<u>508,603</u>	<u>544,415</u>	<u>(7%)</u>	<u>(6%)</u>	<u>56,156</u>	<u>56,927</u>	<u>(279)</u>
Non-core items, net					=	<u>(279)</u>	
Total Operating profit					<u>56,156</u>	<u>57,206</u>	

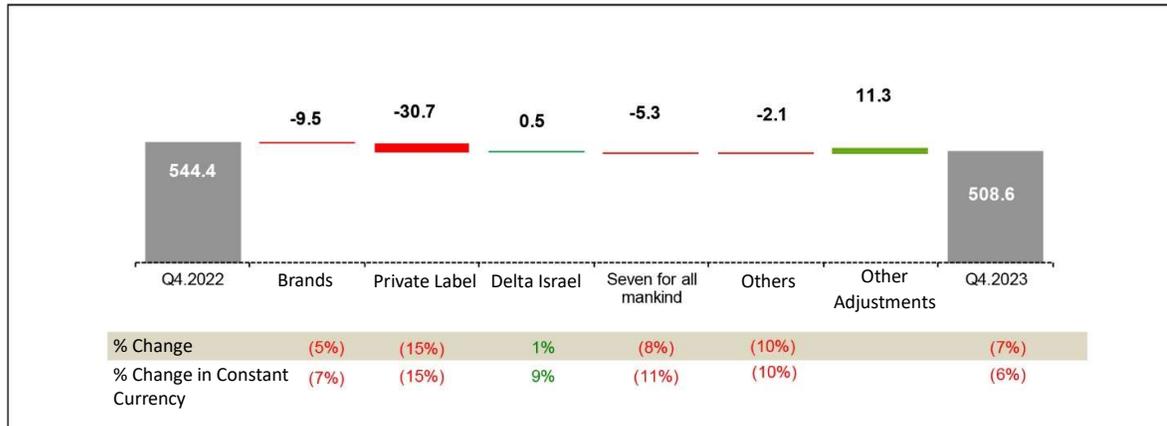
* Some of the data in the table above were rounded off.

Year Ended on December 31								
Audited								
	<u>Sales</u>				<u>Operating profit (loss) before non-core items</u>		<u>Non-Core Items</u>	
	<u>2023</u>	<u>2022</u>	<u>% of change</u>	<u>% of change in terms of constant currency</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Brands	609,794	637,247	(4%)	(5%)	35,562	53,896		4,133
% of sales					6%	8%		
Private Label	720,366	840,874	(14%)	(14%)	87,496	91,677	5,426	(4,154)
% of sales					12%	11%		
Delta Israel	256,803	273,411	(6%)	3%	42,252	43,803	406	
% of sales					16%	16%		
7 for All Mankind	209,056	217,428	(4%)	(5%)	8,787	15,628	892	2,759
% of sales					4%	7%		
Others	83,131	102,903	(19%)	(19%)	(19,132)	(8,651)	1,103	1,230
% of sales					(23%)	(8%)		
Intersegment Sales cancellation	(21,468)	(40,322)						
Other adjustments					(1,945)	(6,114)	260	1,220
Total sales and operating profit before non-core items	<u>1,857,682</u>	<u>2,031,541</u>	<u>(9%)</u>	<u>(8%)</u>	<u>153,020</u>	<u>190,239</u>	<u>8,087</u>	<u>5,188</u>
Non-core items, net					<u>8,087</u>	<u>5,188</u>		
Total Operating Profit					<u>144,933</u>	<u>185,051</u>		

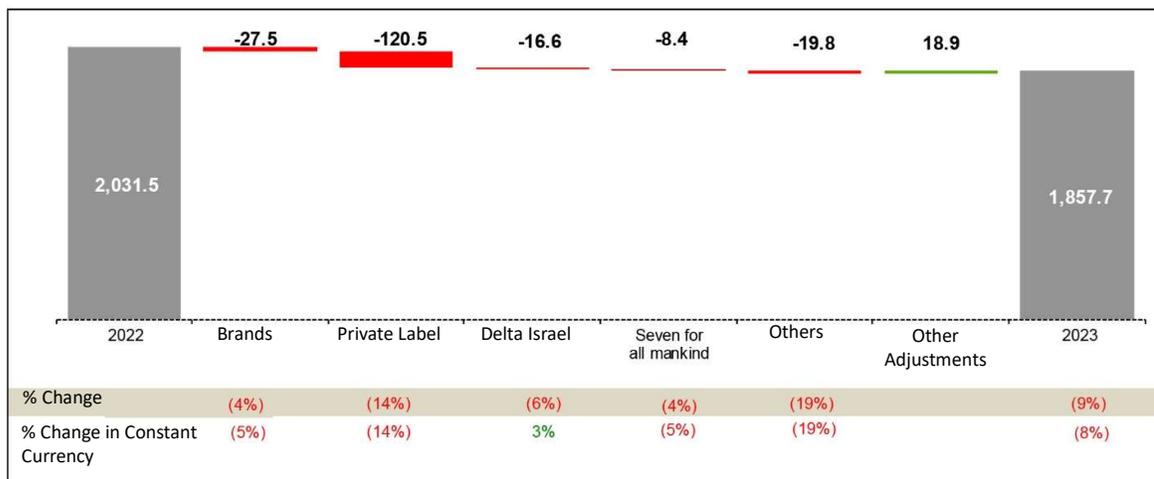
2.3.5 **Analysis of Business Results by Segments**

2.3.5.1 Following are the change in sales in the fourth quarter of 2023 and for 2023, compared to the corresponding reporting periods of previous year, by the various segments in \$ millions:

Fourth Quarter:



Year:



2.3.5.2 Following is an analysis of business results by segments:

Brands segment

The decline in the segment sales during the fourth quarter of the year compared to the corresponding period of previous year, was driven mainly from a decrease in sales to wholesale customers under license agreements in the USA and sales to other geographical areas, due to relatively weak demand, largely due to inventories accumulation by customers. This decrease in sales was partially offset by an increase in sales to end customers (DTC) and sales in Europe, also due to a 6% strengthening in the Euro exchange rate compared to the dollar, compared to the corresponding quarter of previous year.

The decrease in the segment sales in 2023 compared to the previous year was driven mainly from a decrease in sales under license agreements in the USA and a decrease in Schiesser's sales to wholesale customers in Europe, which were partially offset by an increase in sales to retail customers in stores and on the websites as well as sales under new license agreements, mainly adidas, Wolford and Polo Ralph Lauren.

The decline in operating profit in the reporting periods of this year, compared to the corresponding reporting periods of previous year, was driven mainly from a decrease in sales, an increase in discounts and promotions and from an increase in selling and marketing expenses due to new license agreements, some of which will be launched in 2024, which were partially offset by an increase in freight costs.

Private Label segment

The decrease in the segment sales in 2023 reporting periods, compared the reporting periods of previous year, was driven mainly from a decrease in sales of intimate apparel and socks to customers in the USA and in Europe and was driven mainly from the accumulation of inventory by some customers which led to a decrease in orders. This decrease was partially offset by an increase in sales to Skims and to Luluemon.

The decrease in the segment sales in the fourth quarter of the year was also offset by an increase in sales to Nike and Victoria's Secret.

The improvement in the rate of operational profit from sales in the reporting periods of the year compared to the corresponding reporting periods last year, was achieved despite a decrease in sales and driven mainly from an improvement in the customer mix, a decrease in freight costs and from the implementation of the realignment plan at Bogart, Bulgaria and Egypt included in this segment. For further details within the context of these realignment plans, see section 1.3.3 above.

The improvement in the operating profit in the fourth quarter of 2023 compared to the corresponding quarter of previous year, was also driven from an improvement in the profitability and utilization of the factories.

Delta Israel segment

Sales, in shekels, in the fourth quarter of 2023 and in 2023 increased by 9% and 3%, respectively, compared to the corresponding periods last year.

The increase in sales in the fourth quarter of this year compared to the corresponding quarter last year was driven mainly from an increase in same store sales in all the chains as well as to increase in the online channel.

The increase in sales in 2023 compared to 2022 was due to an increase in sales in same stores, from organic growth in sales of the online commerce websites and the increase in sales of the Victoria's Secret website, which were partially offset by a decrease in sales to wholesale customers.

Sales in 2023 in dollars terms decreased by 6% compared to 2022 due to deflation of approximately 10% in the average exchange rate of the Shekel against the dollar.

The increase in operating profit in the fourth quarter of 2023 compared to the corresponding quarter last year drives from an increase in sales, and an improvement in the gross margin due to product mix which was affected by the timing of the winter weather compared to previous year, as well as a decrease in freight costs. In addition, improvement in profit was also due reduction in selling and marketing expenses mainly due to the Company's proactive decrease in advertising and marketing expenses due to the war.

In Shekels, the operating profit increased by approximately 7% in 2023 compared to 2022 mainly due to an increase in sales and an improvement in gross profit.

The decrease in operating profit in dollar terms in 2023 compared to 2022, was mainly due to a decrease in sales in dollar terms, as stated above.

Following are same store sales data in the segment:

Rate of Growth in Same Stores Sales	Year Ending December 31		
	NIS 000s		
	2023	2022	
Sales ⁽²⁾ (1)	2.3%	661,515	646,678
No. of Stores ⁽²⁾		186	

- 1) 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.
- 2) The stores that were used to calculate the sales operated continuously and regularly during the stated years and no change occurred in their area or in the nature of their operations. The stores that were closed as a result of the Swords of Iron war mainly in October 2023, were not included in the calculation.

Following is a summary of data and results of the segment for 2023 and 2022, as reported by Delta Israel. The results of the operations – sales, costs and profitability are given in thousands of dollars, according to the average exchange rates in the reporting periods:

	For the Year ended on		
	December 31, 2023	December 31, 2022	
General Data			
Number of branches operated externally	35	36	
Number of branches operated directly	175	169	
Gross commercial floor space	35,028	34,121	
Net commercial floor space	31,275	30,465	
Human capital *	Branches	620	497
	Other	307	269
Results of Operations (in Thousands of Dollars)			
Sales	Direct Operation	183,486	187,604
	Stores operated externally	42,262	48,685
	Others	31,055	37,122
Cost of Sales	Fixed costs	234	263
	Variable costs	102,905	114,571
Rental and management fee– stores	Fixed	19,820	20,430
	Variable	1,743	1,459
Capital investment in renovating and expanding stores	2,504	2,336	
Capital investment in establishing new branches	3,098	684	
Capital investment in establishing the new logistics center	10,243	204	
Total payroll expenses (included in the selling and marketing and general and administrative expenses)	40,836	40,709	
Advertising expenses	2,891	5,770	
Depreciation expenses **	4,274	5,031	
Operating profit	42,252	43,803	
Operating Working Capital	24,089	27,042	
Data regarding Customer Loyalty Club			
Number of club members (in millions)	1.28	1.20	
Identified purchase rate ***	75.5%	74.7%	

* The human capital figures are based on full-time jobs and do not include employees employed through human resources companies.

** Includes depreciation expenses from fixed assets as well as expenses from software amortization.

*** Identified purchase rate includes the total sales from the Delta Israel Customer Loyalty Club out of the total sales of the chain of stores and Delta Israel website only.

7 for All Mankind segment

The decrease in sales of the segment in the fourth quarter of 2023 compared to the corresponding quarter of previous year was driven from a decrease in sales in the US and Europe, mainly to wholesale customers.

The decrease in sales in 2023 compared to 2022 driven from a decrease in sales in the USA, which was partially offset by an increase in sales in Europe due to the strengthening of the Euro exchange rate compared to the dollar and due to an increase in sales in Brazil and Mexico.

The decrease in sales in the United States during 2023 reporting periods driven also from the loss of sales due to the theft of goods from the Company's warehouse, estimated at approximately \$5.5 million, on an annual basis.

The decrease in operating profit in the fourth quarter and in the entire year of 2023 compared to corresponding last year was driven from a decrease in sales and was partially offset by income from an insurance claim due to the theft of goods from the warehouse in the USA in the amount of \$0.6 and \$4.4 million, respectively.

Following are same-store sales data in the segment:

	Rate of Growth in Same Stores Sales	Year Ending on December 31	
		\$ 000s	
		2023	2022
Sales ^{(2) (1)}	3.2%	85,927	83,299
No. of Stores ²⁾		74	

- 1) 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.
- 2) The stores that were used to calculate the sales operated continuously and regularly during the stated years and no change occurred in their area or in the nature of their operations.

Others

Others includes the online operations of Bare Necessities and Organic Basics.

The decrease in sales in the reporting periods of 2023 compared to last year was driven mainly from a decrease in Bare Necessities sales which was partially offset by an increase in Organic Basics sales. The decrease in Bare Necessities sales was driven mainly from a decrease in traffic and due to the transfer of the distribution center to outsourcing, which resulted in a loss of sales during the transition period.

Sales of Organic Basics, which was acquired in July 2022, increased in the fourth quarter of 2023 and in 2023 by approximately \$0.5 million and \$3.7 million, respectively, compared to corresponding periods last year.

The increase in the operating loss in the fourth quarter and in 2023 compared to corresponding periods last year, was driven mainly from the decrease in sales.

Realignment plan - Bare Necessities

On February 25, 2024, the Company's Board of Directors approved a comprehensive realignment plan for Bare Necessities with the aim of improving financial results, while implementing a new business model and reducing operating expenses.

As part of the program, the current trading platform operating mainly in the US market, will be used for marketing and sale of the Company's brands, those it owns and some of those to which it has received a license, as well as for the sale and launch of private brands owned by the Company such as Bare, Camio Mio, Reveal and others.

The current operation, which is mainly focused on the trade of leading brands that are not part of the Company's brands, will be significantly reduced while proactively reducing it to a few selected brands, while moving from the operation of purchasing products to a new business model of direct delivery of the products by the brands to the final customer (drop shipment) or of holding inventory on consignment, when the Company does not bear ownership

nor risks related to the inventory. The change in the business model and the reduction in the number of brands that Bare Necessities will market, as stated, will be accompanied by a significant reduction in overheads while an expected transition to profitability during 2025.

The non-core cost of the plan of an amount of approximately \$3.8 million will be included in the Company's report for the first quarter of 2024 and will include, inter alia, compensation and other cash costs of an amount of approximately \$1.5 million due to the termination of the employment of approximately 30 employees.

Implementation of the plan will begin in the first quarter of this year and it should be completed during the first half of 2025.

2.3.6 **Company's Guidance with Respect to 2024 Business Results** ⁶

The forecast for 2024 is, after neutralizing the effect of non-core items, based on the exchange rates of \$1.05 to €1 and NIS 3.74 to \$1 and taking into account the current tax rates, before the implementation of the Pillar 2 rules, in millions of dollars:

	2024 Guidance	2023
Sales	1,951.0 - 2,031.0	1,857.7
Operating Profit	163.0 - 183.0	153.0
EBITDA	256.3 - 276.3	246.8
Net Profit	99.1 - 114.7	91.6
Diluted earnings per Share (in \$ per Share)	3.52 - 4.11	3.25

The Company expects significant growth in sales and profitability in 2024 compared to 2023, as the main growth is expected in the second half of the year. These expectations depend, inter alia, on the following changes: A return to normalized inventory levels at our main customers which drives demand and improvement in profitability rates, continued growth while expanding into other categories with Skims, launching the new Organic Basics collection, increasing the level of production in the new factories in Vietnam and in Egypt, the implementation of the realignment plans an improved backlog of innovative products and launches of new brands and license agreements.

⁶ This section, which concerns forecasts regarding the results of its business in 2024, constitutes forward-looking information, as defined in the Securities Law. Forward-looking information is uncertain information regarding the future, which is based on information available in the Company on the date of this report, and includes the Company's estimates or its intentions as at the date of the report, taking into account past experience, various assessments regarding the state of the markets in which the Company operates and it depends on many external factors that are not under the control of the Company, such as: Changes in the macroeconomic environment of the Company, changes in global trends, changes in the interest rate and inflation environment, changes in exchange rates, changes in freight costs, changes in the state of the markets in the Company's operations or the consumption habits of consumers in these markets, the economic and security situation in the target markets, including the effects of the Iron Swords War, changes in tax rates, in the countries where the Company operates and, also, from the occurrence of any of the risk factors detailed in section 48 of the periodic report for 2023, etc. Therefore, there is no certainty that the following will indeed materialize and the actual results may differ materially from the results estimated or implied by this information.

3. Liquidity and Financing Sources

3.1 Summary of consolidated cash flow statements, in \$ millions *:

	Fourth Quarter		Year Ending on December 31	
	Not Audited		Audited	
	2023	2022	2023	2022
Net cash provided by operating activities	93.7	97.5	230.8	31.5
Net cash used in investing activities excluding investments in short term deposits	(19.7)	(13.0)	(50.2)	(47.2)
Withdrawal from (deposit to) short term deposits, net	6.4	2.0	60.4	(64.3)
Cash used to acquire the operations of Passionata / Organic Basics	(1.7)	-	(1.7)	(4.5)
Net Cash used for financing activities	(58.1)	(62.1)	(194.5)	(6.8)
Increase (decrease) in cash and cash equivalents	20.6	24.4	44.8	(91.3)

	Fourth Quarter		Year Ending on December 31	
	Not Audited		Audited	
	2023	2022	2023	2022
Net cash provided by operating activities – as reported	93.7	97.5	230.8	31.5
Excluding:				
Principal elements of lease payments, included in cash flow from financing activities.	(11.4)	(12.4)	(48.9)	(50.8)
Cash flow from operating activities – excluding the effects of IFRS 16 impact ⁽¹⁾	82.3	85.1	181.9	(19.3)

* Some of the data in the table above was rounded off.

- (1) Cash flow from operating activities without the impact of IFRS 16 is a metric that is not part of generally accepted accounting practices. The Company uses this metric to measure its current operating cash flows excluding lease payments, which are included in the cash flow statement as part of financing activities.

The Company finances its operations from cash and cash equivalent balances, cash flows from operating activities, bank credit facilities, and the issuance of bonds.

The increase in cash flow from operating activities excluding IFRS 16 in 2023, compared to 2022, drives mainly from a reduction in working capital, mainly the inventory section, due to stringent management, a slowdown in new inventory purchasing and the sale of inventory from previous seasons, compared to an increase in inventory the previous year.

The increase in cash flow used for financing activities in 2023, compared to 2022, was driven from repayment of short-term loans, bank loans and bonds in 2023 in light of positive cash flow from operating activities, as stated above, compared to receiving long term loans and short-term loans the previous year.

3.2 Following are some financial indicators for the fourth quarter of 2023 and for 2023 and 2022:

	Fourth Quarter	
	2023	2022
Current Ratio	1.73	1.58
Quick Ratio	0.97	0.78
Days Sales Outstanding (on a quarterly basis)	43	39
Days of Suppliers Credit (on a quarterly basis)	52	57
Inventory Days (on a quarterly basis) *	112	134
Cash flow from operating activities (in millions of dollars) – fourth quarter	93.7	97.5
Cash flow from operating activities (in millions of dollars) – for the year	230.8	31.5
EBITDA (in millions of dollars) – fourth quarter	78.8	81.6
EBITDA (in millions of dollars) – for the year	246.8	284.2
Net financial debt (millions of dollars)	123.4	217.4
Net financial debt coverage ratio to standardized EBITDA (on the basis of the last 12 months)**	0.7	1.0
Equity/balance sheet total	43.0%	38.4%
Equity (in millions of dollars)	768.4	710.3
Net financial debt to CAP ***	11.1%	18.8%

* The decrease in inventory days as at December 31, 2023 compared to December 31, 2022 drives from a decrease in the inventory level due to stringent management and sale of old inventory.

** Positive effect on EBITDA resulting from the implementation of IFRS 16 has been excluded.

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

The financial debt ratio to EBITDA and the financial debt ratio to the CAP are calculated excluding the effect of IFRS 16, since the changes following the adoption of the standard do not affect the Company's debt repayment capacity.

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

In light of the implementation of IFRS 16, the Company included in its balance sheet as at December 31, 2023, liabilities in respect of operating leases for a total amount of approximately \$ 257.3 million and right-of-use assets of approximately \$ 237.2 million.

The Company does not consider the above stated liabilities related to operational leases part of the Company's financial debt. For the sake of caution, the Company clarifies that even were these operating lease liabilities considered financial debt, the Company would still meet its covenants.

Following are the financial indicators including operating leases liabilities– the net financial debt amounts to approximately \$ 380.8 million (compared to \$ 123.4 million as listed in the table), the net financial debt to EBITDA ratio is 1.5 (compared to 0.7 in the table) and the net financial debt to CAP ratio is 28.0% (compared to 11.1% as listed in the table).

It should be emphasized that the deed of trust of the Series F bonds allows the Company to exclude 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.

3.3 Following is a table detailing the Company's net financial debt structure, in \$ millions:

	December 31, 2023	December 31, 2022
Bonds and financial debt, including accrued interest payable	295.5	408.2
Less cash and cash equivalents and short term deposits	(174.5)	(190.9)
Financial derivative	2.4	(1.2)
Loans for the purchase of vehicles	-	<u>1.4</u>
Total net financial debt	<u>123.4</u>	<u>217.4</u>

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

The total net financial debt as at December 31, 2023, was \$123.4 million, compared to \$217.4 million as at December 31, 2022.

The decrease in the net financial debt as at December 31, 2023 compared to December 31, 2022 was driven mainly from cash flow from operating activities excluding IFRS 16 in 2023, of a total amount of approximately \$ 182 million, which was partially offset by investments in fixed assets and other assets of a total amount of approximately \$59 million and dividend payment in the amount of approximately \$29 million.

3.4 Disclosure Regarding Projected Cash Flow

The Company's Board of Directors examined the criteria regarding warning signs in the company, as detailed in the Securities Regulations (Periodic and Immediate Reports, 1970) ("The Regulations") and found that in the separate financial information in accordance with Regulations 9 C to the Regulations ("Solo Report") as at the date of the report, the Company has a working capital deficit as at December 31, 2023. However, in the consolidated reports of the company, there is no deficit in working capital, as at December 31, 2023

In light of the above stated, the Company's Board of Directors examined whether the above stated does not point to a liquidity problem in the Company, by means of examining the Company's projected cash flow, taking note of the surplus of current assets, taking note of the current liabilities in the consolidated report and the examination of the unexploited bank credit facilities which indicate that the Company has the sources of cash it needs to continue its operations and to meet its expected obligations when the date of their upholding arrives. In accordance with the examination and discussion carried out, the Company's Board of Directors believes that the existence of the warning sign as detailed above does not indicate a liquidity problem in the Company and therefore, there is no need to attach a projected cash flow.

3.5 Report of Liabilities Roster by Maturity Dates

For data regarding the status of the Company's liabilities according to maturity dates as at December 31, 2023, see also an immediate report published by the Company at the time of publication of this periodic report.

3.6 Market Risk Exposure and Management

3.6.1 The 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 the Senior Management.

Mr. Isaac Dabah, Company CEO, is responsible for market risk management at the Company. For details regarding Mr. Dabah, see details in accordance with Regulation 26 in the Report on Additional Details on the Company, Chapter D of the periodic report for 2023.

Mr. Asaf Alperovitz, the Company CFO, is responsible for management of market risk associated with exchange and interest rates. For details regarding Mr. Alperovitz, see details in accordance with Regulation 26 A in the Report on Additional Details on the Company, Chapter D of this report.

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

3.6.2 Description of Market Risks

The Group in its operation 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 compared to the Company's functional currency, the US dollar.

For details on the risk factors to which the Company is exposed, see section 48 of the Description of the Corporation's Business, Chapter A of the periodic report, with the exception of the following:

3.6.3 Company Policy Regarding Market Risk Management⁷

Fluctuation of Exchange Rates of the Euro versus the US dollar

The majority of the Company's operations in Europe are through the subsidiary companies, Schiesser, Eminence, and 7 For all Mankind and are conducted in the Euro currency.

The Company manages the market risk deriving from the volatility of the exchange rate of the Euro versus the US dollar 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 2024 the Company's surplus proceeds in euros is expected to amount to approximately \$ 125 million.

As part of the Company's preparations for 2024, the Company has executed currency transactions, totaling approximately \$52 million in the first half of 2024, to hedge against the deflation of the Euro against the dollar, at an average rate of \$1.0765 for €1, by means of a forward transaction.

Fluctuation of Exchange Rates of the NIS versus the US dollar

The operations of the Company in Israel, the majority of which is conducted through the Delta Israel segment, is conducted in Shekels.

In 2024, the Company's proceeds surplus in Shekels is expected to total about \$ 105 million.

As part of the Company's preparations for 2024, the Company executed currency transactions to hedge against the exchange rate deflation of the Shekel against the dollar, of an amount of approximately \$ 28 million at an average rate of NIS 3.71 per \$ 1.

⁷ This section, which includes, in part, forecasts regarding excess receipts / payments in 2024, is forward-looking information as defined in the Securities Law. This information is uncertain information that refers to a future event and is based on the Company's forecasts and estimates, as at the date of the report; the actual results may differ substantially from those predicted in the above stated forward-looking information, as a result of a large number of factors and are therefore subject to risks and uncertainties.

Aspects of Corporate Governance

4. Charitable Donations

The Company believes in becoming involved in the communities in which it operates, and in assisting local populations with potential for advancement. For many years, Delta Galil has supported 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 non-profit organizations in Israel and around the world.

In 2023, the Group's total donations in cash and cash equivalents to educational, cultural, and welfare institutions, amounted to approximately \$1.7 million. This sum includes a donation of approximately \$32,000 to the Shenkar School of Engineering and Design, whose Board of Trustees includes Mr. Isaac Dabah and Noam Lautman, the Chairman of the Company's Board of Directors. Additionally, the Group donated approximately \$27,000 to the Bat Sheva Dance Troupe, whose Board of Trustees includes Ms. Tzipporah Carmon, who is a Director in the Company.

Provided that the organizations supported by the Company adhere to their agreements, the Company has committed to donate approximately \$300,000 in 2024, including commitment to donate \$27,000 to the Bat Sheva Dance Troupe and a commitment for a donation of approximately \$27,000 to the Shenkar School of Engineering and Design

In addition to and as stipulated in section 1.3.1 a above, on December 19, 2023, the Company's Board of Directors, after obtaining approval from the Audit Committee, approved the Company's contractual association, together with its controlling shareholder and his family, to provide an identical contribution in the amount of NIS 5 million (and a total of NIS 10 million by the Company and the controlling shareholder and his family members) equally over a period of 8 years, through the Company and the controlling shareholder and his family members entering into an agreement with the "Keshet" donor sharing fund, to support the needs of orphans (without living parents) of the events of October 7, 2023. The total commitment for 2024 for the donation to the Keshet Fund is, therefore, NIS 625,000 or approximately \$173,000.

5. Auditing Accountant's Fee

The Company's independent auditor is Kesselman and Kesselman, a member firm of PricewaterhouseCoopers International Limited ("PWC") firm of auditors.

The auditor's fees for auditing services, audit-related tax services, and others at the Company and the subsidiaries amounted to approximately \$ 2.3 million in 2023, compared to approximately \$ 1.6 million in 2022, as detailed below:

	<u>2023</u>	<u>2022</u>
	Thousand dollars	
Audit services	1,979	1,330
Tax services and others	<u>287</u>	<u>305</u>
Total	<u>2,266</u>	<u>1,635</u>

The increase in fees for audit services in 2023, compared to 2022, was driven mainly from the execution of an audit according to PCAOB standards as part of the preparation for a potential IPO in the United States, see section 46.3 in Part A of this periodic report.

The scope of employment and salary of the Company's independent auditor for 2023 was examined by the Financial Statements Examination Committee, which received details from Company management 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 was reasonable and acceptable with respect to the Company's characteristics and the scope of its operations. These were approved by the Company Board of Directors.

6. Disclosure Regarding the Company Internal Auditor

Details of Internal Auditor:

Mr. Moshe Cohen of Chaikin, 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 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 auditing 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 considered a number of potential candidates and interviewed some of them. The Audit Committee received an opinion regarding the final candidates, who had passed the initial screening stage.

The Audit Committee was favorably impressed by Mr. Cohen's education and years of experience, and, after he joined in an Audit Committee meeting and received a (direct) positive impression from Company management team, Mr. Cohen was found to be fit to serve as the Company's Internal Auditor, noting, inter alia, the size of the Company, the scope and complexity of its operations, 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 2023 was decided 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 team, according to a risk survey conducted in 2020.
- The scope of the Company's operations, 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 both replacing and adding topics, subject to approval by the Audit Committee.

The 2023 work plan included mainly an audit on the subjects of risk reviews of global embezzlement and fraud, auditing purchasing at a subsidiary Company in China and auditing payroll at a subsidiary Company in France.

Scope of employment:

In 2023, the Internal Auditor, as well as other external consultants, spent approximately 850 hours in practice on internal auditing, divided as follows:

	<u>Audit in the Company itself</u>	<u>Audit in subsidiaries</u>
Activity in Israel	200	
Activity outside of Israel		650

In addition to the audit work performed by the Internal Auditor, the Company employs an Internal Audit Manager who performs internal auditing work on a regular and full-time basis. In 2023 the Internal Audit Manager performed approximately 2,100 hours of internal auditing and implementation of internal controls in the Company's units, of which approximately 1,100 hours were for activities in Israel and the balance of approximately 1,000 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.

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 unfettered 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, 1992. During the audit conducted by the Internal Auditor abroad, he was given unfettered access to 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 the Company management team. The Audit Committee convened for 4 meetings during the course of 2023 which involved internal audit reports: On March 5, 2023, May 11, 2023, July 25, 2023, and November 30, 2023. The audit reports referring to the above meetings were submitted on February 27, 2023, May 9, 2023, July 23, 2023, and November 29, 2023.

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 2023 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 NIS 212,000 (approximately \$ 57,000).

No securities [Company's shares] or bonds were granted to the Internal Auditor as part of the terms of his employment.

To the best of the Company's knowledge, and following 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.

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 Directors in accordance with the law, and taking into account, inter alia, the size of the Company, as well as the scope, type, and complexity of its operations.

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 Sherf, Rinat Gazit, and Shuki Gold. For further information, see details in accordance with Regulation 26 in the Report on Additional Details on by the Company, Chapter D of this periodic report.

Special Disclosure for Bonds Holders

8. Outstanding Obligatory Notes

Below is a description of outstanding Company bonds as at the date of this report:

Series	A	F
Issue Date and Scope of Bonds Issued on the Issue Date (in NIS)	<p>NIS 178,543,000 par value bonds listed for trade on August 12, 2013, pursuant to the shelf offering report published by the Company on August ,8, 2013, by virtue of the Company's shelf prospectus dated May 27, 2013, as revised in the prospectus revision from August 5, 2013 ("the Shelf Prospectus").</p> <p>NIS 21,457,000 par value bonds listed for trade on October 27, 2013, pursuant to a private offering report.</p> <p>NIS 161,734,000 par value bonds listed for trade on May 15, 2014, pursuant to the shelf offering report published by the Company on May 13, 2014, by virtue of the Company's shelf prospectus.</p> <p>NIS 38,266,000 par value bonds listed for trade on June 2, 2014, pursuant to the shelf offering report published by the Company on June 1, 2014, by virtue of the Company's shelf prospectus.</p> <p>NIS 245,000,000 par value bonds listed for trade on December 24, 2019, pursuant to the shelf offering report published by the Company on December 22, 2019, by virtue of the Company's shelf prospectus.</p>	<p>NIS 208,877,000 par value bonds listed for trade on March 30, 2017, pursuant to the shelf offering report published by the Company on March 27, 2017 by virtue of the Company's shelf prospectus dated January 18, 2017.</p> <p>NIS 253,470,000 par value bonds listed for trade on March 13, 2019, pursuant to the shelf offering report published by the Company on March 12, 2019.</p>
Scope of bonds par value as at December 31 2023 in NIS	278,968,511	164,690,842
Start Date of Principal Repayment and the Manner of its Repayment	Starting August 31, 2015, in annual installments on August 31 of each year through August 31, 2028 (inclusive)	Starting December 31, 2018, in annual installments on December 31 of each year through December 31, 2026 (inclusive)
Interest accrued as at December 31 2023	approximately NIS 4.9 million	NIS 0 million

Series	A	F
Value as included in the December 31 2023 Financial Statements	Approximately NIS 291.7 million	Approximately NIS 165.6 million
Market value on stock exchange on December 31 2023	Approximately NIS 279.2 million	Approximately NIS 170.5 million
Interest type	Fixed – 5.0%	Fixed – 3.85%
Interest payment dates	Semi-annual installments on February 28 and on August 31 of each of the years from 2014 through 2028	Semi-annual installments on June 30 and on December 31 of each of the years from 2017 through 2026.
Linkage type	Not linked	Linked to the USD
Conversion rights	Non-convertible bonds	Non-convertible bonds
Right to early redemption or forced conversion	<p>Should the stock exchange decide to de-list the bonds from trading due to a decline in the value of the bond series below the threshold determined by the stock exchange, the Company shall perform early redemption of bonds due to said de-listing.</p> <p>The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the bonds (Series A) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the deed of trust and Section 7 to Addendum 1 to the deed of trust of the bonds (Series A).</p>	<p>Should the stock exchange decide to de-list the bonds from trading due to a decline in the value of the bond series below the threshold determined by the stock exchange, the Company shall perform early redemption of bonds due to said de-listing.</p> <p>The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the bonds (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 bonds (Series F).</p>
Liability payment guarantee and other securities	Not guaranteed	Not guaranteed
Rating Company	Midroog Ltd.	Midroog Ltd.
Rating upon issue of the series	A2 with a stable outlook	A1 with a stable outlook
Rating as at January 31, 2024 [See the report dated January 31, 2024 (reference: 2024-01-011982)]	Aa3 with a stable outlook	Aa3 with a stable outlook

Series	A	F
Additional ratings	<ul style="list-style-type: none"> a. On January 30, 2023: Aa3 with a stable outlook b. On January 25, 2022: A1 with a stable outlook c. On April 14, 2021: A1 with a stable outlook d. On April 7, 2020: A1 with a negative outlook e. On March 11, 2019: A1 with a stable outlook f. On March 12, 2018: A1 with a stable outlook g. On March 12, 2017: A1 with a stable outlook h. On July 10, 2016: A1 with a stable outlook i. On March 31, 2016: A1 with a stable outlook j. On May 18, 2015: A1 with a stable outlook k. On September 2, 2014: A1 with a stable outlook 	<ul style="list-style-type: none"> a. On January 30, 2023: Aa3 with a stable outlook b. On January 25, 2022: A1 with a stable outlook c. On April 14, 2021: A1 with a stable outlook d. On April 7, 2020: A1 with a negative outlook e. On March 11, 2019: A1 with a stable outlook f. On March 12, 2018: A1 with a stable outlook g. On March 12, 2017: A1 with a stable outlook
Other Rating Companies	Ma'alot, S & P Ltd.	Ma'alot, S & P Ltd.
Rating as at April 4, 2023 [See the report dated April 4, 2023 (Reference 2023-01-038415)]	AA - with a stable outlook	AA- 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
Materiality (over 5% of the Company's total liabilities)	Yes	No

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

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

Signed: February 25, 2024.

Noam Lautman
Chairman of the Board of Directors

Isaac Dabah
CEO and Director

Delta Galil Industries Ltd.

Chapter C

Annual Financial Statement 2023

Delta Galil Industries Ltd.

Annual Report 2023

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**Auditors' report to the shareholders of Delta Galil Industries Ltd.
With regard to audit of internal controls over financial reporting
pursuant to section 9B (c) of
Securities Regulations (Periodic and Immediate Reports), 1970**

We have audited components of internal controls over financial reporting of Delta Galil Industries Ltd. and its subsidiaries (hereinafter together- the "Company") as of December 31, 2023. These control components have been determined as explained in the next paragraph. The Company's management and Board of Directors are responsible for maintaining effective internal control over financial reporting, and for an assessment of the effectiveness of components of internal controls over financial reporting, which accompany the periodic report as of 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 which we audited were determined in accordance with Israeli Auditing Standard 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" (hereinafter: "Israel Auditing Standard 911"). These components are: (1) entity-level control, including control over the process of preparation and closing of the financial reporting and information technology general controls (ITGCs); (2) controls over the procurement and inventory process; (3) controls over the sales process (hereinafter, together - "Audited Control Components").

We have conducted our audit in accordance with Israel Audit Standard 911. This standard requires us to plan and perform the audit to identify the audited control components, and to achieve reasonable assurance whether these control components have been effectively maintained in all material aspects. Our audit consisted of an understanding of internal control over financial reporting, identification of the audited control components, assessment of the risk of material weakness in the audited control components, as well as review and assessment of the effectiveness of design and operation of said control components, based on the assessed risk. Our audit, with regard to the aforementioned control components, also consisted of other procedures we deemed necessary under the circumstances. Our audit is only in reference to the audited control components, unlike internal control of all material processes related to financial reporting, and therefore our opinion only refers to the audited control components. Further, our audit did not refer to mutual influence among audited control components and non-audited ones, and therefore our opinion does not take into account such potential influence. We believe that our audit, and the reports of the other auditors, provide an appropriate basis for our opinion within the aforementioned context.

Because of its inherent limitations, internal control over financial reporting in general and certain components thereof in particular, may not prevent or detect misstatement. Also, projections of any evaluation of the effectiveness of specific controls or internal control over financial reporting overall to future periods are 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 effectively maintained, in all material respects, the audited control components as of December 31, 2023.

We have also audited, in accordance with generally accepted audit standards in Israel, the Company's consolidated financial statements as of December 31, 2023 and 2022, and for each of the three years ended on December 31, 2023, and our report dated February 25, 2024 included an unqualified opinion on the said financial statements.

Tel-Aviv, Israel
February 25, 2024

Kesselman & Kesselman
Certified Public Accountants
A Member Firm of PricewaterhouseCoopers International Limited



The Auditor's 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 of December 31, 2023 and 2022 and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2023. 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 conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditor's 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 Board of Directors and management of the Company, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, the said financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2023 and 2022 and the results of their operations, and changes in their equity and cash flows for each of the three years for the period ended December 31, 2023, 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 of December 31, 2023, and our report dated February 25, 2024, included an unqualified report on the effective existence of those components.

Key audit matters

The key audit matters below are the matters that were communicated or required to be communicated to the board of directors of the Company, and which, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. Those matters include, among others, any matter that (1) relates, or may relate, to items or disclosures that are material to the financial statements; and (2) involve our especially challenging, subjective or complex judgments. Those matters were addressed in our audit and in forming our opinion on the consolidated financial statements, as a whole. The communication of those matters below does not alter our opinion on the consolidated financial statements as a whole, and we are not, by communicating the key audit matter below, providing a separate opinion on those matters or on the accounts or disclosures to which they relate.

The testing of goodwill for impairment

As described in note 2, 3 and 8 to the consolidated financial statements, the balance of goodwill in the accounts of the Company is \$145,577 thousand as of December 31, 2023.

As described in those notes, management is testing for impairment the cash generating unit to which the goodwill has been allocated annually or whenever there is an indication that the unit may be impaired. Potential impairment is identified by comparing the recoverable amount of the relevant cash-generating unit to its carrying amount. If the carrying amount is greater than the recoverable amount of the cash generating unit, an impairment loss is recognized at the value of this excess.

The testing for impairment of a cash generating unit to which goodwill has been allocated, is based on critical estimates that involve uncertainty and subjective assessments. A change in those estimates or assessments may have a significant impact on the balance of goodwill presented in the financial statements of the Company.



The main estimates used as a basis for testing goodwill for impairment

In calculating the recoverable amount of the cash generating unit to which goodwill has been allocated by the Company, judgment is applied regarding the forecasted cash flows based on the budget for the upcoming year, and additional assumptions of the Company regarding the pace of growth in sales and expenses in subsequent years.

The Company applies the following assumptions to determine the recoverable amount of the cash generating unit:

- The representing long-term gross profit rate is based on the past experience of the Company and its forecasts regarding developments in the market.
- Growth rate calculated based on the long-term nominal growth forecast for GDP and population growth rate in each of the different activity segments.
- The discount rate applied in the cash flows forecast was determined based on the risks of the specific activity segment.

We have identified the estimates used as basis for goodwill impairment testing as a key audit matter. Auditing the testing of goodwill for impairment required judgment by the auditor, as well as knowledge and experience to examine the reasonableness of assumptions and data used by management to determine the estimated recoverable amount of the cash generating unit to which the goodwill has been allocated.

The audit procedures used to address the key audit matter

The following are the main procedures we performed to address this key matter in our audit:

- Reviewing of the methodology used by the Company to determine the discounted amount of cash flows expected from the cash generating unit to which goodwill was allocated (hereinafter - the Model);
- Examining the completeness and accuracy of basic information and data used in the Model;
- Assessing the reasonableness of critical management assumptions regarding the nominal growth rate, discount rate and gross profit rate, considering (a) past and present performance of the cash generating units and (b) whether those assumptions were aligned with evidence obtained in other areas of the audit;
- Sensitivity tests were performed on the critical assumptions used by management in the Model, and the change in the recoverable amount of the cash generating unit to which goodwill was allocated as a result of the change in those assumptions was tested.
- The services of an expert valuator were used to assist in assessing the Model.

Tel-Aviv, Israel
February 25, 2024

Kesselman & Kesselman
Certified Public Accountants
A Member Firm of PricewaterhouseCoopers International Limited

Delta Galil Industries Ltd.

Consolidated statement of financial position

	Note	December 31	
		2023	2022
		US\$ in thousands	
Assets			
Current assets:			
Cash and cash equivalents	2K, 19A	174,463	126,649
Restricted cash		2,950	4,002
Short-Term Deposits		-	64,265
Trade receivables	19B, 1	241,216	236,772
Income tax receivable		77	10,691
Other accounts receivables	19B, 2	48,920	36,389
Financial Derivative	12	228	423
Inventory	19C	361,416	487,307
Asset held for sale		1,773	-
Total current assets		831,043	966,498
Non-current assets:			
Investments accounted for using the equity method and other long-term receivables	10	14,897	12,528
Investment property		2,679	2,702
Property, plant and equipment, net including under construction	7	250,343	235,273
Goodwill	8	145,577	144,238
Intangible assets, net less accumulated amortization	8	277,952	275,948
Right-of-use assets	9	237,177	193,275
Deferred tax assets	15D	28,016	18,183
Financial Derivative	12	903	2,025
Total non-current assets		957,544	884,172
Total assets		1,788,587	1,850,670

) Noam Lautman
) Chairman of the Board of Directors
) Isaac Dabah
) CEO
) Asaf Alperowitz
) CFO

**The date of approval of the financial statements by the Company's Board of Directors:
February 25, 2024**

The attached notes constitute an integral part of these consolidated financial statements

Delta Galil Industries Ltd.

Consolidated statement of financial position

	<u>Note</u>	December 31	
		2023	2022
		US\$ in thousands	
Liabilities and equity			
Current liabilities:			
Short-term bank loans	19D	822	51,430
Current maturities of long-term bank loans	19E	24,105	42,152
Current maturities of bonds	11	29,597	45,935
Financial derivative	12	1,380	1,037
Current maturities of lease liabilities	9	52,583	47,968
Trade payables		168,637	209,673
Taxes on income payable		35,182	34,048
Provisions for realignment plan	19G	3,574	2,633
Other payables	19F	165,791	176,411
Total current liabilities		481,671	611,287
Non-current liabilities:			
Banks loans	19E	140,790	133,151
Post-employment benefit obligations, net		5,327	5,982
Lease liabilities	9	204,746	164,175
Other non-current liabilities	13	53,241	63,431
Bonds	11	96,496	129,969
Deferred tax liabilities	15D	35,812	32,158
Financial derivative	12	2,122	173
Total non-current liabilities		538,534	529,039
Total liabilities		1,020,205	1,140,326
Equity:			
	14		
Equity attributed to shareholders in the parent Company:			
Share Capital		23,714	23,714
Share premium		127,861	128,268
Other capital reserves		28,133	26,410
Retained earnings		571,846	517,751
Treasury shares		(13,668)	(14,075)
		737,886	682,068
Non-controlling interests		30,496	28,276
Total equity		768,382	710,344
Total liabilities and equity		1,788,587	1,850,670

The accompanying notes constitute an integral part of these Consolidated Financial Statements.

Delta Galil Industries Ltd.

Consolidated Statements of Profit or Loss and Other comprehensive income

	For the year ended December 31			
	Note	2023	2022	2021
US\$ in thousands (except earnings per share)				
Sales	5C-D	1,857,682	2,031,541	1,950,958
Cost of sales	19H	1,097,084	1,246,354	1,174,247
Gross profit		760,598	785,187	776,711
Selling and marketing expenses	19I	522,214	515,035	491,604
General and administrative expenses	19I	94,000	86,695	96,725
Other expenses (income), net	19K	(7,124)	(4,896)	569
Share of profit of investees accounted for using the equity method	10	(846)	(666)	(285)
Change in fair value of liabilities with respect to contingent consideration	13	(4,000)	(9,621)	-
Impairment of non-financial assets	7, 8B, 8D, 9	-	8,122	-
Realignment Expenses	19G	11,421	5,467	-
Operating profit		144,933	185,051	188,098
Financing expenses, net	19L	37,932	37,271	37,397
Profit before taxes on income		107,001	147,780	150,701
Income tax expense	15	21,660	32,402	30,395
Net profit		85,341	115,378	120,306
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Re-measurement of post-employment benefit obligations		(817)	2,065	(27)
Income tax relating to this item		155	(492)	5
		(662)	1,573	(22)
Items that may be reclassified to profit or loss:				
Cash flow hedges	12	(4,161)	1,139	(981)
Exchange differences on translation of foreign operations		3,307	(28,375)	(9,404)
Income tax relating to these item		957	(262)	186
Other comprehensive income (expense) for the period, net of tax		103	(27,498)	(10,199)
Total comprehensive income for the year		84,782	89,453	110,085
Attribution of the net profit for the year:				
To the Company shareholders		79,210	109,476	112,781
To non-controlling interests		6,131	5,902	7,525
Total net income for the year		85,341	115,378	120,306
Attribution of the total comprehensive income for the year:				
To the Company shareholders		80,271	84,120	104,040
To non-controlling interests		4,511	5,333	6,045
Total net income for the year		84,782	89,453	110,085
Earnings per share attributed to the Company shareholders (in Dollars)				
Basic	16	3.08	4.27	4.42
Diluted		3.02	4.14	4.29

The accompanying notes constitute an integral part of these Consolidated Financial Statements.

Delta Galil Industries Ltd.

Consolidated Statement of Changes in Equity

	Number of Shares Thousands	Ordinary shares	Share premium	Capital reserve from transactions with controlling shareholder	Foreign currency translation reserve	Capital reserve on cash flow hedging	Capital Reserve from transactions with Non- controlling interests	Retained earnings	Treasury shares	Total	Non- controlling interests	Total
				US\$ in thousands								
Balance as at January 1, 2021	26,923	23,714	130,260	218	4,387	1,999	—	332,268	(16,067)	476,779	(387)	476,392
Changes during the year ended December 31, 2021:												
Net profit	—	—	—	—	—	—	—	112,781	—	112,781	7,525	120,306
Other Comprehensive loss for the period	—	—	—	—	(8,116)	(624)	—	(1)	—	(8,741)	(1,480)	(10,221)
Issue of a subsidiary	—	—	—	—	(532)	—	56,003	—	—	55,471	21,685	77,156
Consideration from the exercise of options and RSU	—	—	(760)	—	—	—	—	—	760	—	—	—
Dividend paid	—	—	—	—	—	—	—	(15,489)	—	(15,489)	—	(15,489)
Dividend for non-controlling interests	—	—	—	—	—	—	—	—	—	—	(1,592)	(1,592)
Share-based payments	—	—	—	—	—	—	—	2,630	—	2,630	—	2,630
Balance as at December 31, 2021	26,923	23,714	129,500	218	(4,261)	1,375	56,003	432,189	(15,307)	623,431	25,751	649,182
Balance as at January 1, 2022 (audited)	26,923	23,714	129,500	218	(4,261)	1,375	56,003	432,189	(15,307)	623,431	25,751	649,182
Changes during the year ended December 31, 2022:												
Net profit	—	—	—	—	—	—	—	109,476	—	109,476	5,902	115,378
Other comprehensive income (loss) for the period	—	—	—	—	(27,245)	320	—	1,569	—	(25,356)	(569)	(25,925)
Consideration from the exercise of options and RSU	—	—	(1,232)	—	—	—	—	—	1,232	—	—	—
Dividend paid	—	—	—	—	—	—	—	(28,009)	—	(28,009)	—	(28,009)
Dividend for non-controlling interests	—	—	—	—	—	—	—	—	—	—	(3,356)	(3,356)
Share-based payments	—	—	—	—	—	—	—	2,526	—	2,526	548	3,074
Balance as at December 31, 2022 (audited)	26,923	23,714	128,268	218	(31,506)	1,695	56,003	517,751	(14,075)	682,068	28,276	710,344
Balance as at January 1, 2023 (audited)	26,923	23,714	128,268	218	(31,506)	1,695	56,003	517,751	(14,075)	682,068	28,276	710,344
Changes during the year ended December 31, 2023:												
Net profit	-	-	-	-	-	-	-	79,210	-	79,210	6,131	85,341
Other comprehensive income (loss) for the period	-	-	-	-	4,440	(2,717)	-	(662)	-	1,061	(1,620)	(559)
Consideration from the exercise of options and RSU	-	-	(407)	-	-	-	-	-	407	-	-	-
Dividend paid	-	-	-	-	-	-	-	(26,510)	-	(26,510)	-	(26,510)
Dividend for non-controlling interests	-	-	-	-	-	-	-	-	-	-	(2,362)	(2,362)
Share-based payments	-	-	-	-	-	-	-	2,057	-	2,057	71	2,128
Balance as at December 31, 2023 (audited)	26,923	23,714	127,861	218	(27,066)	(1,022)	56,003	571,846	(13,668)	737,886	30,496	768,382

The accompanying notes constitute an integral part of these Consolidated Financial Statements.

Delta Galil Industries Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Cash flows from operating activities:			
Net income for the year	85,341	115,378	120,306
Reconciliation required to present cash flows generated from (used for) operating activities	185,301	(40,403)	93,803
Interest paid in cash	(31,184)	(26,850)	(33,040)
Interest received in cash	4,014	425	1,091
Taxes on income paid in cash, net	(12,658)	(17,017)	(15,634)
Net cash provided by operating activities	230,814	31,533	166,526
Cash flows from investment activities:			
Change in short-term deposits, net	60,422	(64,265)	-
Acquisition of property, plant and equipment	(45,363)	(47,992)	(25,316)
Acquisition of intangible assets	(7,624)	(7,661)	(4,839)
Payments for acquisitions of subsidiaries, net of cash acquired	-	(4,500)	-
Loan given to business partner	(1,089)	-	(1,750)
Proceeds from sale of property, plant and equipment	1,121	6,538	944
Others	1,083	1,843	(2,000)
Net cash provided by (used in) investing activities	8,550	(116,037)	(32,961)
Cash flows from financing activities:			
Dividend paid to non-controlling interests in subsidiary	(2,362)	(3,356)	(1,592)
Payment of long-term payable in connection with acquisition of property, plant and equipment	(6,684)	(5,628)	(4,373)
Principal elements of lease payments	(48,891)	(50,852)	(50,762)
Early redemption of bonds	-	-	(94,313)
Repayment of bond principal	(46,255)	(16,700)	(37,650)
Dividend paid	(26,510)	(28,009)	(15,489)
Receipt of long-term bank loans	32,694	60,397	74,950
Repayment of long-term bank loans	(44,457)	(7,223)	(68,201)
Short-term credit from banking corporations, net	(50,663)	51,430	(10,962)
Repayment of long-term loans as part of acquisition of subsidiary	-	(792)	(6,006)
Net proceeds from issue of shares in a subsidiary	-	-	77,156
Others	(1,383)	(6,102)	2,940
Net cash used in financing activities	(194,511)	(6,835)	(134,302)
Increase (decrease) in cash and cash equivalents	44,853	(91,339)	(737)
Effects of exchange rate changes on cash and cash equivalents	2,961	(12,141)	23
Balance of cash and cash equivalents at the beginning of the period	126,649	230,129	230,843
Balance of cash and cash equivalents at the end of the period	174,463	126,649	230,129

The accompanying notes constitute an integral part of these Consolidated Financial Statements.

Delta Galil Industries Ltd.
Consolidated Statements of Cash Flows

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Reconciliations required to present cash flows generated from (used in) operating activities:			
Revenues and expenses not involving cash flows:			
Depreciation	34,033	32,648	33,329
Amortization	61,961	61,362	64,345
Impairment of non-financial assets	-	8,122	-
Exchange rate (gains) losses	(124)	532	(2,940)
Interest expenses recognized in respect of bonds and loans	21,933	19,169	18,375
Interest received in cash	(4,014)	(425)	(1,091)
Taxes on income paid in cash, net	12,658	17,017	15,634
Deferred taxes on income, net	(7,089)	(6,975)	(1,007)
Interest expenses recognized in respect of lease agreements	9,251	7,681	9,609
Retirement benefit obligation, net	(1,599)	176	(1,833)
Realignment expenses (income)	941	(6,246)	(17,946)
Decrease in lease liabilities following rent concessions	-	-	(3,502)
Income from decrease of contingent consideration liability	(4,000)	(9,621)	-
Capital gains	(1,482)	(4,435)	(272)
Loss from early redemption of bonds	-	-	5,056
Share-based payments expenses	2,128	3,074	2,630
Share in profits of investee accounted for using the equity method	(846)	(666)	(285)
Others	2,463	(1,021)	1,739
	126,214	120,392	121,841
Changes in operating assets and liabilities:			
Increase in trade receivables	(3,868)	(40,189)	(10,450)
Increase in other receivables	(5,083)	(2,075)	(2,544)
Increase (decrease) in trade payables	(46,251)	(36,601)	55,304
Increase (decrease) in other payables	(15,274)	22,314	38,704
Decrease (Increase) in inventory	129,563	(104,244)	(109,052)
	59,087	(160,795)	(28,038)
	185,301	(40,403)	93,803
Additional information on investing and financing activities not involving cash flows:			
Trade and other payables for acquisition of property, plant and equipment and other non-monetary assets	5,093	12,938	16,172
Liability for minimum royalty payment	19,016	10,226	40,054
Acquisition of right-of-use assets through lease liabilities	95,147	66,983	30,130

The accompanying notes constitute an integral part of these Consolidated Financial Statements.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 1 – Overview

- a. Delta Galil Industries Ltd. (hereinafter – the "Company") is an Israeli corporation, which together with its subsidiaries (hereinafter – the "Group"), is engaged in the design, development, production, marketing and sale of underwear, socks, children's wear, leisure wear and activewear, as well as in the development, design, marketing, distribution and sale of branded denim and outerwear and accessories for women, in four reportable business segments: Brands, Private Label, Delta Israel, Seven for All Mankind, and Others (See 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.

- b. Economic Environment and the Effects of External Factors on the Company

Listed below are macroeconomic factors affecting the Group and may continue to do so in the future:

The Company's main target markets are the USA, Europe and Israel.

Following the slowdown of growth rates in the second half of 2022, economic activity continued to decelerate in the target markets during the fourth quarter and throughout 2023 due to several main reasons, including: the war in Ukraine; higher inflation and interest rates; supply chain disruptions post-COVID, leading some customers of the Group to have stocks accumulated, which caused them to put some orders on hold. Those reasons led to a lower purchasing power of wholesale customers, which translated into a decrease in sales and profitability compared to the corresponding reporting periods of 2022.

1. The Effects of the "Swords of Iron" War

On October 7, 2023, the Swords of Iron war ("the war") broke out following a surprise attack on Israel by Hamas in the Gaza Strip. Later, fighting also erupted on the northern border with Lebanon. As of the date of the report, the war has significant impact on the entire economy, including, but not limited to, temporary closure of businesses and disruption in the education system, mainly in communities in areas close to the fighting and also the extensive conscription of reserve military forces.

Since the beginning of the war, two international credit rating agencies (Fitch and Moody's) put Israel on watch and S&P downgraded Israel's outlook from "stable" to "negative", noting that this reflected the significant elevation of geopolitical and security risks that Israel faces in the wake of the war.

During the fourth quarter of 2023, the average exchange rate of the Shekel vs the US dollar decreased by about 9%, compared to the same figure in the corresponding quarter last year. However, towards the end of the quarter, the exchange rate returned to the level recorded in the first half of 2023. A continued devaluation of the Shekel against the dollar may impact the results of Delta Israel, because it purchases the products it sells in dollars, and due to the translation of its financial results from NIS to the functional currency of the Group. See also section 3 below.

On February 9, 2024, Moody's downgraded Israel's credit rating from A1 to A2 with a negative outlook. In addition, on February 13, 2024, Moody's downgraded the credit rating of the five largest Israeli banks to A3, with a negative outlook. This decision may impact the Israeli economy in several ways, including: higher borrowing costs for the government, or even difficulties to do so; lower investor confidence in the Israeli economy, and as a result, difficulty in attracting foreign entities to invest in public and private entities; reputational damage due to this perceived weakness; potential credit downgrading of Israeli banks, a drop in their capital adequacy ratios and even a tighter landing policy by those banks.

As it is unclear at this stage how the downgrades will affect the Israeli economy, considering that only a relatively small portion of the Group's activity is taking place in Israel and that Delta Israel has mostly fixed-rate financing, the Company believes that the downgrading will not have a material impact on the Company in the short-term.

Those and other factors, including the uncertainty regarding the present and future impact of the war on both the local and global economic environment, may have a negative impact on the Company's activities and its results.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 1 – Overview (continued)

Regarding the activity of Delta Israel, with the exception of the first two weeks in October 2023, its stores have operated (and are still operating) almost full time, except for stores in border areas where fighting takes place, in accordance with the instructions of the IDF Home Front Command. With the exception of October 2023, as noted above, and throughout most of the fourth quarter of the year, 207 stores out of Delta Israel's 210 stores operated, with some opened part of the time and closed earlier than normally.

Note that Delta Israel is active in underwear, home wear and children's wear, and demand in those categories is affected by the war only to a limited extent.

In addition, Delta Israel's e-commerce websites have operated continuously while its wholesale operations have been working in full capacity and supported sales to consumers, commercial customers and government entities, which placed more orders due to the war.

In accordance with the above, Delta Israel posted record sales and profitability in the fourth quarter of 2023, compared to the corresponding quarter last year.

In addition, note that Delta Israel did not receive substantial concessions from property lessors, with the exception of an immaterial postponement of the rent payment dates.

Additionally, as of the date of this report, Delta Israel's workforce has not significantly changed during the war and the Company sent a minimal number of 10 employees on unpaid leave.

Given the continued war and its potential impact on the supply of products from the owner of the Victoria's Secret brand, the subsidiary, Delta Israel, announced that opening the first two stores of the Victoria's Secret brand, which were scheduled for November 2023, was put on hold for up to 3 months. To allow opening of the first stores of that brand in the best way, it was decided that the first 4 stores of the brand (out of 5 planned to open during 2024) will be launched in April 2024 and the owner of the brand agreed to help the Company with the costs of the postponement.

The e-commerce website of Victoria's Secret in Israel, which has been operating since December 2022, continues to operate regularly.

Also, the launch of the Bath & Body Works brand in Israel (chain of stores and an e-commerce website) which was scheduled for November 2023 was also postponed by about 3 months to allow for an optimal launch of this brand in Israel.

The brand owner and Delta Israel have been working together to provide optimal customer experience and to that end, they decided to defer the opening dates of the first five stores and the e-commerce website until the second quarter of 2024. The owner of the brand committed to help Delta Israel with the costs related to this rescheduling, including the costs of retaining employees assigned with managing brand operations until the above stated opening.

Delta Israel agreed to put on hold the launch of the e-commerce website and the first 5 stores to the second quarter, according to its updated plan to open 8 stores in 2024.

The Company and Delta Israel believe that those delays in the opening of the stores of the two brands, as above, is not expected to significantly affect the Group's activities and results.

Following attacks by the Houthis on shipping routes in the Red Sea, shipments from East Asia to Israel were prolonged by 10-14 days. This delay did not materially affect the results of the Company, as it normally adds this number of days to lead times as a safety cushion when ordering stocks.

In addition, due to the threat posed by the Houthis, sea shipping costs have gradually increased for Delta Israel during the second half of the fourth quarter of 2023 and during the first quarter of 2024, with rates increasing three-fold compared to their levels before the war.

Other than the above, the war did not have any additional impact on the supply chain and costs for Delta Israel.

At this stage, the Company and Delta Israel are unable to assess any future impact on their activity that may be caused by the continuation of the war or the Houthi threat, as long as it lasts, including any change in the financial situation of customers in Israel.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 1 – Overview (continued)

Donations of the Company During the Course of the War

On December 19, 2023, the Company's Board of Directors approved, after obtaining the relevant approval from the Audit Committee, under Regulation 1(4) of the Companies Regulations (Reliefs for Transactions with an Interested Party), 2000 an engagement of the Company together with its controlling shareholder and his family with respect to their transaction with a party, whose terms and conditions in relation to the Company are not substantially different from its terms and conditions in relation to the controlling shareholder, taking note of their relative share in the transaction as follows:

1. The Company will provide a donation of NIS 5 million for long-term support to orphans who lost both parents on October 7, 2023, with emphasis on supporting them during their adult years. This donation was matched by Mr. Isaac Dabah, the controlling shareholder of the Company, CEO and director, and his family members (the "Controlling Shareholder and His Family"), and they will give the same amount of NIS 5 million (such that the combined donation of the Company and the Controlling Shareholder is NIS 10 million) (the "Donations").
2. The donations will be made in equal amounts by the Company and the Controlling Shareholder and His Family Members over an 8-year period, starting in 2024, through engagement of the Company and the Controlling Shareholder and His Family, in an agreement with the Donor Sharing Fund (Keshet) D.I.F. Ltd. (PBC) ("Keshet"), which is a unique fund for managing donations.
3. Keshet will hold donation funds and invest them to protect their value in accordance with the guidelines of a management committee that will be set up for this purpose by the Company, the Controlling Shareholder and His Family. The management committee will be composed of an equal number of representatives of the Company, the Controlling Shareholder and His Family and other representatives as will be chosen by the members of the management committee. Decisions by the management committee will be approved by a majority of votes, but provided that at least one member on behalf of the Company and one member on behalf of the Controlling Shareholder and His Family, agreed to every decision, based on the procedure formulated for this purpose between the Company and the Controlling Shareholder and His Family.

On February 25, 2024, the Company's Board of Directors approved the engagement agreement with "Keshet".

In addition, Delta Israel donated NIS 1.7 million worth of products (in terms of product cost) to people displaced from specific communities, as well as directly to IDF soldiers and people hospitalized in the various hospitals. Delta Israel also donated to a number of charitable associations that distribute products, mainly to people from communities in the south that have been displaced from their homes. In addition, Delta Israel awarded NIS 1.2 million in discounts, compared to the list price, granted specifically to soldiers and residents of the Gaza Strip Envelope.

Government Grants With Respect to the War

Delta Israel applied for government assistance under Property Tax and Compensation Fund Regulations (Payment of Reparations) (War Damage and Indirect Damage) (Iron Swords) (Temporary Provision), 2023 primarily due to the hit to profitability it experienced, as stores in Israel remained closed or operated partially, leading to a reduction in their sales compared to the previous year, mainly in October and November 2023. The Group received a NIS 1.6 million (about US\$0.4 million) grant and recognized it in its 2023 reports, within other income. With this grant, Delta Israel did not experience a material impact on its results.

2. **The Effects of the Increase in the Inflation and Interest Rates**

During 2023, inflation slowed down and was within the range of 2.9% to 3.4% in all target markets. Inflation for 2024 is forecasted to be between 1.9% to 2.5% in the Group's target markets.

The Group is directly affected by inflation, mainly due to CPI-linked rent in some properties it leases (mainly in Israel). The effect of this inflation linkage was not material to the Group's results in 2023.

In addition, inflationary pressures in the countries where the Group is manufacturing and/or buying raw materials or products cause an increase in wages, energy costs and other manufacturing costs.

In annualized terms, the real production costs of the Company were reduced, due to currency devaluation, whereas salary and other costs increased, mainly in its activity in Egypt.

The Group works with its customers to adjust sales prices wherever market conditions allow this, in step with the pace of increase in costs and the situation in target markets, in order to avoid material impact of those changes on its results.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 1 – Overview (continued)

However, the Company believes that persistent inflation that is not accompanied by price adjustments to customers may adversely affect results of the Company.

In response to the higher inflation, interest rates continued to go up in the fourth quarter of 2023, although at a slower pace compared to the first half of the year.

The Group finances its activities using its cash balances, positive cash flows from operating activities, short- and long-term bank borrowings and bonds. As stated in note 19E below, most outstanding debt of the Group bears fixed interest rates, and therefore, the higher interest rates had no material impact on its financing costs in 2023.

3. Fluctuations in the Currency Exchange Rate

In addition to inflation, foreign exchange rates against the US dollar (which is the Group's function currency) fluctuated significantly in 2023 in countries where the Group operates. This volatility was reflected in a significant devaluation of most currencies used by the Group (the Turkish lira, the Egyptian Pound and the Shekel) compared to the dollar. In the fourth quarter of 2023 the trend of exchange rate volatility continued, for example, the Egyptian pound was devalued in the fourth quarter of 2023 against the dollar by about 35% compared to the average rate in the corresponding quarter in 2022.

This devaluation decreased production costs in dollars terms, but was largely offset by an increase in payroll and production expenses in the countries where the Group has manufacturing, mainly in Southeast Asia, Egypt and Turkey.

As stated above, the Group works with its customers to adjust the selling prices whenever the Group believes market conditions allow this. Thus, those changes had no material impact on its results.

4. The Effects of the Changes in Freight Costs

A significant part of the products the Group sells are manufactured in plants under its ownership and/or purchased from third-party suppliers located in East Asia. In cases where responsibility for the goods is not assumed at the port of origin (FOB Shipping Point), the Group bears the cost of shipping products from these countries to the US, Europe and Israel.

Following the gradual and prolonged uptrend in 2021-2022, shipping costs throughout the world began to incrementally decrease in the fourth quarter of 2022, and late in 2022 reached levels similar to those prevailing before the price surge.

This downtrend in shipping costs continued through 2023 and contributed to the improvement in the gross profit rate compared to 2022.

For information about the effects of the Houthi threat on shipping routes and shipping costs, see section b 1 above.

5. The Effects of the Judicial Reform

As of January 2023, the Israeli Government began to promote legislation for implementing fundamental changes in the Israeli judicial system, known in the media as the "Judicial Reform".

In July 2023, an amendment to Basic Law: the Judiciary (Amendment No. 3) came into force, which is the first step in the reform, limiting the ability of the Supreme Court to exercise judicial review over decisions of the Prime Minister and other Ministers.

After the reporting period, on January 1, 2024, the Supreme Court struck down the amendment of the Basic Law and determined that the court could apply judicial review of the government decisions and provide remedies based on reasonableness.

The proposed changes sparked widespread controversy and criticism, which according to the media coverage, led to strong reaction from both sides. According to some experts, this debate and the actions taken in response may influence the Israeli economy and its stability, and may also impact the economic environment in which the Company operates, the cost of borrowing, the value of the local currency, the size of investments made in Israel and more.

Currently, it is unclear whether this legislation will be renewed, in what format and which legislative amendments will be accepted. Therefore, as of the date of issuing this report, the Company is unable to estimate the extent and scope of the consequences resulting from continuing to promote the changes in the legislation on the economy in Israel or on the results of the Company.

As of the date of this report, the Company has not identified any material impact on its operations due to the above legislation.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 1 – Overview (continued)

c. Split off of the Delta Israel operating segment and an initial offering of a subsidiary

On September 30, 2020, the Company announced that Delta Israel Brands Ltd., a wholly owned subsidiary of the Company (hereinafter the "Subsidiary"), applied to the Israel Securities Authority (ISA) for permission to publish a prospectus along with a draft complementary prospectus and a shelf prospectus. The Company further announced that on the same day, before submitting the application for the publication of the draft prospectus, it had entered into a conditional split off agreement (the "Split-off Agreement") with the Subsidiary, according to which shortly before the completion of the public offering according to the draft prospectus, the Company will transfer the "Delta Israel" operating segment to the Subsidiary (excluding non-material activities), in exchange for shares issued to it by the Subsidiary.

On February 25, 2021, the Company announced that the Subsidiary published a complementary prospectus ahead of a public offering that also constitutes a shelf prospectus.

On March 4, 2021, the Subsidiary issued a complementary prospectus. On the same day, the Subsidiary reported the results of the offering, in which the Subsidiary issued 20% of its shares for (gross) proceeds of approximately NIS 262.5 million (approximately US\$79 million).

On March 5, 2021, the Split-off Agreement was closed and, at the same time, assets and liabilities of the segment were transferred. For tax purposes, the split off is dated retroactively as of September 30, 2020.

On March 9, 2021, the shares of the Subsidiary began trading on the Tel Aviv Stock Exchange.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies

a. Basis of preparation of the financial statements

The Group's financial statements as of December 31, 2023 and 2022, and for each of the three years in the period ended December 31, 2023, comply with International Financial Reporting Standards, which are published by the International Accounting Standards Board (hereinafter – IFRS) and include the additional disclosure required by the Securities Regulations (Annual Financial Statements) 2010.

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

- 1) The principal accounting policies described below have been implemented consistently for all periods presented, unless otherwise is stated.
- 2) The preparation of financial statements, in accordance with IFRS, requires the use of certain significant accounting estimates. Furthermore, it requires the Group's management to exercise discretion in the process of the implementation of the Group's accounting policy. Note 3 provides disclosure of the areas in which a considerable degree of discretion or complexity is involved, or those in which the assumptions and the estimates have a significant impact on the consolidated financial statements. Actual results may be significantly different from the estimates and the assumptions that have been used by the Group's management team.
- 3) The Operational Turnover Period of the Group is 12 months.
- 4) The Group analyzes its expenses on the statement of profit or loss based on the operating characteristics of such expenses.

d. Consolidated financial statements

- 1) Contingent consideration in business combinations

Contingent consideration created to the group as part of a business combination is measured at fair value on the date of the business consolidation. Subsequent changes in the fair value of the contingent consideration, classified as an asset or as a liability, are recognized in accordance with International Financial Reporting Standard 9 "Financial Instruments" (hereinafter - IFRS9) in profit or loss. (See Note 13).

- 2) Transactions with non-controlling interests

Transactions with non-controlling interests in subsidiaries that do not result in loss of control are accounted for as transactions with owners. In these transactions, the difference between the fair value of any proceeds paid or received and the amount by which the non-controlling interests are adjusted to reflect the changes in their prorated rights in the subsidiary, is recognized directly in an equity reserve for non-controlling interests.

e. Segment reporting

Operating segments are reported on the same basis used for internal reporting to the Chief Operational Decision Maker (CODM) of the Company, who is responsible for the allocation of resources to the Company's operating segments and evaluating their performance (See Note 5).

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

- 1) The functional 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 U.S. dollar.

Following is the list of the material subsidiaries with a different functional currency from the group's presentation currency:

Euro functional currency - Schiesser, Eminence, Seven for all Mankind International and Organic Basics.

New Israeli Shekel functional currency - Delta Israel Brands.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

The following are the changes during the reporting periods in the exchange rate of the US Dollar (hereinafter – "The Dollar") against 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
	<u>%</u>	<u>%</u>
For the year ended December 31, 2023	(3.1)	3.8
For the year ended December 31, 2022	13.1	(5.8)

The exchange rate of the Dollar against the NIS as at December 31, 2023 is 1 Dollar is NIS 3.627

The exchange rate of the Dollar against the NIS as at December 31, 2022 is 1 Dollar is NIS 3.519

The exchange rate of the Euro against the Dollar as at December 31, 2023 is 1 Euro is 1.106 Dollars

The exchange rate of the Euro against the Dollar as at December 31, 2022 is 1 Euro is 1.066 Dollars

2) Transactions and balances

Transactions in a currency other than the functional currency (hereinafter – foreign currency) are translated into the functional currency using the exchange rates in effect on the dates of the transactions. Exchange rate gains and losses arising from the settlement of such transactions and translation of the monetary assets and liabilities denominated in foreign currency according to the exchange rates at the end of the year are presented in profit or loss and other comprehensive income, within "financing expenses, net", except when they are recognized in other comprehensive income as a cash flow hedge.

3) Translation of financial statements of Group companies

The results and financial position of all companies in the Group (where the functional currency of neither of them is 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 as of the date of each statement of financial position are translated in accordance with the closing rate at the same date of the statement of financial position.
- b) Income 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 income and expenses are translated in accordance with the exchange rates at the times of the transactions).
- c) All resulting exchange rate discrepancies are recognized under other comprehensive income.

Goodwill and fair value adjustments arising from the acquisition of foreign operations, are accounted for as assets and liabilities of the foreign operations and are translated according to the closing rate. Exchange rate gains and losses in respect of such translation are recognized in other comprehensive income.

g. Property, plant and equipment

Property, plant and equipment are presented at cost less accumulated depreciation and impairment losses. The depreciation of assets, except for land under ownership, which is not depreciated, is calculated using the straight-line method over the estimated useful life of the 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%)

Leasehold improvements are depreciated using the straight-line method over the shorter of the period of the lease contract or the estimated useful life of the improvements.

Gains or losses on disposal of property, plant and equipment are determined by comparing the net proceeds received with their carrying amount, and are recognized within "other income (expenses)" in the statement of profit and loss.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

h. Intangible assets

1) Goodwill

Goodwill created in the acquisition of subsidiaries is included within intangible assets. For testing goodwill for impairment, goodwill is allocated from the date of purchase to each of the cash generating units or groups of cash generating units, which are expected to benefit from synergies in the business combination. Any unit or group of units to which the goodwill is allocated, represents the lowest level in the group at which goodwill is monitored for internal management purposes and is not larger than an operating segment.

Regarding testing goodwill for impairment, see note 2G and 8B.

2) Contractual customer relations

Contractual customer relations acquired as part of a business combination transaction are recognized at fair value at the time of purchase. Contractual customer relations have a defined useful life and are presented at cost less accumulated amortization. Amortization is calculated based on the straight-line method over the expected useful life of the customer relations.

3) Trademarks

a. Rights to use of trademarks are recognized at the discounted amount of the liability for minimal royalty payments and are amortized over the shorter of the term of contract (generally 3-4 years) and the estimated useful life. See also Note 8C.

b. Certain trademarks acquired in business combinations are recognized at fair value as of acquisition date and are amortized over the shorter of the term of contract and the estimated useful life.

4) Brands

Brands are recognized at fair value as of acquisition date and are not systematically amortized, as the Group considers them to have indefinite useful lives. The value of the brands is tested at least annually or if indicators of impairment exist.

Regarding the testing of brands for impairment, see note 2 G and 8D.

5) Computer software

Licenses for the use of computer software are presented on the basis of the accumulated costs to purchase the computer software and bringing it to a condition in which it can be used. These costs are amortized over the estimated useful life of the software (4 years). 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, employee-related costs spent on the development of the software and a relevant portion of the indirect expenses capitalized to intangible assets, subject to compliance with the directives of IAS 38 – "Intangible Assets".

i. Impairment of non-monetary assets

Non-monetary assets that are intangible assets with indefinite useful life, such as goodwill, are not subject to amortization and instead are tested annually for impairment, if indications exist of impairment of the assets or the cash generating unit to which they are allocated.

Assets that have a defined useful life, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized at the amount which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the higher of the fair value of the asset, less costs of disposal and its value in use. For the purpose of assessing impairment, the assets are grouped into the lowest levels at which separate identified cash inflows exist (cash-generating units).

Impairment loss, if any, is allocated to reduce the carrying amount of a unit's assets (or the group of units) in the following order: First, reduce the carrying amount of any goodwill assigned to a cash generating unit (or group of units) and then to the other assets of the unit (or group of units) pro rata on the basis of the carrying amount of each asset in the unit (or group of units). Non-monetary assets, with the exception of goodwill, which has been impaired, are examined for identifying a possible reversal of the impairment recognized at each date of the financial statement. An impairment loss recognized for goodwill cannot be reversed in a later period.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

j. Financial Assets

a. Classification

The Group classifies 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.

Financial assets at amortized cost are financial assets held within a business model with the objective of holding financial assets in order to collect contractual cash flows and contractual terms that give rise on specified dates to cash flows that are payments of principal and interest on the principal outstanding.

b. Recognition and measurement

Financial assets are initially recognized at fair value plus transaction costs, except trade receivable that are initially recognized at transaction price, as required by IFRS 15, and are measured in subsequent periods at amortized cost, less the provision for expected credit losses.

Regular purchases and sales of financial assets are recognized on clearing date, which is the date on which the asset is delivered to the Group or delivered by the Group.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has substantially transferred all the risks and rewards of ownership of these assets.

Financial assets at amortized cost are presented as current assets, except for maturities due more than 12 months after the period end (classified as non-current assets).

The financial assets at amortized cost of the group are included in the following items: restricted cash, short-term deposits, trade receivables, other receivables, cash and cash equivalents as well as other long-term liability balances that appear in the statement of the financial position.

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 or group basis. For this purpose, the Company compares the risk of a default associated with a financial instrument at reporting date with the risk of a default at initial recognition, taking into account all reasonable information that can be substantiated, including forward-looking information.

For financial assets with a low credit risk, the Company assumes that the credit risk did not increase significantly from the date of initial recognition and accordingly, the provision for loss is measured at the amount of expected credit losses in a period of 12 months. The amount of the expected credit losses (or the reversal thereof) is recognized in profit or loss within administrative and general expenses.

k. Derivative Financial Instruments and Hedging Activity

The Company has financial instruments that qualify for cash flows hedging in connection with payment related to bonds and purchasing and manufacturing of inventory. The Company also has financial instruments that do not qualify for hedging.

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently re-measured at fair value at the end of each reporting period. (See Note 4G).

The method of recognition in profit or loss, following changes in fair value, is dependent on whether the derivative instrument qualifies as a hedging instrument, and if it is, it is dependent on the nature of the hedged item.

Changes in the fair value of derivative financial instruments, which do not qualify for cash flows hedging, are recognized in profit or loss under "other income (expenses), net", whereas changes in the fair value of items qualifying for cash flows hedging are recognized in other comprehensive income.

The Group designated certain derivative instruments for cash flow hedging.

At inception of the hedging relationship, the Group documents the economic relationship between hedging instruments and hedged items, including the objectives of the risk management and the strategy with respect to the execution of various hedging transactions. Furthermore, the Group documents its assessment, both at the time of the creation of the hedge as well as on an ongoing basis, regarding the derivative instruments, used in the hedging transaction, having high effectiveness in achieving offsetting changes in cash flow of hedged items.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

i. Derivative Financial Instruments and Hedging Activity (continued)

A change in the fair value is recognized in 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 financial statement, or as a current asset or liability, where the remaining time to redemption is less than 12 months after the date of the financial statement.

The gain or loss relating to the non-effective portion in respect of the financial instrument with respect to acquisition transactions and manufacturing inventory, is recognized immediately in the statement of profit and loss under "other income (expenses), net".

The gains and losses, which were deferred in the past under other comprehensive profit, are transferred from equity and included within the initial cost of the asset.

The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss, through cost of sales.

l. Inventory

The inventory of finished goods purchased by the Group is measured at the lower of cost or net realizable value. The cost is determined on the moving average basis. The cost of finished goods and work in progress includes direct cost of production, labor cost and loading of indirect costs based on normal capacity. The cost of the inventory of raw materials and supplies is also determined on the moving average basis.

The cost of inventory includes gains/losses on hedging cash flows used for purchasing finished goods, which were transferred from equity.

Generally, write off of inventory is recorded in the different operating segments, as elaborated below:

The Brands operating segment includes inventory of raw materials, inventory of work in progress and inventory of finished goods. A write down of this inventory is made according to its age, with the discount rate also being determined according to the age of inventory, so that an older inventory is written down at a higher rate.

The Private Labels segment includes inventory of finished goods, which is intended for specific customers and is not written down. This segment also includes inventory of raw materials, supplies and work in progress manufactured in the Group's production plants, and is written down according to its age.

The Seven for all Mankind and Delta Israel segments include inventory of finished branded goods sold through stores of the respective chains, online and wholesale to retailers.

A write down of the inventory of finished goods is based on a determination of whether it is inventory of basic or fashion products.

Other inventory includes branded finished goods sold through the Group's website. A write down of that inventory is based on a determination of whether it is inventory of basic or fashion products.

The inventory of basic products, which can also be sold in future seasons, is not written down. In relation to inventory of fashion products, the need for write down of the inventory is examined after the end of the season in which it was to be sold. If the market price less the selling costs receivable from its sale as excess stock is lower than the depreciated cost, the inventory is written down, taking into account its selling potential in the Group's outlet stores.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

m. Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term bank deposits, with maturities of three months or less.

Classification of cash flows from interest and dividends in the statement of cash flows

In the consolidated statement of cash flows, the Group presents interest received and interest paid under cash flows from operating activities. Additionally, the Group presents dividends paid within cash flows from financing activities.

n. Treasury shares

The cost of purchasing the Company's shares held by it (treasury shares) is reduced from the equity attributed to owners of the Parent until the shares are cancelled or reissued, using the weighted moving average method.

o. Bonds

Bonds are initially recognized at fair value, net of issuing costs. Bonds are subsequently measured at amortized cost, with the difference between the amount of the loan on the date of initial recognition and their maturity value recognized in the statement of comprehensive income over the term of the bonds, using the effective interest method.

p. Current and deferred taxes

Tax expenses for the reported years include current and deferred taxes. Taxes are recognized in profit or loss, except for taxes arising from business combination and taxes relating to items carried to other comprehensive income, which are also recognized in other comprehensive income.

The current taxes are tax amounts expected to be paid on the taxable income, which are calculated on the basis of the tax laws enacted or substantively enacted, at the balance sheet date, in the countries in which the Company and its subsidiaries operate, including tax payments of prior years.

The Group management periodically evaluates the tax aspects applicable to its taxable income based on the relevant tax laws and makes provisions in accordance with the amounts expected to be paid to the tax authorities.

Deferred taxes are fully calculated using the liability method, on all temporary differences arising between the amounts of assets and liabilities, as reported in the consolidated financial statements, and their carrying amounts. However, the temporary difference is not accounted for if it arises from initial recognition of goodwill and the temporary difference from initial recognition of an asset or liability that at the time of the transaction affects neither accounting nor taxable profit or loss (unless the temporary difference arises from initial recognition in a transaction of a business combination).

Deferred tax assets are recognized for all temporary differences that are tax deductible, up to the amount of the differences that are expected to be utilized in the future, against taxable income. Deferred tax assets are reviewed at each balance sheet date and if the exercise of the relevant tax benefits is not expected, they are amortized. Deferred tax balances are computed at the tax rates expected to be in effect at the time the deferred tax asset is utilized or the deferred tax liability is settled, based on the tax rates and the tax laws enacted, or substantively enacted in the countries in which the Company and its subsidiaries operate at the statement of financial position date.

Taxes that would apply in the event of disposal of investments in subsidiaries and companies accounted for using the equity method have not been taken into account in computing the deferred taxes, as it is the group's policy to hold these investments, not to dispose of them.

The Group's companies may be charged additional tax in case of an inter-company dividend distribution. This additional tax is not included in the accounts, in light of the Group's policy to not pay dividend that creates additional tax in the foreseeable future.

For information about the effect of the Pillar 2 rules on the Group, see note 15j.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

q. Share based payments

The Company's Board of Directors approves from time to time plans for the issue of options and/or restricted share units (RSUs) to the Group's employees, see note 14 below. Some of the options and/or the RSUs granted sometimes have operational goals attached to them. The fair value of options and/or RSUs issued is recognized as payroll expense and a corresponding increase in retained earnings, in the following manner:

- Market-related performance conditions (for example, the share price of the entity) are considered;
- The effect of terms of service and non-market vesting conditions (for example, meeting profitability and sales targets and continuing to work for the Group for a certain period) are not considered; and
- Non-market vesting conditions are included among the assumptions used to estimate the number of options and/or RSUs that are expected to vest. The total expense is recognized over the vesting period, which is the period during which all the conditions set for the vesting of the share-based payment arrangement are to be met.

At each period-end, the Group updates its estimates regarding the number of options and/or RSUs expected to vest, based on non-market vesting conditions, and recognizes the effect of the change compared to the original estimates, if any, in profit or loss and correspondingly in the equity.

When stock options are exercised, the related exercise price is recognized in share capital (at par value) and share premium.

r. Provisions

Provisions for realignment costs are recognized in the financial statements where the Group has a present legal or constructive obligation that arises from past events; an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation... Provisions for realignment expenses include employee compensation when the Group approves a formal and detailed realignment plan, and when the realignment begins in practice, or when it is announced (see note 19g). The provisions do not include future operational costs.

Provisions are measured at the present value of management's best estimate of the cash flow expected to be required to settle the existing obligation at the statement of financial position date.

s. Revenue recognition

The Group has revenue from the sale of products to customers and from royalties.

1. Measurement of revenue

The Group's revenue is measured according to the amount of consideration it 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. Revenue is presented net of VAT and after the elimination of intercompany revenue.

If the consideration promised to the customer includes is variable (for example, as a result of discounts or a right to return goods), the Group 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 transaction price the entire amount of the variable consideration, or part thereof, but only when it is highly probable that a significant cancellation of the recognized cumulative revenue will not occur when the uncertainty associated with the variable consideration is resolved. At the end of each reporting period, the Group 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 is variable and recognized within trade receivables in the Group's statement of financial position. The Group does not adjust the consideration promised for the impact of a significant financing component if the Group expects, at the date of entering into a contract, that the period between the date on which the Group transfers the goods promised to the customer and the date on which the customer pays will be one year or shorter.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

2. Timing of revenue recognition

The Group recognizes revenue when the customer obtains control of the goods in accordance with the sales agreement.

3. Main Types of Group revenue:

a) Wholesale revenue

The Group manufactures and sells a variety of products for the wholesale market. The sale of goods is recognized upon delivery by the Group of the goods to the wholesaler, with the latter having full discretion regarding the retail 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 shipped to a specified location, the aging and loss risks have been transferred to the wholesaler, and the wholesaler accepted the products in accordance with the sales contract, the terms for acceptance have expired or the Group has objective evidence that all acceptance criteria have been met.

The Group's products are sometimes sold at bulk 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 bulk discounts and returns as of the date of sale.

Accumulated past experience is used to make estimates and provisions for discounts and returns. The bulk discount estimate is based on the expected acquisitions for the year. Sales do not include a financing component, since credit term is less than one year.

b) Retail revenue

The Group operates chains of retail stores. The sale of goods is recognized when the Group sells a product to a consumer. Retail sales are usually made in cash or through credit cards.

The Group's policy is to sell to retail customers with a right to return the products in accordance with the law. Accumulated past experience is used to make estimates and provisions for returns on the date of sale. For information about the accounting for the right of return, see section a. above.

The subsidiary in Israel operates a customer loyalty program in which retail customers are entitled to accumulate points on their purchases, which entitle them to discounts on future purchases. A liability for the loyalty program is recognized for the points awarded at the time of sale to the customer and is charged against the revenue recognition, at the earlier of the actual utilization or the expiry of the points, over 12 months each year from the date of the customer joining the loyalty program.

c) Online revenue

Revenues from online sales are recognized when the customer obtains control over the products. Payment in respect of the transactions is made through credit card.

t. Leases

The Group leases mainly real estate used for offices, stores and production facilities. Lease agreements are for a period of between 12 months and 25 years, but may include extension options.

At the date of initial recognition, the group recognizes a lease liability at the present value of the future lease payments, which include, among others, the exercise price of extension options that are reasonably certain to be exercised.

Concurrently, the Group recognizes a right-of-use asset at the amount of the lease liability, adjusted for any lease payments made on or before the commencement date plus any initial direct costs incurred by the Group.

Variable lease payments linked to the consumer price index are initially measured using the last published CPI at the beginning of the lease, and are included in the calculation of the lease liability. When there is a change in lease-related cash flows as a result of a change in the CPI, the Group re-measures the lease liability using the updated contractual cash flows, as an adjustment to the right-of-use asset.

Variable lease payments that are not linked to the CPI or exchange rate are not included in the calculation of the lease liability, and are recognized in profit or loss in the period in which the event or condition that triggered these payments occurred.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

r. Leases

Since the interest rate embedded in the lease cannot be readily determined, the Group uses an external valuator to determine the incremental interest rates for each relevant segment.

Interest on the lease liability is recognized in profit or loss in each lease period, at an amount that produces a fixed periodic interest rate on the remaining balance of the lease liability.

The lease term is the period during which the lease cannot be cancelled, including periods covered by an option to extend the lease if the Group is reasonably certain to exercise this option, and periods covered by a termination option if the Group is reasonably certain not to exercise this option.

After the lease commencement date, the Group measures the right-of-use asset at cost, less accumulated depreciation and accumulated impairment losses, adjusted for any re-measurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the leased asset's useful life and the lease term using the straight-line method

	<u>%</u>
Buildings	2-7
Equipment and machinery	7-25
Motor vehicles	6-25

Payments in respect of short-term leases of equipment and vehicles as well as payments in respect of leases in which the underlying asset is of low value, are recognized using the straight-line method over the lease term, as an expense in profit or loss. Short-term leases are leases in which the lease term is 12 months or less.

Provisions for the impairment of a right-of-use asset are recognized in the financial statements when the unavoidable costs for complying with contract obligations exceed the economic benefits expected to be received by it. The unavoidable contractual costs the least net cost of exiting from the contract,

Which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, or penalties from the failure to fulfill it.

u. New International Financial Reporting Standards, Amendments to Standards and New Interpretations

1. Amendments to the existing Standards coming into effect, implemented by the Company and binding for reporting periods starting January 1, 2023

a. Amendment to the International Accounting Standard 1 Presentation of Financial Statements, regarding accounting policies (hereinafter in the section: Amendment to IAS 1).

The amendment to IAS 1 requires companies to disclose their material accounting policies, rather than their significant accounting policies. According to the amendment, accounting policy information is material if, when considered together with other information included in the financial statements, it can reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements.

The amendment also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendment to IAS 1 clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. According to provisions of the amendment to IAS 1, the amendment was applied by the Group to these consolidated financial statements, beginning January 1, 2023, and it led to the reduction and focus of the information given regarding the accounting policy relative to previous reports.

b. Amendment to International Accounting Standard 12 Taxes on Income, deferred taxes related to assets and liabilities arising from a single transaction (below, in this section - the Amendment to IAS 12).

The Amendment to IAS 12 clarifies that the exemption from the creation of deferred taxes arising from the initial recognition of an asset or a liability in a transaction which is not a business combination, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss), (the exemption on initial recognition) is not applicable to transaction which at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

- b. Amendment to International Accounting Standard 12 Taxes on Income, deferred taxes related to assets and liabilities arising from a single transaction (below, in this section - the Amendment to IAS 12).

Such transactions include, for example, lease transactions where at the commencement date of a lease, a lessee typically recognizes a lease liability and the corresponding amount as part of the cost of a right-of-use asset as well as recognition of dismantling, removing and restoring obligations recognized against cost of property, plant and equipment.

According to provisions of the Amendment to IAS 12, the amendment was implemented by the Group as of January 1, 2023, on all transactions from the beginning of the earliest reporting period, presented in the financial statements. The initial application of the Amendment to IAS 12 had no material impact on the consolidated financial statements of the group.

- c. Amendment to International Accounting Standard 12 Taxes on Income, International Tax Reform - Pillar 2 Model Rules (below in this section the Amendment to IAS 12)

The amendment to IAS 12 establishes a temporary mandatory exception (hereinafter the temporary exception) from the application of the provisions of IAS 12 regarding the recognition and disclosure of Deferred tax assets and liabilities arising from the application of Pillar 2 rules, subject to disclosing the application of the temporary exception.

Additionally, according to the amendment to IAS 12, in the periods where the Pillar 2 legislation is in effect, an entity is required to disclose separately its current tax expenses (income) related to application of Pillar 2 Rules.

Disclosure requirements that state that in periods in which pillar two legislation is enacted or substantively enacted, but not yet in effect, an entity discloses known or reasonably estimable information that helps users of financial statements understand the entity's exposure to pillar two income taxes arising from that legislation. To meet this disclosure objective, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

According to provisions of the Amendment to IAS 12, the temporary exception from the recognition and disclosure of deferred taxes and the disclosure requirement of the application of the temporary exception applies immediately in May 2023 upon the issue of the amendments and retrospectively. All other disclosure requirements apply to annual reporting periods beginning on or after January 1, 2023.

Accordingly, within these consolidated financial statements, the Group disclosed the information required in Note 15 J.

Delta Galil Industries Ltd.

Notes to the Financial Statements

Note 2 –The Principles of Accounting Policies (continued)

2. New standards and amendments to existing standards which are not yet effective and which the Group did not elect the early implement them:

a) **Amendment to International Accounting Standard 1 “Presentation of Financial Statements”, “Classification of Liabilities as Current or Non-current Liabilities” and “Non-current Liabilities with Covenants” (hereinafter in this section – the Amendments to IAS 1).**

The amendments to IAS 1 clarify the guidance regarding the classification of liabilities as current or non-current in the statement of financial position. The amendments clarify that:

1. A liability will be classified as a non-current liability if the entity has an unconditional right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.
2. The right to defer settlement of a loan arrangement for at least twelve months after the reporting period is often subject to the entity complying with specified conditions (hereafter – financial covenants). Classification of a loan arrangement as a current or non-current liability at the end of the reporting period if the entity complies with those conditions at or before that date. Financial covenants the entity is required to comply with at the end of the reporting period will not be considered in this decision.
3. If a liability on a loan arrangement for which the entity is subject to its compliance with covenants within twelve months after the reporting date is classified as non-current, the entity needs to disclose information in the notes to the financial statements so that users understand the risk that the liabilities could become repayable within twelve months after the reporting date. The disclosure requirements include providing information about the covenants, such as the nature of the covenants, when the Company is required to comply with them, the carrying amount of related liabilities as well as facts and circumstances, if any that indicate the entity may have difficulty complying with the covenants. This disclosure may refer to any action the entity has taken during or after the reporting period to avoid or mitigate a potential breach, as well as the fact that the entity would not have complied with the covenants if it were to be assessed for compliance based on its circumstances at the end of the reporting period
4. The entity's intention to exercise its right to defer the settlement of the liability for at least 12 months after the end of the reporting period is irrelevant to the purpose of classification of the liability.
5. Settlement of liability through the transfer to the counterparty of the entity's cash, other financial resources or equity instruments. The classification of liabilities as current or non-current will not be affected by the counterparty's option to demand settlement with equity instruments of the entity if the option qualifies for classification in equity.

The amendment to IAS 1 will be applied retrospectively to annual periods beginning on January 1, 2024 or thereafter. According to the provisions of the standard, early adoption is permitted. The first-time application of IAS 1 is not expected to have a material impact on the consolidated financial statements of the Group.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 3 – Critical accounting estimates and judgments

As part of the financial reporting process, the management is required to make certain assumptions and estimates that may affect the value of assets, liabilities, sales, expenses and some disclosures provided in the Group's consolidated financial statements. By their nature, these estimates may be subjective and complex and therefore differ from actual results.

The accounting estimates and assumptions used in preparing the financial statements are regularly assessed and are based on past experience and other factors, including future events that are reasonably expected in current circumstances.

Following is a description of critical accounting estimates used in preparing the financial statements, which required the Company to make assumptions regarding circumstances and events involving significant uncertainty. In exercising its judgment in making accounting estimates, the Company takes into account, as applicable, relevant facts, past experience, the impact of external factors and reasonable assumptions in the circumstances.

a. Significant accounting estimates and assumptions

1) Inventory Write off

The Company prepares monthly estimates for the amortization of slow moving or obsolete inventory, based on past experience, remaining inventory from previous seasons and sales forecasts. See note 2j.

2) Goodwill Impairment

At least once annually, and when certain events take place, the Company tests the need for goodwill impairment, in accordance with management forecasts of the discounted cash flows from the cash-generating unit to which the goodwill is allocated. See note 8b.

3) Property, Plant and Equipment Impairment

Depreciation expenses on property, plant and equipment are calculated using the straight-line method on the basis of their estimated useful lives.

In addition, the Company tests the need for additional depreciation whenever impairment indicators exist.

4) Impairment of brands

The balance of brands includes Karen Neuberger, which was purchased in 2011; Schiesser, purchased in 2012; P.J. Salvage, purchased in 2015; Seven for All Mankind and Splendid, purchased in 2016, Eminence, Athena and Liabel, purchased in 2018; Bare Necessities, purchased in 2020; and Organic Basics, purchased in 2022. The carrying amount of the brands is measured at fair value on the date of acquisition and calculated as part of the purchase price allocation made by external evaluators.

In addition, the brand's balance includes the Fix brand, which was purchased in 2014, and is presented at historical cost.

All brands have an indefinite useful life and are not amortized on an ongoing basis, with the exception of Organic Basics and Bare Necessities.

The group examines the estimate of the useful life of an intangible asset that is not impaired at least annually to determine whether events and circumstances continue to support the determination that the intangible asset has an indefinite life.

Furthermore, at least once annually and when certain events take place, the Company tests the need for creating a provision for impairment, see note 8d.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 3 – Critical accounting estimates and judgments (continued)

5) Taxes on income and deferred taxes

The Group is assessed for tax purposes in a large number of jurisdictions, and accordingly, management is required to apply considerable discretion to determine the overall provision for taxes on income. The Group creates a provision in its accounting records based on its estimates regarding the likelihood of additional tax payments for these transactions.

Where the final tax liability, as determined by tax authorities, differs from the tax liability in the financial statements in previous periods, this difference is reflected in profit and loss in the period in which the final assessment is made by the tax authorities.

Furthermore, the Group creates deferred tax assets and deferred tax liabilities on the basis of the differences between carrying amounts of assets and liabilities and their tax bases. The Group regularly reviews the recoverability of deferred tax in its accounts, on the basis of historical taxable income, projected taxable income, the timing of the expected reversal of temporary differences and implementation of the tax planning strategy. If the Company is unable to earn sufficient future taxable income 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.

6) Setting the discount Rate for Lease Liabilities

On the date of initial recognition, the present value of a lease liability is calculated using the incremental interest rate of the entity leasing the property as of that date.

This interest rate is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

A change in the discount rates compared to management estimates will affect the balances of the lease liability and right-of-use asset, as well as the interest expenses for the liability and the depreciation charges for the right-of-use asset as recognized in the income statement.

b. Critical judgment in applying of the Group's accounting policies

Determining the lease period

As part of applying IFRS 16, management considers facts and circumstances that create an economic incentive to exercise of extension options or the non-exercise of termination options. Extension options, or periods after the exercise of termination options, are included in the term of the lease only to the extent that it is reasonably certain that the lease will be extended (or not terminated).

The Company examines, based on past experience and its business plans, whether the existing extension options in the lease agreements it is party to are reasonably certain to be exercised or not.

The Company's management re-evaluates whether the extension option is reasonably certain to be exercised, or the termination option is reasonably certain 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 certain to exercise an option that was not previously included in determining the lease period, or not exercise an option previously included in determining the term of the lease.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 4 – Financial instruments and financial risk management

a. Financial risk factors

The Group's activity is 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 risk management plan focuses on the uncertainty of financial markets and seeks ways to minimize potential adverse effects on the Group financial performance. From time to time, the Group 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 senior management. This policy deals with 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 are derived from commercial transactions, assets or liabilities or net investments in foreign operations denominated in currencies 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 excess cash flows in Euros and NIS will be affected by changes in exchange rates. Furthermore, the Group sometimes invests in foreign currency derivatives. Also, the group sometimes invests in other foreign-currency derivatives such as in relation to the Turkish Lira, Chinese Yuan, Egyptian Lira and Thai Baht in order to protect itself from the cash flow risk arising from costs to manufacture inventory.

The Group also invests from time to time in another foreign-currency derivatives (the Euro versus Czech Koruna), futures contracts or options in order to protect itself against the risk of the cash flow arising from the production costs at the Company's factory in the Czech Republic, which may be affected by a change at exchange rates. The term of such contracts is usually shorter than one year. Those transactions are mainly intended to protect against the change in the above stated exchange rates.

See Note 12A for information about hedging cash flows from the issue of NIS bonds.

For information about transactions to hedge cash flows from the purchase and manufacturing of inventory, see note 12B.

Exchange rate risk exists when future commercial transactions or assets and liabilities in the financial statements are measured and denominated in currencies other than the entity's functional currency.

As of December 31, 2023, had the Group's functional currency weakened/strengthened by 5% or 10% against the NIS with all other variables remaining constant, the total profit for the year would be about US\$ 1,396 thousand or about US\$ 2,792 thousand lower/higher, respectively (as of December 31 2022 – about US\$ 277 thousand and about US\$ 554 thousand, respectively), primarily related to foreign exchanges gains/losses on net NIS-denominated monetary balances, presented in the statement of the financial position.

As of December 31, 2023, had the Group's functional currency been weaken/strengthen by 5% or 10% against the Euro, with all the other variables remaining constant, the comprehensive income for the year would have been approximately US\$ 3,527 thousand or approximately US\$ 7,054 thousand lower/higher, respectively (as of December 31 2022 – approximately US\$ 4,246 thousand and US\$ 8,492 thousand, respectively), primarily related to foreign exchanges gains/losses on net Euro-denominated monetary balances, presented in the statement of the financial position.

The above exposures do not include the effect of forward cash flow hedging transactions.

b) Risk due to changes in the interest rate

Risks related to changes in interest rates may have a negative impact on the Company's net income or cash flows. Higher or lower interest rates cause changes in the Company's interest income and expenses due to interest-bearing assets and liabilities.

For information about the effects of the change in interest rates on financing expenses of the Company, see note 1(b) 2.

Delta Galil Industries Ltd.

Notes to the Financial Statements

Note 4 – Financial instruments and financial risk management (continued)

2) Credit risks

Credit risks are managed at the Group level. Credit risks are primarily connected to cash and cash equivalents, bank deposits and credit exposure to customers. The Company assesses the risks associated with the credit worthiness of the customers by considering their financial positions, past experience and other factors. Sales to customers are generally carried out under credit terms of up to 90 days. Sales to retail customers are made in cash or by credit cards, through major credit card companies.

Most of the Group's cash and cash equivalent balances as of December 31, 2023 are deposited with the banking corporations: Bank Leumi, Bank Mizrahi, Bank Discount, Commerz Bank, DBS, UNHCR HypoVereinsbank, UBS and a number of other banks, mainly in Europe.

The Company believes that the credit risk in relation to these bank balances is low.

3) Liquidity risks

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Due to the dynamic nature of its underlying businesses activity, the Company maintains finance flexibility regarding those assets (see note 19d).

The following table presents the Group's financial liabilities by maturity dates, based on their remaining contractual term. The amounts presented in the table represent undiscounted cash flows

	<u>Less than one year</u>	<u>Between one year and two years</u>	<u>Between three years and five years</u>	<u>More than five years</u>	<u>Total</u>
	US\$ in thousands				
Balance as at December 31, 2023:					
Bonds	36,898	35,515	68,409	-	140,822
Long-term Banks loans	30,936	25,944	70,473	67,410	194,763
Short-term bank borrowings	822	-	-	-	822
Trade Payables	168,637	-	-	-	168,637
Lease liabilities	58,301	50,253	112,710	101,683	322,947
Other payables and other liabilities	203,501	26,970	40,279	3,020	273,770
	<u>499,095</u>	<u>138,682</u>	<u>291,871</u>	<u>172,113</u>	<u>1,101,761</u>
Balance as at December 31, 2022:					
Bonds	54,960	36,898	87,187	16,736	195,781
Long-term Banks loans	48,035	22,451	52,053	83,599	206,138
Short-term bank borrowings	51,430	-	-	-	51,430
Trade payables	209,673	-	-	-	209,673
Lease liabilities	53,437	44,576	89,392	71,356	258,761
Other payables and other liabilities	208,715	28,834	45,748	10,742	294,039
	<u>626,250</u>	<u>132,759</u>	<u>274,380</u>	<u>182,433</u>	<u>1,215,822</u>

Management periodically reviews the ratio between future cash flows derived from maturities on its liabilities and future cash flows derived from maturities of its financial assets. Where necessary, the Group modifies its liability composition and their maturities. Management believes that the liquidity risk of the Group is low.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 4 – Financial instruments and financial risk management (continued)

b. Capital risk management

The Group's capital risk management targets are to preserve the Group's ability to continue as a going concern in order to provide shareholders return on their investments, benefits to other interested parties, and to maintain an optimal capital structure to reduce the cost of equity.

From time to time, as required, the Group considers the need to raise outside capital.

Leverage:

The following is a calculation of the net financial debt to overall equity (CAP) as at December 31, 2023 and 2022:

	As at December 31,	
	2023	2022
	US\$ in thousands	
Financial debt, net ⁽¹⁾	380,784	429,578
Total equity (CAP) ⁽²⁾	1,359,440	1,362,994
Leverage ratio – net financial debt to CAP *	28.0%	31.5%

(1) Net financial debt includes short-term and long-term bank borrowings, bonds, interest payable, other loans, a derivative financial instrument, less a deposit serving as collateral for the derivative and lease liabilities, and less cash and cash equivalents and short-term deposits.

(2) Total equity (CAP) refers to the gross financial debt, including a financial derivative, and less a deposit serving as collateral for the derivative, as stated above, equity and provision for deferred taxes.

* Leverage ratio – the ratio between net financial debt and CAP, excluding the impact of IFRS16, is 11.1% and 18.8% as of December 31, 2023 and 2022, respectively.

v. Fair value Assessments

The following is an analysis of financial instruments measured at fair value, in accordance with the evaluation method.

Inputs for the measurement are based on the following hierarchy:

1. Quoted prices (unadjusted) in active markets in which identical assets or liabilities are traded. (Level 1).
2. Inputs other than quoted prices included in level 1, that are observable for the asset or the liability either directly (i.e. as prices) or indirectly (i.e. prices derivatives) (Level 2).
3. Inputs that are 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 related to swap transactions for hedging bond payments is included in level 2 (see Note 12).

A liability for contingent consideration created on the acquisition of the Bogart subsidiary in 2019 is included in level 3 (see note 13).

Delta Galil Industries Ltd.

Notes to the Financial Statements

Note 4 – Financial instruments and financial risk management (continued)

w. Changes in financial liabilities with related cash flows classified as cash flows from financing activity:

	Credit and Short Term Bank Borrowings	Long-Term Bank Loans	Long-term loans and other financial liabilities	Bonds(*)	Lease Liabilities	Total
Balance as at January 1, 2022	-	124,623	12,495	194,705	210,627	542,450
Changes During 2022						
Cash inflows	51,430	60,397	-	-	-	111,827
Cash outflows	-	(7,223)	(1,668)	(21,409)	(58,533)	(88,833)
Other liabilities added in connection to providers of property, plant and equipment	-	-	12,938	-	-	12,938
Repayment of long-term loans in connection to acquisition agreement	-	-	(792)	-	-	(792)
Non Cash Additions	-	-	-	-	66,983	66,983
Amounts recognized in profit or loss	-	-	-	3,069	7,681	10,750
Amounts recognized in other comprehensive income:						
Foreign exchange translation / cash flow hedging	-	(2,494)	4,559	1,370	(14,615)	(12,550)
Balance as at December 31, 2022	<u>51,430</u>	<u>175,303</u>	<u>27,532</u>	<u>177,735</u>	<u>212,143</u>	<u>644,143</u>
Balance as at January 1, 2023	51,430	175,303	27,532	177,735	212,143	644,143
Changes During 2023						
Cash inflows	-	32,694	-	-	-	32,694
Cash outflows	(55,014)	(50,990)	(8,067)	(55,859)	(58,142)	(228,072)
Non Cash Additions	-	-	-	-	95,147	95,147
Other	-	2,498	(984)	506	-	2,020
Amounts recognized in profit or loss	4,351	7,568	-	6,614	9,397	27,930
Amounts recognized in other comprehensive income:						
Foreign exchange translation / cash flow hedging	55	222	(1)	804	(1,216)	(136)
Balance as at December 31, 2023	<u>822</u>	<u>167,295</u>	<u>18,480</u>	<u>129,800</u>	<u>257,329</u>	<u>573,726</u>

* The bonds are presented net of derivative financial instrument.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 5 – Segment reporting

a. Operating Segment

1) Changes in Reportable Operating Segments

From the beginning of 2021, and in particular early in the second quarter of 2021, the Company has changes, including a realignment, change in the compensation plan and changes in internal financial reporting, as part of its strategic plan for marketing its products. As a result of those changes, the Company reviewed its previous division into operating segments. Following those changes, a new reporting basis for operating segments was introduced beginning in the second quarter of 2021. As a result, the Company has the following operating segments: Brands, Private Labels, 7 for all Mankind, Delta Israel and e-Commerce Platform.

Beginning in the third quarter of 2022, and including in these financial statements, the e-Commerce Platform operating segment was renamed "Others", in light of the fact that the activities of Bare Necessities and Organic Basics, which were acquired during the year, is not material in a way that requires their presentation as a separate reportable segment.

The following are short descriptions of reportable operating segments, including details regarding the allocation of the various operations of the Company to the present operating segments in the Company's financial statements:

Brands - This segment includes the operations of the Schiesser and Eminence companies, the operation of PJ Salvage and Splendid brands as well as operations under brands in a license agreement, such as: Columbia, Tommy Hilfinger, Polo Ralph Lauren, Adidas, Wolford and others, in underwear, leisure wear and sleep wear categories.

Private Label - This segment includes the operation of private labels in all markets in which the Company operates, including the operations of the Bogart Group in the category of underwear, leisure wear and sleep wear. The customers of this operating segment include: Nike, Victoria's Secret, Walmart, Target and others.

7 for all Mankind - This segment includes the operations of the Seven jeans brand in the Premium Denim category for women, men and children. This activity has significantly different characteristics from the other branded products that are in the underwear and leisure clothing categories (e.g. underwear, bras, and pajamas). This difference is also reflected in dissimilar manufacturing processes, price points, supply chain, competitors, marketing and advertising efforts, etc. In light of the above, the Company presents this activity separately from the other brands it manages.

Delta Israel - In this segment, the Group is engaged in the development, design and marketing of branded underwear products for women and men, sleepwear, socks, activewear clothing and children's clothing products mainly under the "Delta" and "FIX" brands, distributed through the Company's network of stores in Israel, through the websites it owns as well as in wholesale activity to retail marketing chains in Israel.

In 2022 and thereafter, this operating segment includes the activity of the Panta Rei and Victoria's Secret brands, see note 17 below.

Others - Includes the activities of Bare Necessities, as well as Organic Basics, which was acquired in 2022, see note 6.

The activity is essentially different from that in e-commerce websites of the other segments, while in the field of Others operations, the Company mainly carries out retail activity of purchasing finished branded products from external suppliers, mainly underwear and swimwear, and sells them to the end consumers online. On the other hand, the websites of other segments serve as an additional sales channel to traditional ones, through which the Company's brands are sold to the end customers.

For information regarding the realignment plan at Bare Necessities, see note 21 – Subsequent events.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 5 – Segment reporting (continued)

a. Operating Segment (continued)

2) Information on segment sales, profit (loss) and assets of the reportable segments:

a. The measurement of segment sales, profit (loss) and assets:

The measurement of segment sales, profit (loss) and assets are based on the same accounting principles that have been implemented in the consolidated financial statements.

Segment profit (loss) is excluding impairment of non-financial assets, realignment costs, activity acquisition costs and change in a contingent consideration liability, and do not include financing expenses and income tax expenses, since those items are not attributable to any specific segment, and are not analyzed on a segment-basis by the CODM.

Intersegment selling prices are based on negotiations between the segments, and when possible, on market prices.

b. Segment assets primarily include property, plant and equipment, intangible assets, inventory, accounts receivable and right of use assets. Assets not attributed to segments primarily include cash and cash equivalents and deferred taxes.

In addition, the CODM does not examine liabilities as part of segment data.

Delta Galil Industries Ltd.

Notes to the Financial Statements

Note 5 – Segment reporting (continued)

b. Information on segment activity

	Brands	Private label	Delta Israel	7 for All Mankind (Audited)	Others	Inter-Company Cancellations and Adjustment (*)	Total
	US\$ in thousands						
For the year ended December 31, 2023							
Sales to external customers	609,249	699,443	256,803	209,056	83,131	-	1,857,682
Inter segment	545	20,923	-	-	-	(21,468)	-
Total sales, net	<u>609,794</u>	<u>720,366</u>	<u>256,803</u>	<u>209,056</u>	<u>83,131</u>	<u>(21,468)</u>	<u>1,857,682</u>
Segment profit (loss)	<u>35,562</u>	<u>87,496</u>	<u>42,252</u>	<u>8,787</u>	<u>(19,132)</u>	<u>(1,945)</u>	<u>153,020</u>
Realignment Expenses	-	9,426	-	892	1,103	-	11,421
Change in fair value of contingent consideration liabilities	-	(4,000)	-	-	-	-	(4,000)
Acquisition costs	-	-	406	-	-	260	666
Operating Profit							<u>144,933</u>
Financing expenses, net							<u>37,932</u>
Profit before taxes on income							<u>107,001</u>
Assets at the end of the year(**)	<u>709,722</u>	<u>492,047</u>	<u>329,810</u>	<u>217,101</u>	<u>35,721</u>	<u>4,186</u>	<u>1,788,587</u>
Depreciation and amortization	<u>22,448</u>	<u>27,889</u>	<u>21,241</u>	<u>19,642</u>	<u>2,181</u>	<u>2,593</u>	<u>95,994</u>
Capital gain	<u>(591)</u>	<u>(982)</u>	<u>(69)</u>	<u>-</u>	<u>161</u>	<u>(1)</u>	<u>(1,482)</u>
Capital Investments in Fixed Assets and in intangible assets(***)	<u>7,807</u>	<u>23,791</u>	<u>15,458</u>	<u>6,208</u>	<u>1,208</u>	<u>3,366</u>	<u>57,838</u>

(*) Adjustments and cancellation information includes expenses that are not attributed to operating segments and elimination of unrealized intercompany profits.

(**) Adjustments information primarily include property, plant and equipment which are not specifically allocated to the segments, cash balances, right-of-use assets and deferred taxes.

(***) This information does not include minimum amounts on licensing agreements that the Company is a party to, the purchases of brands and the effect of implementing IFRS16.

Delta Galil Industries Ltd.

Notes to the Financial Statements

Note 5 – Segment reporting (continued)

b. Information on segment activity (continued)

	Brands	Private label	Delta Israel	7 for All Mankind (Audited)	Others (*)	Inter- Company Cancellations and Adjustment (**)	Total
	US\$ in thousands						
For the year ended December 31, 2022							
Sales to external customers	635,459	802,340	273,411	217,428	102,903	-	2,031,541
Inter segment	1,788	38,534	-	-	-	(40,332)	-
Total sales, net	<u>637,247</u>	<u>840,874</u>	<u>273,411</u>	<u>217,428</u>	<u>102,903</u>	<u>(40,322)</u>	<u>2,031,541</u>
Segment profit (loss)	<u>53,896</u>	<u>91,677</u>	<u>43,803</u>	<u>15,628</u>	<u>(8,651)</u>	<u>(6,114)</u>	<u>190,239</u>
Impairment of Non-Financial Assets	4,133	-	-	2,759	1,230	-	<u>8,122</u>
Realignment Expenses	-	5,467	-	-	-	-	<u>5,467</u>
Change in fair value of contingent consideration liabilities	-	(9,621)	-	-	-	-	<u>(9,621)</u>
Impairment of Other Asset	-	-	-	-	-	1,220	<u>1,220</u>
Operating profit							<u>185,051</u>
Financing expenses, net							<u>37,271</u>
Profit before taxes on income							<u>147,780</u>
Assets at the end of the year(***)	<u>735,708</u>	<u>556,135</u>	<u>272,127</u>	<u>209,239</u>	<u>34,801</u>	<u>42,660</u>	<u>1,850,670</u>
Depreciation and amortization	<u>23,218</u>	<u>25,035</u>	<u>22,386</u>	<u>25,636</u>	<u>3,071</u>	<u>2,786</u>	<u>102,132</u>
Capital gain	<u>2,834</u>	<u>1,581</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>17</u>	<u>4,435</u>
Capital Investments in Fixed Assets and in intangible assets(****)	<u>17,937</u>	<u>28,720</u>	<u>5,204</u>	<u>3,742</u>	<u>2,246</u>	<u>3,432</u>	<u>61,281</u>

(*) Includes the Organic Basics activity, which was acquired in July 2022, and Bare Necessities.

(**) Adjustments information includes expenses that are not attributed to operating segments and elimination of unrealized intercompany profits.

(***) Adjustment information primarily include property, plant and equipment which are not specifically allocated to the segments, cash balances, right-of-use assets and deferred taxes.

(****) This information does not include minimum amounts on licensing agreements that the Company is a party to, the purchases of brands and the effect of implementing IFRS16.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 5 – Segment reporting (continued)

b. Information on segment activity (continued)

	Brands	Private label	Delta Israel	7 for All Mankind (Audited)	Others (*)	Inter-Company Cancellations and Adjustment (**)	Total
US\$ in thousands							
For the year ended December 31, 2021							
Sales to external customers	647,975	710,797	281,156	198,330	112,700	-	1,950,958
Inter segment	2,357	11,797	-	-	-	(14,154)	-
Total sales, net	<u>650,332</u>	<u>722,594</u>	<u>281,156</u>	<u>198,330</u>	<u>112,700</u>	<u>(14,154)</u>	<u>1,950,958</u>
Segment profit (loss),	<u>75,979</u>	<u>59,005</u>	<u>58,635</u>	<u>10,424</u>	<u>(4,614)</u>	<u>(11,331)</u>	<u>188,098</u>
Financing expenses, net							<u>37,397</u>
Profit before taxes on income							<u>150,701</u>
Assets at the end of the year(**)	<u>641,262</u>	<u>526,570</u>	<u>313,483</u>	<u>191,178</u>	<u>34,596</u>	<u>67,742</u>	<u>1,774,831</u>
Depreciation and amortization	<u>22,464</u>	<u>24,366</u>	<u>22,220</u>	<u>22,327</u>	<u>2,929</u>	<u>3,368</u>	<u>97,674</u>
Capital gain	<u>51</u>	<u>135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86</u>	<u>272</u>
Capital Investments in Fixed Assets and in intangible assets(****)	<u>5,407</u>	<u>19,896</u>	<u>3,814</u>	<u>2,483</u>	<u>161</u>	<u>2,767</u>	<u>34,528</u>

(*) Includes the Brayola and Bare Necessities activities, which were merged on June 30, 2021.

(**) Adjustments information includes expenses that are not attributed to operating segments and elimination of unrealized intercompany profits.

(***) Adjustment information primarily include property, plant and equipment which are not specifically allocated to the segments, cash balances, right-of-use assets and deferred taxes.

(****) This information does not include minimum amounts on licensing agreements that the Company is a party to, the purchases of brands and the effect of implementing IFRS16.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 5 – Segment reporting (continued)

c. Additional information on a geographical basis

1) Sales by geography (based on the customers' locations):

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
United States	961,341	1,066,914	998,362
Europe (Excluding Germany)	327,809	351,182	330,050
Israel	258,860	277,309	282,316
Germany	191,321	202,488	207,098
Others	118,351	133,648	133,132
Total sales	1,857,682	2,031,541	1,950,958

2) Balances of non-current assets (*), by geographical location, are detailed below:

	For the year ended December 31	
	2023	2022
	US\$ in thousands	
United States	172,335	201,072
Switzerland	153,757	100,850
Israel	179,297	143,185
Germany	69,963	65,878
France	102,704	92,993
Vietnam	52,595	54,504
Egypt	44,483	32,859
Czech Republic	9,777	15,423
Turkey	13,576	8,492
Italy	8,442	14,800
Bulgaria and Hungary (**)	-	12,066
Far East	118,811	121,387
Others (primarily Europe)	3,788	2,480
Total non-current assets	929,528	865,989

(*) Excluding deferred taxes.

(**) Operations at the factory were shut down during 2023 (See Note 19 G)

d. Sales Information by product category

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Ladies intimate apparel, active wear, nightwear, and other clothing	944,216	1,025,198	990,067
Men's underwear and active wear	312,923	330,666	327,823
Socks	233,584	272,094	238,920
Children's wear	157,903	186,155	195,818
Denim and branded outerwear	209,056	217,428	198,330
Total sales *	1,857,682	2,031,541	1,950,958

(*) Includes online sales of approximately \$217.5 million, \$220.6 million and \$253.7 million in 2023, 2022 and 2021, respectively.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 6 - Business Combinations

As part of the global strategy to increase digital sales and focus more on sustainability, the Company acquired in July 2022 the online brand Organic Basics, which is characterized by sustainability in underwear and activewear, for US\$4.5 million.

The Company contracted with an external valuator to conduct a purchase price allocation (PPA). As part of this process, assets and liabilities were measured and presented at fair value, including goodwill and customer relations, which were recognized within intangible assets.

The following are identifiable assets and liabilities assumed recognized as of acquisition date:

	<u>US\$ in thousands</u>
Inventory	1,259
Computer software	232
Brand Name	2,548
Customer Relations	232
Total Identified Assets	4,271
Goodwill	229

The results of operations of Organic Basics are disclosed within the Others operating segment, see note 5.

Delta Galil Industries Ltd.

Notes to the Financial Statements

Note 7 – Property, plant and equipment

a. Composition of the cost, accumulated depreciation and amortization of property, plant and equipment, by the main groupings, and movements therein, in 2023, are:

	Cost							
	Balance at the beginning of the year	Additions During the year	Disposals During the year	Property held for sale	De-recognition of fully depreciated assets	Foreign exchange translation reserve	Reclassification	Balance at the end of the year
	US\$ in thousands							
Land and buildings	82,167	1,475	(6,006)	(2,857)	(7)	2,366	21,050	98,188
Machinery and equipment	126,167	7,214	(11,838)	-	(402)	2,872	799	124,812
Property, plant and equipment under construction (*)	24,386	24,133	-	-	-	(43)	(21,849)	26,627
Office furniture and equipment, vehicles & leasehold improvements	180,736	14,702	(14,724)	-	(3,401)	1,358	-	178,671
	<u>413,456</u>	<u>47,524</u>	<u>(32,568)</u>	<u>(2,857)</u>	<u>(3,810)</u>	<u>6,553</u>	<u>-</u>	<u>428,298</u>
	Aggregate Depreciation and Impairment							
	Balance at the beginning of the year	Additions During the year	Disposals During the year	Property held for sale	De-recognition of fully depreciated assets	Foreign exchange translation reserve	Reclassification	Balance at the end of the year
	US\$ in thousands							
Land and buildings	13,143	5,507	(5,966)	(1,084)	(7)	1,222	-	12,815
Machinery and equipment	55,872	11,401	(11,816)	-	(402)	536	-	55,591
Office furniture and equipment, vehicles & leasehold improvements	109,168	16,682	(14,258)	-	(3,401)	1,358	-	109,549
	<u>178,183</u>	<u>33,590</u>	<u>(32,040)</u>	<u>(1,084)</u>	<u>(3,810)</u>	<u>3,116</u>	<u>-</u>	<u>177,955</u>
	Depreciated Balance							
	As at December 31							
	<u>2023</u>							<u>2022</u>
	US\$ in thousands							
Land and buildings	85,373							69,024
Machinery and equipment	69,221							70,295
Property, plant and equipment under construction (*)	26,627							24,386
Office furniture and equipment, vehicles & leasehold improvements	69,122							71,568
	<u>250,343</u>							<u>235,273</u>

(*) Property, plant and equipment under construction includes investments in the logistics center of a subsidiary Company in Israel and manufacturing plants in Egypt and Vietnam.

Delta Galil Industries Ltd.

Notes to the Financial Statements

Note 7 – Property, plant and equipment (continued)

a. Composition of the cost, accumulated depreciation and amortization of property, plant and equipment, by the main groupings, and movements therein, in 2022, are:

	Cost						
	Balance at the beginning of the year	Additions During the year	Disposals During the year	De-recognition of fully depreciated assets	Foreign exchange translation reserve	Reclassifications	Balance at the end of the year
	US\$ in thousands						
Land and buildings	81,841	9,524	(8,383)	-	(3,583)	2,768	82,167
Machinery and equipment	132,238	16,104	(17,106)	(2,108)	(4,754)	1,793	126,167
Property, plant and equipment under construction (*)	12,502	16,509	-	-	(64)	(4,561)	24,386
Office furniture and equipment, vehicles & leasehold improvements	193,139	18,793	(13,433)	(9,155)	(8,608)	-	180,736
	<u>419,720</u>	<u>60,930</u>	<u>(38,922)</u>	<u>(11,263)</u>	<u>(17,009)</u>	<u>-</u>	<u>413,456</u>
	Aggregate Depreciation and Impairment						
	Balance at the beginning of the year	Additions During the year	Disposals During the year	De-recognition of fully depreciated assets	Foreign exchange translation reserve	Reclassifications	Balance at the end of the year
	US\$ in thousands						
Land and buildings	20,162	3,420	(7,790)	-	(2,649)	-	13,143
Machinery and equipment	66,218	12,265	(15,817)	(2,108)	(4,686)	-	55,872
Office furniture and equipment, vehicles & leasehold improvements	120,341	17,130	(13,212)	(9,155)	(5,936)	-	109,168
	<u>206,721</u>	<u>32,815</u>	<u>(36,819)</u>	<u>(11,263)</u>	<u>(13,271)</u>	<u>-</u>	<u>178,183</u>
	Depreciated Balance						
	As at December 31						
	2022		2021				
	US\$ in thousands						
Land and buildings	69,024		61,679				
Machinery and equipment	70,295		66,020				
Property, plant and equipment under construction (*)	24,386		12,502				
Office furniture and equipment, vehicles & leasehold improvements	71,568		72,798				
	<u>235,273</u>		<u>212,999</u>				

(*) Property, plant and equipment under construction includes investments in the logistics center of a subsidiary Company in Israel and manufacturing plants in Egypt and Vietnam.

Delta Galil Industries Ltd.

Notes to the Financial Statements

Note 7 – Property, plant and equipment (continued)

b. Composition of the cost, accumulated depreciation and amortization of property, plant and equipment, by the main groupings, in 2021:

	Cost				De-recognition of fully depreciated assets	Foreign exchange translation reserve	Reclassifications	Balance at the end of the year
	Balance at the beginning of the year	Additions During the year	Disposals During the year	Consolidation				
	US\$ in thousands							
Land and buildings	85,391	2,764	-	(3,762)	-	(4,341)	1,789	81,841
Machinery and equipment	143,922	1,529	(19,068)	(3,141)	(2,218)	(430)	11,644	132,238
Property, plant and equipment under construction (*)	3,711	22,207	-	-	-	17	(13,433)	12,502
Office furniture and equipment, vehicles & leasehold improvements	191,633	14,988	(5,992)	(435)	(6,439)	(706)	-	193,139
	<u>424,657</u>	<u>41,488</u>	<u>(25,060)</u>	<u>(7,338)</u>	<u>(8,567)</u>	<u>(5,460)</u>	<u>-</u>	<u>419,720</u>
	Aggregate Depreciation and Impairment							
	Balance at the beginning of the year	Additions During the year	Disposals During the year	Consolidation	De-recognition of fully depreciated assets	Foreign exchange translation reserve	Reclassifications	Balance at the end of the year
	US\$ in thousands							
Land and buildings	21,538	3,263	-	(1,688)	-	(2,951)	-	20,162
Machinery and equipment	79,240	11,019	(18,886)	(2,748)	(2,218)	(189)	-	66,218
Office furniture and equipment, vehicles & leasehold improvements	114,414	18,912	(5,147)	(383)	(6,349)	(1,106)	-	120,341
	<u>215,192</u>	<u>33,194</u>	<u>(24,033)</u>	<u>(4,819)</u>	<u>(8,567)</u>	<u>(4,246)</u>	<u>-</u>	<u>206,721</u>
	Depreciated Balance							
	As at December 31							
	2021		2020					
	US\$ in thousands							
Land and buildings	61,679		65,303					
Machinery and equipment	66,020		66,805					
Property, plant and equipment under construction (*)	12,502		-					
Office furniture and equipment, vehicles & leasehold improvements	72,798		77,357					
	<u>212,999</u>		<u>209,465</u>					

(*) Property, plant and equipment under construction includes investments in the logistics center of a subsidiary Company in Israel and manufacturing plants in Egypt and Vietnam.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 7 – Property, plant and equipment (continued)

a. Land and buildings

The Group owns land and buildings used for its operations, and are located in Israel, the United States, Vietnam, Egypt, Thailand, Germany, France and the Czech Republic.

b. Pledge on Assets

The Company's liabilities to banks are fully secured by an unlimited floating charge on all assets and rights and on assets of some of its subsidiaries.

c. For information about classification of depreciation expenses in the statement of profit or loss, See Notes 19H, I and J.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 8 – Intangible assets

a. Composition of intangible assets and the accumulated amortization, by the main groupings:

	Goodwill (B)	Customer Relations (**)	Trademarks (C) (***)	Brand name (D)	Computer software (****)	Total
US\$ in thousands						
Balance as at January 1, 2021	150,657	90,535	35,341	126,747	14,344	417,624
During 2021						
Foreign currency translation reserve	(3,210)	(2,060)	2,691	(4,420)	(389)	(7,388)
Additions	-	-	40,054	-	5,097	45,151
Amortization	-	(5,854)	(8,235)	(1,318)	(5,424)	(20,831)
	147,447	(82,621)	(69,851)	121,009	13,628	434,556
During 2022						
Foreign currency translation reserve	(2,208)	(1,394)	(750)	(3,499)	(82)	(7,933)
Additions	-	-	10,226	-	7,661	17,887
Entry into Consolidations	229	232	-	2,548	232	3,241
Amortization	-	(5,632)	(12,590)	(184)	(5,737)	(24,143)
Impairment of Non-Financial Assets	(1,230)	-	(664)	(1,528)	-	(3,422)
	144,238	75,827	66,073	118,346	15,702	420,186
During 2023						
Foreign currency translation reserve	1,339	1,015	55	1,730	63	4,202
Additions	-	-	19,016	1,833	6,630	27,479
Amortization	-	(5,739)	(16,337)	(274)	(5,988)	(28,338)
	145,577	71,103	68,807	121,635	16,407	423,529
Balance as at December 31, 2023						
Cost	160,511	118,159	222,643	135,588	60,909	697,810
Accumulated Amortization (*)	(14,934)	(47,056)	(153,836)	(13,953)	(44,502)	(274,281)
Balance as at December 31 2023	145,577	71,103	68,807	121,635	16,407	423,529

* Includes impairment

** The amortization of customer relationship and trademarks are presented under selling and marketing expenses.

*** The amortization of trademarks is presented in cost of sales and selling and marketing items.

**** The amortization of computer software is presented under cost of sales, selling and marketing expenses and general and administrative expenses according to the type of software.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 8 – Intangible assets (continued)

As of balance sheet date, the Company conducted valuations for the following brands: FIX, Schiesser, 7 for All Mankind, Eminence, P. J. Salvage and Karen Neuberger in accordance with IAS 36 "Impairment of assets".

b. Goodwill

The balance of goodwill is attributed to the Brands operating segment (Delta USA and Eminence) Private Label (Delta USA, Bogart and Brunet) and Others (Organic Basics).

The Company tested goodwill for impairment as of December 31, 2023 and 2022.

The Company tests goodwill for impairment annually and if indicators of impairment exist.

The recoverable amount of a cash-generating unit is determined based on the calculation of the value-in-use. The cash flow forecast is based on management approved budget for the coming year and additional assumptions regarding the growth rate of sales and expenses in the subsequent four years. Cash flows in periods beyond five years are extrapolated using the expected growth rates listed below.

The Company uses the following assumptions to test for impairment the goodwill of cash generating units in the different segments:

- 1) Representative long-term gross profit. Gross profit rate is based on past experience and Group forecasts of market developments.
- 2) The growth rate is calculated in accordance with the nominal long-term forecasted growth of total GDP and population in each of the operating segments, in accordance with data from the International Monetary Fund (IMF).
- 3) The discount rate applied to the cash flow forecast. The discount rate is set according to segment risks.

Goodwill Impairment Test - Delta USA – Brands Segment

The Company tested goodwill for impairment, with the assistance of an external valuator, as of December 31, 2023 and 2022.

The main assumptions used in calculating of the value-in-use are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Gross profit rate	34%	30%
Nominal growth rate	3%	3%
Post-tax discount rate	16%	15%

Following these tests, no need for impairment was identified.

Goodwill impairment Test - Delta USA –Private Label Segment

The Company tested goodwill for impairment, with the assistance of an external valuator, as of December 31, 2023 and 2022.

The main assumptions used in calculating of the value-in-use are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Gross profit rate	23.6%	21%
Nominal growth rate	3%	3%
Post-tax discount rate	16%	15%

Following these tests, no need for impairment was identified.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 8 – Intangible assets (continued)

Goodwill impairment Test – Eminence – Brands Segment

The Company tested goodwill for impairment, with the assistance of an external valuator, the need for goodwill impairment as at of December 31, 2023 and 2022.

The main assumptions used in calculating of the value-in-use are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Gross profit rate	45%-47%	48%-50%
Nominal growth rate	3%	3%
Post-tax discount rate	12%	12%

Following the goodwill impairment tests as of December 31, 2023, and 2022, no need for impairment was identified.

Goodwill Impairment Test – Bogart Private Label Segment

The Company tested goodwill for impairment, with the assistance of an external valuator, the need for goodwill impairment as at of December 31, 2023 and 2022.

The main assumptions used in calculating value of use are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Gross profit rate	18%-20%	21%
Nominal growth rate	3%	3%
Post-tax discount rate	18.5%	18.5%

Following that test, no need for impairment was identified.

Goodwill Impairment Test - Brunet Private Label Segment

The Company tested goodwill for impairment, with the assistance of an external valuator, the need for goodwill impairment as at of December 31, 2023 and 2022.

The main assumptions used in calculating of the value-in-use are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Gross profit rate	41%-43%	41%
Nominal growth rate	3%	3%
Post-tax discount rate	18.5%	18.5%

Following these tests, no need for impairment was identified.

Goodwill Impairment Test – Bare Necessities - Other Segment

The Company tested goodwill for impairment as of December 31, 2022.

The main assumptions used in calculating of the value-in-use are as follows:

	<u>December 31, 2022</u>
Gross profit rate	59.1%
Nominal growth rate	3%
Post-tax discount rate	14.5%

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 8 – Intangible assets (continued)

As a result of this goodwill impairment test, the Company derecognized the full balance of the goodwill as of December 31, 2022, at approximately US\$1.2 million, and included it in the "impairment of non-financial assets" item.

Sensitivity tests for goodwill impairment were carried out as of December 31, 2023 and 2022 for all goodwill balances of Delta USA, including Brands, Private Labels, Eminence, Bogart and Brunet, by changing the pre-tax discount rate by 0.5%, with all other factors remaining unchanged.

The results of those sensitivity tests do not point to any required impairment.

Additionally, impairment sensitivity tests were performed as of December 31, 2023 and December 31, 2022 by changing growth rate by 0.5%, with all other factors remaining unchanged.

Following those tests, no need for impairment was identified.

c. Right to use trademarks

The Company entered into agreements which grant 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 6% to 15% of sales. The agreements require to make minimum royalty payments, as set forth in these agreements, and whose capitalized amounts are presented in the financial statements within the "other payables" and "other non-current liabilities" items.

d. Brands

The Company tests brands for impairment annually or if indicators of impairment exist. The Company tested the need for impairment as of December 31 2023 and 2022.

Discount rates are determined in accordance with the Company risks and the growth rates based on past experience and Company forecasts for developments in the market as of December 31, 2023 and 2022.

1) The balance of the brands as of December 31, 2023 includes the brand names: "Schiesser", "P.J. Salvage", "Karen Neuburger", "FIX", "7 For All Mankind", "Splendid", "Eminence", "Athena", "Liabel", "Bare Necessities" and "Organic Basics".

2) Impairment Test for the "Schiesser" Brand

The Company considers the Schiesser brand to have an indefinite useful life and therefore it is not amortized by the Company. In making this determination, the Company relied on the following assumptions:

- a. The brand is well-known and stable in Germany and in the Benelux countries (Western Europe) since 1875.
- b. The brand's primary activity has been profitable for many years.
- c. The acquisition of the brand by the Company ensures its continued expansion in Germany and in the Benelux countries.

As of balance sheet date, the Company performed a valuation in accordance with IAS 36 "Impairment of assets".

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. The cash flow forecast is based on the budget for the coming year, as approved by management, and on additional assumptions regarding the growth rate of sales and expenses in the subsequent four years. Cash flow beyond five years is extrapolated using the expected growth rates listed below.

The valuation performed is in accordance with the income approach and is based on the "relief from royalty method".

The main assumptions used in the calculation of value in use for 2023 and 2022 are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Royalties Rate	5%	5%
Nominal Growth Rate	3%	3%
Post-tax discount rate	12%	12%

The results of the above test do not indicate that impairment is required.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 8 – Intangible assets (continued)

3) Impairment Test for “7 for All Mankind” Brand

The Company considered the 7 for All Mankind brand to have an indefinite useful life and therefore it is not amortized. 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 United States high-end denim category.
- b. The brand is global and recognized in America, Europe and Asia.
- c. The Company estimates that its acquisition of the brand and the investment made in it will lead to its global growth.

As of balance sheet date, the Company performed a valuation in accordance with IAS 36 "Impairment of assets".

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. The cash flow forecast is based on the budget for the coming year, as approved by the management, and on additional assumptions regarding the growth rate of sales and expenses in the subsequent four years. Cash flow beyond five years is extrapolated using the expected growth rates listed below.

The valuation carried out is in accordance with the income approach and is based on the "relief from royalty method".

The main assumptions used in calculating the value of use amount in 2023 and 2022 are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Royalties Rate (*)	2%-8%	8%
Nominal Growth Rate	3%	3%
Post-tax discount rate	16%	15.5%

Following these tests, no need for impairment was identified.

(*) In 2023, a variable royalty model was implemented for the 7 For All Mankind brand among the companies of the Group. Based on this model, the final royalty rate each year is determined according to the profitability of the business units engaged in the licensing agreement for those brands.

4) Impairment Test for the “Splendid” Brand

As of balance sheet date, the Company performed a valuation in accordance with IAS 36 "Impairment of assets". The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. The cash flow forecast is based on the budget for the coming year, as approved by the management, and on additional assumptions regarding the growth rate of sales and expenses in the subsequent four years. Cash flow beyond five years is extrapolated using the expected growth rates listed below.

The valuation carried out is in accordance with the income approach and is based on the "relief from royalty method".

The main assumptions used in calculating the value in use for 2023 and 2022 are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Royalties Rate (*)	7.5%	7.5%
Nominal Growth Rate	3%	3%
Post-tax discount rate	17.5%	17%

The results of the impairment test do not indicate that impairment of the “Splendid” brand is needed.

(*) In 2023, a variable royalty model was implemented for the Splendid brand among the companies of the Group. Based on this model, the final royalty rate each year is determined according to the profitability of the business units engaged in the licensing agreement for those brands.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 8 – Intangible assets (continued)

5) Impairment Test for the “P. J. Salvage” Brand

As of balance sheet date, the Company performed a valuation in accordance with IAS 36 "Impairment of assets". The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. The cash flow forecast is based on the budget for the coming year, as approved by the management, and on additional assumptions regarding the growth rate of sales and expenses in the subsequent four years. Cash flow beyond five years is extrapolated using the expected growth rates listed below.

The valuation carried out is in accordance with the income approach and is based on the "relief from royalty method".

The main assumptions used in calculating the value in use for 2023 and 2022 are as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Royalties Rate	7%	7%
Nominal Growth Rate	3%	3%
Post-tax discount rate	16%	15.5%

The results of the impairment test do not indicate that impairment of the P.J. Salvage brand is needed.

6) Impairment Test for “Eminence” and “Athena” Brands

The Company considers the Eminence and Athena brands as having an indefinite useful life and therefore it is not amortized by the Company.

For this determination, the Company used the following assumptions:

a.

	<u>Eminence</u>	<u>Athena</u>
Year of establishment	1944	1962
Primary country	France	France

b. The brands' primary activity is profitable over many years and they are market leaders in their primary countries of activity.

c. The acquisition of the brands by the Company ensures their continued expansion in the relevant countries.

As of balance sheet date, the Company performed a valuation in accordance with IAS 36 "Impairment of assets". The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. The cash flow forecast is based on the budget for the coming year, as approved by the management, and on additional assumptions regarding the growth rate of sales and expenses in the subsequent four years. Cash flow beyond five years is extrapolated using the expected growth rates listed below.

The valuation carried out is in accordance with the income approach and is based on the "relief from royalty method".

The main assumptions used in calculating the value in use for 2023 and 2022 are as follows:

	<u>Eminence</u>		<u>Athena</u>	
	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Royalties	7%	7%	5%	5%
Nominal Growth Rate	3%	3%	3%	3%
Post-tax discount rate	12%	11%	12%	11%

There was no need for impairment in the “Eminence” and “Athena” brands.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 8 – Intangible assets (continued)

7) Impairment test for “Liabel” Brand.

The Company considered the Liabel brand to have an indefinite useful life and therefore it is not amortized. In making this determination, the Company relied on the following assumptions:

a.

	<u>Liabel</u>
Year of establishment	1851
Primary country	Italy

b. The brand's primary activity is a market leader in its primary countries of activity.

The purchase of the brand by the Company ensures its continued expansion in the relevant countries. The valuation is in accordance with the income approach and is based on the "relief from royalty method". The main assumptions used in calculating the value of the brand in 2023 and 2022 as follows:

Liabel	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Royalties rate	6.8%	6.5%
Discount rate (*)	12%	12%
Growth Rate **	3%	3%

As of December 31, 2023, no indications point to a need to impair the Liabel brand.

As a result of the impairment test for the Liabel brand as of December 31, 2022, the Company wrote down about US\$1.5 million. The write down was included in the "impairment of non-financial assets" item in the statement of income and other comprehensive income.

Impairment sensitivity tests were performed for all other brands as of December 31, 2023 and December 31, 2022 by changing the pre-tax discount rate by 0.5%, with all other factors remaining unchanged.

The results of those sensitivity tests do not point to any required impairment.

Also, impairment sensitivity tests as of December 31, 2023 and December 31, 2022 were performed with a 0.5% change in growth rate, with all other factors remaining unchanged.

The results of those sensitivity tests do not point to any required impairment.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 9 – Lease assets and liabilities

a. Right-of-use assets

	<u>Buildings</u>	<u>Other</u>	<u>Total</u>
	US\$ in thousands		
Cost:			
Balance as at January 1, 2021	463,813	11,696	475,509
Changes during 2021:			
Additions	28,523	1,607	30,130
Terminations	(39,900)	(2,476)	(42,376)
Other changes(*)	(7,536)	(506)	(8,042)
Balance as at December 31, 2021	<u>444,900</u>	<u>10,321</u>	<u>455,221</u>
Changes during 2022:			
Additions	65,871	1,112	66,983
Terminations	(36,663)	(2,122)	(38,785)
Other changes (*)	(29,335)	(350)	(29,685)
Balance as at December 31, 2022	<u>444,773</u>	<u>8,961</u>	<u>453,734</u>
Changes during 2023:			
Additions	93,459	1,688	95,147
Terminations	(63,973)	(2,424)	(66,397)
Other changes (*)	4,163	(3,592)	571
Balance as at December 31, 2023	<u>478,422</u>	<u>4,633</u>	<u>483,055</u>
<u>Accumulated Depreciation:</u>			
Balance as at January 1, 2021	253,203	4,529	257,732
Changes during 2021:			
Depreciation	50,527	968	51,495
Terminations	(39,900)	(2,476)	(42,376)
Other changes (*)	(2,754)	(89)	(2,843)
Balance as at December 31, 2021	<u>261,076</u>	<u>2,932</u>	<u>264,008</u>
Changes during 2022:			
Depreciation	49,910	1,418	51,328
Terminations	(36,663)	(2,122)	(38,785)
Other changes (*)	(15,894)	(198)	(16,092)
Balance as at December 31, 2022	<u>258,429</u>	<u>2,030</u>	<u>260,459</u>
Changes during 2023:			
Depreciation	47,334	2,311	49,645
Terminations	(63,973)	(2,424)	(66,397)
Other changes (*)	2,109	62	2,171
Balance as at December 31, 2023	<u>243,899</u>	<u>1,979</u>	<u>245,878</u>
Depreciated cost as at December 31, 2021	<u>183,824</u>	<u>7,389</u>	<u>191,213</u>
Depreciated cost as at December 31, 2022	<u>186,344</u>	<u>6,931</u>	<u>193,275</u>
Depreciated cost as at December 31, 2023	<u>234,523</u>	<u>2,654</u>	<u>237,177</u>

* Mainly resulting from gain and losses on translation of financial statements of subsidiaries in foreign currency.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 9 – Lease assets and liabilities (continued)

b. Lease liabilities

	<u>Buildings</u>	<u>Other</u>	<u>Total</u>
	US\$ in thousands		
Balance as at January 1, 2021	234,465	8,306	242,771
Changes during 2021:			
Additions	28,523	1,607	30,130
Interest expense	9,301	308	9,609
Lease payments	(58,787)	(1,584)	(60,371)
Rent relief	(3,502)	-	(3,502)
Other changes(*)	(7,978)	(32)	(8,010)
Balance as at December 31, 2021	<u>202,022</u>	<u>8,605</u>	<u>210,627</u>
Current maturities of lease liabilities	50,503	1,273	51,776
Long-term lease liabilities	<u>151,519</u>	<u>7,332</u>	<u>158,851</u>
Balance as at December 31, 2021	<u>202,022</u>	<u>8,605</u>	<u>210,627</u>
Changes during 2022:			
Additions	65,871	1,112	66,983
Interest expense	7,635	46	7,681
Lease payments	(57,081)	(1,452)	(58,533)
Other changes(*)	(14,478)	(137)	(14,615)
Balance as at December 31, 2022	<u>203,969</u>	<u>8,174</u>	<u>212,143</u>
Current maturities of lease liabilities	46,120	1,848	47,968
Long-term lease liabilities	<u>157,849</u>	<u>6,326</u>	<u>164,175</u>
Balance as at December 31, 2022	<u>203,969</u>	<u>8,174</u>	<u>212,143</u>
Changes during 2023:			
Additions	93,459	1,688	95,147
Interest expense	9,209	42	9,251
Lease payments	(53,860)	(4,282)	(58,142)
Other changes(*)	1,900	(2,970)	(1,070)
Balance as at December 31, 2023	<u>254,677</u>	<u>2,652</u>	<u>257,329</u>
Current maturities of lease liabilities	51,282	1,301	52,583
Long-term lease liabilities	<u>203,395</u>	<u>1,351</u>	<u>204,746</u>
Balance as at December 31, 2023	<u>254,677</u>	<u>2,652</u>	<u>257,329</u>

* Mainly resulting from gain and losses on translation of financial statements of subsidiaries in foreign currency.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 10 – Investments accounted for using the equity method and other long-term assets

	As at December 31	
	2023	2022
	US\$ in thousands	
Investments in companies accounted for using the equity method	7,758	6,912
Investment in Joint Venture	2,884	3,204
Other long-term receivables	4,255	2,412
	14,897	12,528

The following are the changes in the balances of the investments in companies accounted for using the equity method:

	As at December 31	
	2023	2022
	US\$ in thousands	
Balance as at January 1	6,912	6,246
Share in profits of investee accounted for using the equity method	846	666
Balance as at December 31	7,758	6,912

The fair value of the long-term assets is not materially different from their carrying amount.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 11 – Bonds

1. Details regarding the existing series of bonds as for December 31, 2023:

Series Name	Date of issue	Original par value		Issuance Cost	Proceeds from Issuance	Duration ⁽¹⁾	Fixed NIS interest rate	Fixed Dollar interest ⁽²⁾ rate	NIS interest rate linked to the Dollar exchange rate	Principal Payments	Interest Payments
		NIS	USD ⁽²⁾	USD	USD						
In millions											
A ⁽⁴⁾	13.8.2013	178.5	49.7	0.6	Approximately 49.7	2.44	5%	4.075%	-	14 equal annual installments 2015 - 2028	Semi-annual in February and August
A Extension ⁽³⁾	27.10.2013	21.5	6.0	-	Approximately 6.0	2.44	5%	4.41%	-	14 equal annual installments 2015 - 2028	Semi-annual in February and August
A 2 nd Extension ⁽³⁾	14.5.2014	161.7	47.2	0.4	Approximately 50.5	2.47	5%	5.45%	-	14 equal annual installments 2015 - 2028	Semi-annual in February and August
A 3 rd Extension ⁽³⁾	1.6.2014	38.3	11.7	-	Approximately 11.8	2.47	5%	5.45%	-	14 equal annual installments 2015 - 2028	Semi-annual in February and August
A 4 th Extension ⁽⁴⁾	24.12.2019	245.0	70.6	0.5	Approximately 81.4	2.51	5%	6.78%	-	9 equal annual installments 2020 - 2028	Semi-annual in February and August
F	27.3.2017	208.9	57.7	0.6	Approximately 57.7	1.79	-	-	3.85%	9 equal installments 2018 - 2026	Semi-annual in June and December
F Extension	13.3.2019	253.5	70.4	0.9	Approximately 69.1	1.79	-	-	3.85%	8 equal installments 2019 - 2026	Semi-annual in June and December

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 11 – Bonds (continued)

2. Maturity of a Bonds Series

a. Full early maturity of bonds - Series B and taking long-term loans from banking corporations

On August 5, 2021, the Company announced that in order to flatten its debt maturity curve and increase duration, it initiated an early repayment of bonds (series B) (the "Bonds"), which were previously expected to mature in one installments in October 2024.

On August 23, 2021, the Company repaid the bonds and financed that move through bank loans and available cash balances.

The amount paid to bondholders for every bond of NIS 1 par value is NIS 1.039528. The total payment to all holders amounted to approximately NIS 373.8 million (approximately US\$ 115.7 million). Upon full early redemption of the bonds, they were delisted from trading on the Tel Aviv Stock Exchange (TASE) and from the TASE clearinghouse, and bondholders are no longer entitled to any further payment from the Company.

As a result of the early maturity of the bonds, the Company incurred a loss of approximately US\$ 5 million, which was recognized in financing expenses.

As noted above, the Company took two long-term loans from Israeli banks to finance the bond maturity as detailed below:

1. A US\$ 56.25 million loan from an Israeli bank at a fixed interest rate of 3.01%. The term of the loan is 11 years, with the first annual principle payable from August 2023 to August 2032.
2. An US\$ 18.75 million loan from an Israeli bank at a variable interest rate of the 3-month SOFR + 2.18%. The term of the loan is 11 years, with the first annual principle payable from August 2023 to August 2032.

For further details regarding the loans raised, see Note 19E.

b. Full maturity of bonds - Series E

On December 31, 2021, a final payment of NIS 24.1 million in principal (approx. US\$ 7.7 million) and NIS 0.9 million in accrued interest (approx. US\$ 0.3 million) was made, and thus Series E was matured in full.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 11 – Bonds (continued)

3. Details regarding the existing series of bonds as at December 31, 2023:

Series Name	Carrying amount of bonds	Interest payable	Market value ⁽⁵⁾	Fair value of the financial Derivative
US\$ in thousands				
A ⁽⁴⁾	17,506	326	17,593	1,131
A Extension ⁽³⁾	2,089	35	2,114	40
A 2 nd Extension ⁽³⁾	16,315	266	15,937	(700)
A 3 rd Extension ⁽³⁾	3,854	63	3,771	(165)
A 4 th Extension ⁽⁴⁾	40,666	627	37,553	(2,677)
F	19,144	6	19,874	-
F Extension	26,519	13	27,126	-
Total	126,093	1,336	123,968	(2,371)

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 11 – Bonds (continued)

1. Gross average lifetime to maturity at the end of 2023.
2. The Company decided to enter into cash flow swap agreements expiring on maturity dates of the above bonds to hedge cash flows for repayment of the bonds against exchange rate risks and interest risks. For Series A, this hedging creates fixed cash outflows for the Company in US Dollar terms, where the Company is committed to transfer a dollar payment according to a fixed US\$ interest rate as noted in the table and receive NIS payment from the banking corporation according to a predetermined interest rate.
3. The maximum exposure of the banking corporation for this swap transaction, as set by it for this transaction, is US\$5 million. The Company will be asked to provide collateral if the exposure exceeds that amount, as the banking corporation may demand. As of December 31, 2023, no deposits were required as collateral.
4. The maximum exposure of the banking corporations for this swap transaction, as set by it for this transaction, is US\$3 million. The Company will be asked to provide collateral if the exposure exceeds that amount, as the banking corporation may demand. As of December 31, 2023, no deposits were required as collateral.
5. According to the quoted price on the Tel-Aviv Stock Exchange as of December 31, 2023.

The following are details of undiscounted contractual cash flows in respect of bonds, by years:

	As at December 31	
	2023	2022
	US\$ in thousands	
2023	-	55,859
2024	36,898	36,898
2025	35,515	35,515
2026	34,138	34,138
2027	17,534	17,534
2028	16,737	16,737
	<u>140,822</u>	<u>196,681</u>

- a. The following is information about financial covenants in trust deeds for Series A and F, the breach of which will constitute grounds for immediate maturity, subject to grace periods, which have been set.

Series A:

1. If the Company's equity as disclosed in its financial statements is less than US\$150 million, and the equity is not increased beyond that amount within 30 days after the publication date of the relevant financial statements.
2. If the Company's net financial debt to CAP leverage ratio, as disclosed in its financial statements, exceeds 60%, and if that ratio does not drop by 60% as of the publication date of the second consecutive financial statements after initial disclosure of that increase in the above leverage rate.

For purposes of the above, "equity" means the equity as disclosed in the balance sheet, including non-controlling interests; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debts, bonds and balance sheet lease liabilities, less collateral deposit, less cash and cash equivalents and less short-term deposits and less short-term investments; "CAP" (capital base) means financial debt, plus total equity as disclosed on the balance sheet (including non-controlling interests) plus long-term deferred taxes as disclosed on the balance sheet.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 11 – Bonds (continued)

Series F:

1. If the Company's equity, as disclosed in the financial statements amounts to under US\$180 million.
2. If the Company's net financial debt to CAP ratio, as disclosed in the financial statements, exceeds 60%.

For purposes of the above, "equity" means the equity disclosed in the balance sheet, including non-controlling interests; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debt, bonds, balance sheet lease liabilities, less collateral deposit, less cash and cash equivalents and short-term investments; "CAP" (capital basis) means financial debt, plus the total equity disclosed in the balance sheet (including non-controlling interests), plus long-term deferred taxes in the balance sheet.

As of December 31, 2023, the Company was in compliance with the above financial covenants in respect of all bond series listed above.

- b. The following are details of the restrictions on the distribution of dividends included in the deeds of trust of bonds (Series A and F):

Restriction Type	Bonds (Series A)	Bonds (Series F)
Maximum distribution amount	50% of the amount of distributable profits, using only retained earnings accumulated starting June 30, 2013.	50% of the amount of the distributable profits, as decided at the time of the decision to make the distribution.
Impact on equity	No dividend shall be distributed if it causes equity to drop below one hundred and seventy-five (175) million dollars.	No dividend shall be distributed if it causes equity to drop below two hundred and twenty (220) million Dollars.
Impact of financial net debt to EBITDA ratio	No dividend distribution if causing net financial debt to EBITDA ratio increase to over 3.5.	No dividend distribution if causing net financial debt to EBITDA ratio increases to over 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.
Additional restrictions		Dividend shall not be distributed: <ul style="list-style-type: none"> - When "red flags" exist. - 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 bonds.

As at December 31, 2023 the Company was in compliance with all of the restrictions on the distribution of a dividend.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 12 – Derivative financial instruments

The Company invests in derivative financial instruments that qualify for cash flow hedging, both through swap contract, in connection to Series A bonds, and through forward transactions, in order to hedge cash flows for the purchase of inventory, as follows:

a. Cash flow swaps instrument

The Company examines the value of swap financial derivatives on each balance sheet date and is assisted by an external expert for that purpose. The value of a financial derivative is determined on the basis of the difference between the future cash inflow (in NIS) and the expected cash outflow (in USD). The future value of those amounts is based on 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 main assumptions were used to calculate the value of the financials derivative as of December 31, 2023:

1. Market interest rates:

	<u>Market interest rate</u>	
<u>Series</u>	<u>NIS</u>	<u>Dollars</u>
A	2.45%-3.79%	3.51%-5.39%

b. Forward transactions financial derivative

The Company examines the value of forward transaction financial derivatives (usually for Euro and NIS against the US Dollar) on each balance sheet date and is assisted by an external expert for that purpose. The value of a financial derivative is determined on the basis of the difference between the fair value of the asset acquired and the fair value in accordance with the strike price.

Following are the changes in cash flow hedge reserve for 2022 and 2023 (in thousands of dollars):

	Interest Swap Contracts	Forward Transaction	Total Hedge Reserve
Balance as at December 31, 2022	2,783	(1,408)	1,375
Add - fair value of hedging instruments recognized in other comprehensive income	(1,479)	1,894	415
Less deferred taxes	340	(435)	(95)
Balance as at December 31, 2022	1,644	51	1,695
Add - fair value of hedging instruments recognized in other comprehensive income	(1,037)	(2,491)	(3,528)
Less deferred taxes	238	573	811
Balance as at December 31, 2023	845	(1,867)	(1,022)

In 2021, 2022 and 2023, US\$1,948 thousand, US\$953 thousand and US\$127 thousand, respectively, were transferred from inventory to profit or loss in respect of hedging contracts.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 13 – Other non-current liabilities

	As at December 31	
	2023	2022
	US\$ in thousands	
Liabilities for minimum royalty payments (see Note 8C)	67,309	65,032
Contingent consideration for acquisition of activity *	-	4,000
Liability for acquisition of machines	10,178	15,112
Other liabilities	5,067	5,109
Total liabilities (see section 1 below)	82,554	89,253
Less – current portion of long-term liabilities	29,313	25,822
Total long-term liabilities	53,241	63,431

* As part of the purchase agreement, a commitment was included for contingent consideration to the previous owners of the Company, which depends on the achievement of profitability targets (EBITDA) in 2023-2024, less debt as of December 31, 2024.

The Company contracted with an external valuator to conduct a valuation of the liabilities for the contingent consideration as of December 31, 2022.

The valuation was carried out according to the Monte-Carlo model, according to which a future forecast of the EBITDA was made for the measurement years according to the expected growth rate while taking into account various short-term risk factors, while creating future EBITDA forecasts using the Brownian calculation (GBM) while averaging all the payments that will be paid in each of the possible scenarios and the discount thereof as of the valuation date, considering the Company's debt.

In the second quarter of 2023, the balance of the liability for contingent consideration was derecognized, whereas the carrying amount as of December 31, 2022 was approximately US\$4 million. The US\$4 million decrease in the value of the contingent consideration was presented in the statements of profit or loss and other comprehensive income within "change in fair value of the liabilities for contingent consideration".

1. The following are contractual maturities liabilities, by year payable:

	As at December 31	
	2023	2022
	US\$ in thousands	
2023	-	27,012
2024	32,003	28,834
2025	26,970	19,147
2026	18,714	15,248
2027 and thereafter	24,585	22,095
Less – interest component	(19,718)	(23,083)
	82,554	89,253

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 14 – Equity

a. Equity, Reserves and Retained Earning:

- 1) Composed of ordinary shares of NIS 1 par value, as follows:

	Number of shares as at December 31	
	2023	2022
Authorized capital	45,000,000	45,000,000
Issued and fully paid (excluding treasury shares)	25,722,546	25,686,931
Treasury shares	1,200,923	1,236,538

As at December 31, 2023, the Company's shares are traded on the Tel-Aviv Stock Exchange at a price of NIS 164.4 (US\$ 45.32).

- 2) The following are dividend amounts distributed in the past three years:

Year	Amount distributed (US\$ in thousands)	Dividend per share (Dollars)
2021	15,489	0.61
2022	28,009	1.09
2023	26,510	1.03

- 3) Retained Earnings

In determining the amounts available for distribution as dividends, according to the Israeli Companies Law, the total value of Company shares bought back (presented under a separate item in equity) should be deducted from retained earnings as presented in equity.

The shares held by the Company ("treasury shares") do not grant voting rights and do not give holders a right to dividends.

b. Share-based payment:

1. The 2009 plans

On August 20, 2009, the Company's Board of Directors resolved to adopt an option plan for remunerating employees, officers, directors, consultants, and other providers of services to the Company or its subsidiaries and related companies (hereinafter – "the Recipients"). The options are granted for no consideration. Under that plan, the Company is entitled to allocate up to 800,000 non-marketable options, exercisable into a maximum of 800,000 ordinary shares of NIS 1 par value each. The exercise price of each option is determined by the Company's Board of Directors at its sole discretion, in accordance with the law.

In addition, the Board of Directors resolved to adopt an option plan for the remuneration of US employees of the Company and of its subsidiaries. Under that plan, the Company is entitled to allocate up to 300,000 options, exercisable into a maximum of 300,000 ordinary shares of NIS 1 par value each.

On October 27, 2011, the Board of Directors resolved to increase the number of the ordinary shares reserved for the compensation plan for employees, officers, directors, consultants and other selected senior providers of services to the Company or its subsidiaries and related companies – as originally approved by the Board on August 20, 2009 – by 300,000 shares, so that the total number of shares reserved for the plan was increased to 1,100,000. On the same date, the Company's Board of Directors resolved to increase the number of ordinary shares that are reserved for the compensation plan for US employees of the Company and of its subsidiaries, including directors and other officers – as originally approved by the Board of Directors on August 20, 2009 – by 300,000 shares, so that the total number of shares reserved for the plan was increased to 600,000.

On December 15, 2013, the Company's Board of Directors resolved to increase the number of ordinary shares reserved to the compensation 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 by 500,000, so that the total number of shares reserved for the 2009 plan for Israeli recipients was increased to 1,600,000.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 14 – Equity (continued)

b. Share-based payment (continued):

1. The 2009 plans (continued)

Furthermore, regarding the above stated expansion of the plan by 500,000 options, the Company's Board of Directors decided to revise the 2009 plan for Israeli offerees, such that the formula for calculating the value of options granted through a mechanism exercising options as shares on the basis of the benefit component would be amended so the offerees are no longer required to pay the par value of the exercised shares. The Company undertook that as long as the 2009 plan for Israeli recipients was still in effect, to retain distributable profits sufficient to turn it into share capital in accordance with Section 304 of the Israeli Companies Law, 1999.

The remaining provisions of the 2009 plan for Israeli recipients remained unchanged. On February 14, 2018, the Company received approval from the Tel Aviv Stock Exchange (TASE) for the registration of a master plan for employees submitted originally on June 21, 2017 and amended on September 4, 2017. As part of the master plan, the Company listed 730,000 options exercisable into a maximum of 730,000 shares and 200,000 restricted share units (RSUs) exercisable into a maximum of 200,000 shares. On December 30, 2020, the Company received approval from TASE for the registration of a master plan for employees that was submitted on November 11, 2020. As part of the master plan, the Company listed 1,200,000 options exercisable into a maximum of 1,200,000 shares and 300,000 RSUs exercisable into a maximum of 300,000 shares.

As of December 31, 2023, there are 337,022 remaining shares and 355,127 remaining RSUs that can be allocated under this plan.

On January 8, 2024, the Company received approval from TASE for the registration of the master plan for employees submitted on December 20, 2023.

As part of the master plan, the Company registered 500,000 options exercisable into up to 500,000 shares.

In accordance with the alternative elected by the Company, it is not entitled to claim expenses for tax purposes on grants recognized as employee benefits, including amounts recognized as payroll expenses in its accounts due to options the employees received as part of the plan, with the exception of a work-income component, if any, as determined upon allocation.

2. The 2014 plan

On July 28, 2014, the Company's Board of Directors resolved to adopt a plan to allocate 300,000 restricted share units (RSUs). The units are granted to offerees for no consideration at the Board of Directors' discretion, based on recommendation of CEO.

On February 14, 2019, the Company received approval from the TASE for the registration of a master plan for employees. Under the master plan, the Company listed 417,391 RSUs exercisable into a maximum of 417,391 shares under the 2014 plan, which can be exercised up to 417,391 shares. There are 381,245 remaining RSUs that can be allocated under the plan as of December 31, 2023. The grant-date fair value of the options (with the exception of options with performance conditions) in 2023, 2022, and 2021 was US\$ 115 thousand; US\$158 thousand; and US\$330 thousand, respectively, estimated using the Black & Scholes option pricing model with the following assumptions:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Dividend yield	0%	0%	0%
Expected standard deviation ^(*)	44.45%-46.93%	41.87%-46.03%	38.75%-47.77%
Risk-free interest rate	3.20%-4.49%	1.37%-1.45%	0.14%-0.47%
Expected lifetime – in years	2.5-2.83	2.5-3.0	2.8-3.5

(*) Based on historical volatility of Company's shares over periods corresponding to the expected life of the option until its exercise date.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 14 – Equity (continued)

b. Share-based payment (continued):

2. The 2014 plan (continued)

The grant-date fair value of the options with performance conditions granted in 2023, 2022 and 2021, is US\$2,271 thousand; US\$853 thousand; and US\$2,498 thousand, respectively, and was estimated as of the award date using the Black and Scholes option pricing model, using the following average assumptions:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Dividend yield	0%	0%	0%
Expected standard deviation ^(*)	36.29%-46.76%	41.27%-45.91%	40.2%-47.73%
Risk-free interest rate	2.65%-4.47%	0.52%-2.20%	0.14%-0.24%
Expected lifetime – in years	2.0-3.5	2.75-3.0	2.5-3.0

(*) Based on historical volatility of Company's shares over periods corresponding to the expected life of the option until its exercise.

3. The amounts of option- and RSU-related expenses in the financial statements in 2023, 2022 and 2021 are US\$2,128 thousand; US\$3,074 thousand and US\$2,630 thousand, respectively.
4. The unrecognized benefits associated with the allocating of RSUs and all the option plans, as of December 31, 2023, assuming satisfaction of all performance targets, is US\$4,043 thousand. Recognition of this balance is expected to take place over the coming 3 years.
5. The changes in the number of outstanding options and the relevant weighted average of exercise prices (original price before adjustments for dividends) are as follows:
 - a. Options without performance conditions:

	<u>2023</u>		<u>2022</u>		<u>2021</u>	
	<u>Quantity</u>	<u>Weighted average exercise price US\$</u>	<u>Quantity</u>	<u>Weighted average exercise price US\$</u>	<u>Quantity</u>	<u>Weighted average exercise price US\$</u>
Outstanding at the beginning of the year	260,561	22.04	301,296	21.69	365,285	21.74
Granted	7,508	36.89	8,500	61.39	29,500	30.81
Forfeited	(27,500)	24.36	(26,600)	24.81	(54,179)	20.94
Exercised	(15,947)	28.97	(22,635)	28.81	(39,310)	30.10
Outstanding at the end of the year	<u>224,622</u>	<u>21.75</u>	<u>260,561</u>	<u>22.04</u>	<u>301,296</u>	<u>21.69</u>
Of which exercisable at the end of the year	<u>11,347</u>	<u>28.10</u>	<u>18,677</u>	<u>29.35</u>	<u>37,114</u>	<u>29.55</u>

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 14 – Equity (continued)

b. Share-based payment (continued):

b. Options with performance conditions:

	2023		2022		2021	
	Quantity	Weighted average exercise price US\$	Quantity	Weighted average exercise price US\$	Quantity	Weighted average exercise price US\$
Outstanding at the beginning of the year	1,044,755	22.93	1,217,395	22.65	1,251,840	22.14
Granted	148,951	37.67	52,179	47.36	233,267	30.09
Forfeited	(213,740)	23.13	(121,750)	26.12	(169,887)	24.97
Exercised	(48,575)	26.88	(103,069)	28.16	(97,825)	29.96
Outstanding at the end of the year	931,391	24.63	1,044,755	22.93	1,217,395	22.65
Of which exercisable at the end of the year	45,930	26.73	85,635	29.14	83,273	29.96

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 14 – Equity (continued)

6. Details of the balance of the options* as at December 31, 2022 and December 31 2021 and the movements in 2022**:

Grant Date	Exercise price (\$)(***)	31.12.2022	Movements in 2023			31.12.2023	
		Balance of outstanding options	Granted	Exercised	Forfeited	Balance of outstanding options	Weighted average of expected life (in years)
September 2016	28.25	3,500	-	(2,000)	(1,500)	-	-
September 2016 – with performance conditions	28.25	5,335	-	(5,335)	-	-	-
November 2017	32.39	5,998	-	(3,998)	-	2,000	0.83
May 2018 – with performance conditions	29.97	11,666	-	(5,000)	(5,000)	1,666	0.38
February 2019	27.74	11,833	-	(9,667)	-	2,166	1.36
February 2019 – with performance conditions	27.74	38,194	-	(13,334)	-	24,860	1.13
August 2019	27.54	4,130	-	(282)	-	3,848	2.06
August 2019 – with performance conditions	27.54	972	-	(972)	-	-	-
November 2019 – with performance conditions	25.14	7,743	-	(7,743)	-	-	-
February 2020 – with performance conditions	26.42	20,000	-	(2,000)	-	18,000	3.17
October 2020	18.83	47,500	-	-	-	47,500	2.13
October 2020 – with performance conditions	18.83	519,740	-	-	(130,000)	389,740	2.13
November 2020	18.51	151,600	-	-	(20,000)	131,600	2.13
November 2020 – with performance conditions	18.51	213,500	-	-	(20,500)	193,000	2.13
January 2021	24.43	16,000	-	-	-	16,000	1.42
January 2021 – with performance conditions	24.43	102,000	-	-	(31,500)	70,500	2.13
March 2021	25.44	7,000	-	-	(3,000)	4,000	1.21
March 2021 – with performance conditions	25.44	30,324	-	(14,191)	(4,045)	12,088	0.95
May 2021 – with performance conditions	27.13	10,000	-	-	-	10,000	2.35
November 2021	52.30	6,500	-	-	-	6,500	2.32
November 2021 – with performance conditions	52.30	15,233	-	-	(15,000)	233	2.83
November 2021 – with performance conditions	53.78	3,590	-	-	-	3,590	2.83
December 2021 – with performance conditions	63.99	14,279	-	-	-	14,279	4.00
February 2022 – with Performance Conditional	65.29	5,000	-	-	-	5,000	4.17
May 2022	61.39	6,500	-	-	(3,000)	3,500	4.42
December 2022 – with Performance Conditional	45.46	47,179	-	-	(980)	46,199	4.61
February 2023 – with Performance Conditional	39.17	-	6,857	-	-	6,857	4.17
May 2023 – with Performance Conditional	42.16	-	18,740	-	-	18,740	4.46
May 2023 – with Performance Conditional	42.16	-	1,000	-	-	1,000	3.46
May 2023	42.16	-	2,508	-	-	2,508	1.97
August 2023 – with Performance Conditional	39.517	-	30,767	-	(6,715)	24,052	6.61
August 2023 – with Performance Conditional	39.517	-	3,821	-	-	3,821	2.07
October 2023 – with Performance Conditional	38.92	-	15,403	-	-	15,403	5.13
November 2023 – with Performance Conditional	34.25	-	47,363	-	-	47,363	5.13
November 2023 – with Performance Conditional	34.25	-	25,000	-	-	25,000	2.42
November 2023	34.25	-	5,000	-	-	5,000	4.88
Total		1,305,316	156,459	(64,522)	(241,240)	1,156,013	2.56

* The balance of the options does not include options that were issued to a trustee and have not yet been allocated to managers.

** See also section 5 above.

*** The exercise price in the above table is the original price before adjustment for distribution of dividends

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 14 – Equity (continued)

7. The changes and balances in the number of RSUs, are as follows:

a. RSUs without performance conditions:

	For the year ended December 31		
	2023	2022	2021
Balance at the beginning of year	2,075	29,663	33,279
Granted	14,843	-	4,745
Exercised	(2,075)	(24,157)	-
Forfeited	-	(3,431)	(8,361)
Balance at the end of year	14,843	2,075	29,663

b. RSUs with performance conditions:

	For the year ended December 31		
	2023	2022	2021
Balance at the beginning of year	33,663	38,183	31,291
Granted	23,975	11,488	16,386
Exercised	(11,244)	(10,286)	(4,706)
Forfeited	(11,674)	(5,722)	(4,788)
Balance at the end of year	34,720	33,663	38,183

c. Details of the balance of restricted share units without performance conditions as of December 31, 2023 and December 31, 2022 and the changes in 2023, in accordance with the plan:

Date of the plan	Date of grant	31.12.2022	Movements in 2023			31.12.2023
		Balance of outstanding RSUs	Granted	Exercised	Forfeited	Balance of outstanding RSUs
October 2009	January 2021	2,075	-	(2,075)	-	-
October 2009	October 2023	-	6,423	-	-	6,423
October 2009	November 2023	-	8,420	-	-	8,420
	Total	2,075	14,843	(2,075)	-	14,843

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 14 – Equity (continued)

- d. Details of the balance of RSUs with performance conditions as of December 31, 2023 and December 31, 2022 and the changes in 2023, in accordance with the plan:

Date of the plan	Date of grant	31.12.2022	Movements in 2023			31.12.2023
		Balance of outstanding RSUs	Granted	Exercised	Forfeited	Balance of outstanding RSUs
July 2014	February 2019	355	-	(355)	-	-
October 2009	August 2019	4,395	-	(4,395)	-	-
July 2014	August 2019	312	-	(312)	-	-
July 2014	November 2019	4,053	-	(4,053)	-	-
October 2009	January 2021	4,149	-	-	(4,149)	-
October 2009	March 2021	983	-	(983)	-	-
July 2014	March 2021	2,293	-	(1,146)	-	1,147
October 2009	November 2021	87	-	-	-	87
October 2009	December 2021	5,548	-	-	-	5,548
July 2014	May 2022	7,308	-	-	(814)	6,494
October 2009	December 2022	4,180	-	-	(4,180)	-
July 14	February 2023	-	2,704	-	-	2,704
October 2009	May 2023	-	9,250	-	-	9,250
October 2009	August 2023	-	2,531	-	(2,531)	-
July 2014	August 2023	-	9,490	-	-	9,490
	Total	<u>33,663</u>	<u>23,975</u>	<u>(11,244)</u>	<u>(11,674)</u>	<u>34,720</u>

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 15 – Taxes on income

a. Taxation of the Company in Israel

- 1) The measurement of the results for tax purposes

Since the 2008 fiscal year, the Company's results are measured in nominal values for tax purposes.

- 2) In January 2017, the Company indicated in its tax returns about its election to be governed by the Dollar Regulations in 2017 and thereafter.

- 3) Tax rates

The income of the Company is taxed at the standard Israeli corporate tax rate, which is 23%.

Capital gains of the Company in Israel are taxed at the normal corporate tax rate in effect in the fiscal year.

b. Taxation of subsidiaries outside of Israel

The subsidiaries incorporated outside of Israel are taxed according to the tax law in their respective countries of domicile, except for companies with a status of a "foreign controlled Company" under the Israel Income Tax Ordinance, whose income may be taxed in Israel in addition to the taxation under the tax laws of their countries of residency. The main tax rates in 2023 that apply to the main subsidiaries incorporated outside of Israel are:

Companies incorporated in the United States – a tax rate of 25% (including federal and state tax).

Companies incorporated in Germany – a tax rate of 30%.

Companies incorporated in the United Kingdom – a tax rate of 25%.

Companies incorporated in France – a tax rate of 26.5%.

Companies incorporated in Hong Kong – a tax rate of 16.5%.

Subsidiaries incorporated outside of Israel in free trade zones are registered for tax purposes according to the laws in their respective countries of domicile. In general, intercompany transactions between the Company and its foreign subsidiaries are subject to the provisions of Income Tax Regulations (Determination of Market Terms) – 2006.

c. Carryforward tax losses

Deferred tax assets for carryforward tax losses are recognized if it is probable that future taxable profits will be available against which the tax losses can be utilized. As of December 31, 2023 and 2022, there are no carryforward losses created for the Company and, accordingly, the Company has no tax assets. Carryforward tax losses recognized in connection to subsidiaries of the Group as of December 31, 2023 and 2022 are US\$94.7 million and US\$66.7 million, respectively. The tax asset recognized in connection to income tax losses of subsidiaries, as of December 31, 2023 and 2022, is US\$8.4 million and US\$3.8 million, respectively. Furthermore, the tax asset recognized for losses of subsidiaries, includes US\$2.3 million in losses for US state tax purposes (without federal tax).

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 15 – Taxes on income (continued)

d. Deferred tax assets

1) Composition of deferred taxes as at the balance sheet dates and transactions in said years are as follows:

	For Balance Sheet Items								
	Property, Plant and Equipment	Intangible Assets	Right-of- Use Assets	Lease Liabilities	Inventory	Provision to Employee Benefits	Others	Carry- Forward Tax Loss	Total
	US\$ in thousands								
Balance as at January 1, 2021	(13,301)	(25,966)	(43,145)	38,472	3,770	3,556	10,359	3,332	(22,923)
Changes During 2021:									
Recognized in profit or loss	2,739	116	(9,036)	8,664	(376)	(2,146)	(2,747)	2,670	(116)
Recognized in other comprehensive income	-	-	-	-	-	5	-	-	5
Foreign exchange gains and losses on translation of foreign operations	(125)	2,336	-	-	-	-	(269)	-	1,942
Balance as at December 31, 2021	<u>(10,687)</u>	<u>(23,514)</u>	<u>(52,181)</u>	<u>47,136</u>	<u>3,394</u>	<u>1,415</u>	<u>7,343</u>	<u>6,002</u>	<u>(21,092)</u>
Changes During 2022:									
Recognized in profit or loss	1,136	4,137	(1,395)	1,341	5,664	(699)	(1,030)	(2,179)	6,975
Recognized in other comprehensive income	-	-	-	-	-	(492)	-	-	(492)
Foreign exchange gains and losses on translation of foreign operations	34	777	-	-	-	-	(177)	-	634
Balance as at December 31, 2022	<u>(9,517)</u>	<u>(18,600)</u>	<u>(53,576)</u>	<u>48,477</u>	<u>9,058</u>	<u>224</u>	<u>6,136</u>	<u>3,823</u>	<u>(13,975)</u>
Changes During 2023:									
Recognized in profit or loss	(21,956)	12,763	(8,737)	8,680	(3,338)	324	12,441	6,912	7,089
Recognized in other comprehensive income	-	-	-	-	-	155	-	-	155
Foreign exchange gains and losses on translation of foreign operations	(71)	(1,077)	-	-	-	-	83	-	(1,065)
Balance as at December 31, 2023	<u>(31,544)</u>	<u>(6,914)</u>	<u>(62,313)</u>	<u>57,157</u>	<u>5,720</u>	<u>703</u>	<u>18,660</u>	<u>10,735</u>	<u>(7,796)</u>

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 15 – Taxes on income (continued)

2) Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. The offset amounts are as follows:

	As at December 31	
	2023	2022
	US\$ in thousands	
Deferred tax assets:		
Expected to be settled within 12 months after the balance sheet date	25,640	15,882
Expected to be settled after more than 12 months after the balance sheet date	21,290	14,378
	46,930	30,260
Deferred tax liabilities:		
Expected to be settled within 12 months after the balance sheet date	(9,369)	(7,661)
Expected to be settled after more than 12 months after the balance sheet date	(45,357)	(36,574)
	(54,726)	(44,235)
Deferred tax assets, net	(7,796)	(13,975)

	As at December 31	
	2023	2022
	US\$ in thousands	
Presentation in the statement of financial state of affairs:		
Deferred tax assets	28,016	18,183
Deferred tax liabilities	(35,812)	(32,158)
	(7,796)	(13,975)

Most deferred taxes are calculated according to tax rates of between 11% and 30%.

e. Profit (loss) before income taxes is comprised as follows:

	As at December 31		
	2023	2022	2021
	US\$ in thousands		
Israeli companies	61,393	72,272	36,590
Non-Israeli subsidiaries	45,608	75,508	114,111
	107,001	147,780	150,701

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 15 – Taxes on income (continued)

f. Composition of taxes on income in the statement of profit or loss:

	As at December 31		
	2023	2022	2021
	US\$ in thousands		
Current:			
Companies in Israel	14,914	18,567	14,913
Non-Israeli subsidiaries	11,642	20,026	15,771
	<u>26,556</u>	<u>38,593</u>	<u>30,684</u>
Deferred:			
Companies in Israel	2,405	(3,709)	(5,003)
Non-Israeli subsidiaries	(9,494)	(3,266)	5,119
	<u>(7,089)</u>	<u>(6,975)</u>	<u>116</u>
Previous Years Taxes:			
Companies in Israel	6	304	221
Non Israeli Subsidiaries	2,187	480	(626)
	<u>2,193</u>	<u>784</u>	<u>(405)</u>
	<u>21,660</u>	<u>32,402</u>	<u>30,395</u>

- g. The following is a reconciliation of the "theoretical" tax amount which would have applied if all income had been taxed at the statutory rate applicable to companies in Israel (see Section A3 above) to the tax charged in the statement of profit or loss and other comprehensive income for the reported years:

	As at December 31		
	2023	2022	2021
	US\$ in thousands		
Income before tax as presented in statement of comprehensive income	107,001	147,780	150,701
Theoretical tax expenses	24,610	33,989	34,661
Decrease in tax due to different tax rates applicable to non-Israeli subsidiaries	(1,158)	(5,326)	(2,385)
	23,452	28,663	32,276
Increase in tax due to permanent differences:			
Non-deductible expenses less exempt income, net	6,820	196	2,263
Tax expenses (benefits) for previous years, net	2,193	784	(405)
Increase (decrease) in taxes from timing differences for which deferred taxes were not recognized	(11,747)	3,448	(2,194)
Foreign exchange gains and losses and differences in measurement bases	1,130	(743)	(1,352)
Other- net	(188)	54	(193)
Taxes on income – in the statement of comprehensive income	<u>21,660</u>	<u>32,402</u>	<u>30,395</u>

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 15 – Taxes on income (continued)

h. Tax assessments

In January 2020, the Company was issued a best-of-judgment tax assessment for 2014. According to that assessment, an additional US\$ 10 million income tax was imposed.

In February 2021 the above best-of-judgment tax assessment was settled, reducing the additional tax liability for 2014 to \$1.5 million, which will be paid partially in cash and the rest will be deducted from tax credit. The above amount was paid in February 2021.

In December 2020, the Company was issued a best-of-judgment tax assessment for 2015-2017. According to the claim made in the assessment, an additional US\$23 million was imposed. The Company objects to the position of the assessing officer and believes it has appropriate defense arguments against the assessment. After receiving a filing extension, the Company submitted its objection to the said assessment on March 25, 2021.

On March 23, 2022, the above tax assessment was settled with the tax authorities, and the total additional tax liability for 2015-2017 was set to US\$5 million, excluding interest and inflation linkage (a total of US\$6.3 million with linkage and interest). The 2022 financial statements include provisions in respect to those assessments.

In March 2020, the Company was issued a best-of-judgment VAT assessment for 2015-2019. According to the claims made in the assessment, the Company was not permitted to deduct a total of \$4.4 million in input tax. The Company objects to the position of the VAT Director, and believes it has good defense arguments against that assessment, and therefore, an objection was filed to the Israeli Tax Authority against the above best-of-judgment assessment.

In June 2021, a decision by the ITA was served to the accountants of the Company, fully rejecting the objection of the Company against the VAT assessment. On March 28, 2022, the above VAT assessment was settled with the tax authorities, and that the total additional VAT liability in connection with the period relevant to that assessment (2015 - 2019) was set to US\$1.4 million, not including interest and inflation linkage (a total of US\$1.7 million with linkage differences and interest).

The 2022 financial statements include provisions in respect to that assessment.

i. The impact of the adoption of IFRS in Israel on tax liability

The Company has prepared its financial statements for the first time in accordance with IFRS as of January 1, 2008.

IFRS are different from generally accepted accounting principles in Israel (Israeli GAAP) and accordingly, preparation of financial statements under IFRS may reflect a financial position, operating results and cash flows materially different from those presented according to Israeli GAAP.

In accordance with legislative provisions published in 2010, 2012 and 2014 for determining the taxable income for tax purposes in 2007-2013 (hereinafter together – the temporary provision), the provisions of Israel Accounting Standard No. 29 of the Israel Accounting Standards Board do not apply in determining taxable income in 2007-2013, even if IFRS is mandatory for financial statements in those fiscal years. The meaning of the temporary provision is that IFRS do not apply in practice when calculating the reported income for tax purposes in the specified fiscal years.

In 2014, a law memorandum was published for an amendment to the Income Tax Ordinance (hereinafter – the Law Memorandum) following the adoption of IFRS for preparing financial statements. Generally, the Law Memorandum adopts IFRS. However, the Law Memorandum proposes a number of amendments to the Income Tax Ordinance that will serve to clarify and determine the manner of computing taxable income whenever IFRS is incompatible with Israeli tax principles. Legislation proceedings for the Law Memorandum have yet to be completed and it is doubtful whether they will be completed in the foreseeable future.

The legislation regarding the Law Memorandum has not been completed and is not expected to be completed. The Company makes certain adjustments whenever income tax provisions differ from IFRS. Taking into account the current provisions applicable to the 2007-2013 tax years and the Company's estimates as to the probability of their extension also to the 2014-2023 tax years, as stated above, the Company calculated its taxable income for the 2008-2023 tax years based on the Israeli accounting standards, subject to certain adjustments.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 15 – Taxes on income (continued)

j. The impact of the OECD Pillar 2 rules

The Group falls within the scope of Pillar 2 rules. While no legislation adopted Pillar 2 in Israel (the jurisdiction in which the Company was incorporated), it was adopted beginning in January 2024 in other countries where the Company operates. Because Pillar 2 legislation has not yet come into force, the Company has no exposure related to current taxes in 2023. The Group implements the temporary mandatory exemption from implementation of the provisions of IAS 12 in relation to the recognition and disclosure of deferred tax assets and liabilities arising from the Pillar 2 legislation, in accordance with the amendment to IAS 12 published in May 2023.

In accordance with the Pillar 2 legislation, the Group is obligated to pay additional tax (top-up tax) to reach a minimal effective tax rate of 15%, which is based on the gap between the calculation of the effective tax rate according to the GloBE (Global anti-Base Erosion) rules and a minimum tax rate of 15%. Based on a preliminary review, the Company concluded that although it operates in certain countries where the tax rate is lower than 15%, those rules appear not to have a material impact on the Group's tax expenses in 2024.

Note 16 – Earnings per share

a. Basic

The basic earnings per share is calculated by dividing the income attributed to the shareholders of the parent by the weighted average number of outstanding ordinary shares in the period, including fully-vested RSUs, and less ordinary shares bought back by the Company and held as treasury shares.

	Year		
	2023	2022	2021
Net income attributed to Company shareholders (US\$ in thousands)	79,210	109,476	112,781
Weighted average number of ordinary shares issued (in thousands)	26,923	26,923	26,923
Less weighted average number of treasury shares (in thousands)	(1,215)	(1,268)	(1,381)
Total number of shares for calculation of the basic earnings per share (in thousands)	25,708	25,656	25,542
Basic earnings per share (in US\$ per share)	3.08	4.27	4.42

b. Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding ordinary shares less the number of treasury shares while including potential ordinary shares with dilutive effect.

	Year		
	2023	2022	2021
Net income attributed to shareholders of the parent (US\$ in thousands)	79,210	109,476	112,781
Weighted average number of ordinary shares issued and used for the calculation of basic earnings per share (in thousands)	26,923	26,923	26,923
Less treasury shares (in thousands)	(1,215)	(1,268)	(1,381)
Adjustment for weighted average number of additional shares from exercise of options and RSUs (in thousands)	553	816	726
Weighted average number of shares for calculation of diluted earnings per share (in thousands)	26,261	26,471	26,268
Diluted earnings per share (in US\$ per share)	3.02	4.14	4.29
No adjustments were made in the calculation of the diluted earnings per share in respect to non-dilutive options (in thousands)	152	51	53

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 17 – Commitments

a. Shareholders agreement in regard to the setting up and operating stores and e-commerce website for the Bath & Body Works® brand in Israel

On December 24, 2020, the Company entered into an agreement in connection with setting up and operating stores and an e-commerce website of the Bath & Body Works® brand in Israel (the "Agreement"). The Agreement was signed between the Company, Delta Israel Brands Ltd. (hereinafter: Delta Brands) and Amarla Retail S. A. (the "Partner"). Under the Agreement, a Jointly-Owned Entity, D&A International Brands Ltd, was incorporated, which was held, as of that time, by Delta Brands (60%) and the Partner (40%) (The "Jointly-Owned Entity").

Due to disagreements in connection with the Agreement, the relevant parties negotiated and reached understandings to resolve the dispute, following which the Partner is no longer a shareholder in the Jointly-Owned Entity and the Partner's holdings were transferred to the Company. The Jointly-Owned Entity became irrelevant and is currently in voluntary dissolution.

In March 2023, Delta Brands contracted with PCAB S.À R.L., U.S. branch, a private Company incorporated in Luxembourg (the "Franchisor") in an exclusive licensing agreement for a seven-year period with an option to extend for additional seven years. Under that engagement, Delta Brands was granted a licensing to set up and operate stores and an e-commerce website in Israel for selling beauty and personal care products, home fragrance and other products of the Bath & Body Works brand (the "BBW Products", "BBW" and "Licensing Agreement", respectively). The BBW Products are complementary to the products currently offered by Delta Brands to its customers, and they fit into its strategy to expand the range of products and brands it offers.

For the purpose of engaging in the licensing agreement and in accordance with the requirement of the Franchisor, the Company and its controlling shareholder and CEO, Mr. Isaac Dabah – who also serves as Chairman of the Board of Directors of the subsidiary – both gave Delta brands ,for no consideration, an obligation that they will refrain for the duration of the licensing agreement and for one year after its termination, from carrying out any action that would cause Delta Brands to breach its exclusivity obligations to the Franchisor , damaging reputation and soliciting employees, as given by it as stated in the framework of the licensing agreement.

b. Exclusive license agreement for the establishment and operation of stores and an e-commerce website for the Victoria's Secret brand and Delta Israel Brands Ltd. (hereinafter: the Subsidiary)

In January 2022, the Subsidiary signed an exclusive licensing agreement with Intimate Apparel Brand Management, LP (the "Licensing Provider") according to which the Subsidiary was granted an exclusive license to set up and operate stores and an e-commerce website in Israel for the sale of lingerie and cosmetics under the Victoria's Secret brand (hereinafter "The Brand").

In December 2022, the Subsidiary launched the brand's website in Israel.

For information about the deferment of the opening of Victoria's Secret stores and Bath & Body Works stores in the wake of the Swords of Iron war, see note 1 b 1.

c. New logistics center

On November 28, 2021, a subsidiary in Israel signed a new lease agreement with the Caesarea Edmond Benjamin de Rothschild Assets Company (2001) Ltd., according to which Caesarea Assets will construct a new logistic center, for the subsidiary, which will also include office spaces (the "New Logistics Center"). The new center will be constructed in the southern part of Caesarea's business and industrial park, with a floor area of about 17,000 sqm. According to the agreement signed by the parties, Caesarea Assets Company will build the New Logistic Center as a yield deal and pay actual construction costs, with the exception of any costs exceeding the maximum estimation as agreed upon in the initial agreement, in which case Caesarea Assets is permitted to demand the Subsidiary to pay those costs in advance. Both parties to the agreement expect that the total amount which Caesarea Assets will bear is approximately NIS 130 million (US\$35 million).

The Subsidiary is expected to invest in a new automation system for the New Logistics Center, as well as smart shelving and inventory management systems and an advanced robotic system. The Subsidiary believes, as of the publication date of this report that the scope of its investment in the New Logistics Center will amount to NIS 150 million (US\$40 million), which will be made during the construction of the New Logistics Center. Out of this amount, the Subsidiary invested, as of the date of this report, a total of NIS 40 million (US\$11 million).

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 17 – Commitments (continued)

c. New logistics center (continued)

After the completion of construction, the Subsidiary will lease the New Logistic Center for the period which will commence upon issuing an occupancy permit ("Form 4") and end 24 years and 11 months after the date of the signing of the lease agreement. The lease payment to be made by the Subsidiary will be at an annual rate agreed upon between the parties as part of the agreement, based on the value of the land and construction costs incurred by Caesarea Assets, plus inflation linkage. The Subsidiary estimates that it will take occupancy of the New Logistic Center during the second half of 2025.

d. In 2023, the Company signed an agreement to purchase the Passionata brand from the French Chantelle group, a leading retail Company in France founded in 1988 and which globally markets quality and comfortable undergarments. Closing of the transaction is expected on February 1, 2024, and from that date and until July 2024, Chantelle will continue to run operation and pay the Company royalties for brand sales and, commencing in July 2024, the Company will run the operation independently.

e. In 2023, the Company signed an exclusive licensing agreement for a period of 5½ years with an option to be extended for another 3 years, under the Florence By Mills brand owned by Milly Bobby Brown, who is a leading international celebrity, starring in television series and films distributed globally, within which the Company was granted a licensing to sell products in the lingerie, activewear, fashion clothing, leisure and denim categories.

In most product categories, sales are global to wholesale customers, on leading websites and through a dedicated website of the Company. The global launch of the products under the brand is planned for the first quarter of 2024.

f. See Notes 8 c and 13 for information about the liability for minimum royalty payments.

g. The Company and some of its subsidiaries provided bank guarantees and government guarantees as of December 31, 2023, mainly for securing rental agreements, royalty agreements and purchases of subcontractors and others, at US\$40.6 million (about US\$41.3 million as of December 31, 2022).

Note 18 – Transactions and balances with related parties

The Group is controlled by Mr. Isaac Dabah, who holds approximately 47% of the shares in the Company both through GMM Capital LLC and directly. In addition, Isaac Dabah Children's Trust and Isaac and Ivette Dabah Charitable Foundation hold approximately 0.16% of the Company's shares.

"Stakeholder" - as "Stakeholder" is defined in the Securities Regulations (Annual Financial Statements) 2010.

"Related Parties" – as defined in IAS 24 "Related Party Disclosures".

Key management personnel who are covered by the definition of "related parties" in IAS 24 include the members of the Board of Directors and the CEO of the Company.

a. Transactions with related parties

The benefits provided to related parties are as follows:

	For the year ended December 31		
	2023	2022	2021
Salary and statutory benefits paid to related parties employed by the Company or a subsidiary:			
The amount – US\$ in thousands – see (1) and (2) below *	2,089	4,440	3,714
The number of people relevant to those benefits	3	3	3
Directors' remuneration and traveling expenses			
The amount US\$ in thousands	366	451	349
The number of people relevant to those benefits	7	7	7
Purchases from related parties – companies accounted for using the equity method	16,758	24,083	19,951

* The expense in 2022 and in 2021 includes a long-term bonus component of \$506,000 which is a proportion of the multi-year bonus to the CEO, relating to the Company's performance in 2019-2022. The long-term targets of the bonus were achieved and the bonus was paid in full in early 2023.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 18 – Transactions and balances with related parties (continued)

Approval of the terms of employment of related 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:

On January 28, 2021, after approval by the Compensation Committee and the Board of Directors of the Company, the general meeting of shareholders approved the terms of employment of Mr. Dabah for the period until December 31, 2022. Under the terms approved, Mr. Dabah was entitled to a base annual salary of \$810,000, statutory benefits, and reimbursement of expenses, insurance, exemption of liability and indemnity, an annual bonus of \$810 thousand to \$1,000 thousand subject to achieving business targets and a long-term bonus of \$2,025 thousand for 2019-2022, subject to achieving business objectives. The business objectives set for the entitlement to the multi-year bonus were achieved, and therefore, the bonus was paid in full.

On January 24, 2023, the terms of employment of Mr. Dabah for 2023 were approved by the general meeting of shareholders. Under the terms of the agreement that was approved, Mr. Dabah was entitled to an annual salary of \$850,000, statutory benefits, reimbursement of expenses, insurance, exemption of liability and indemnity, and was also be entitled to a maximum annual bonus of US\$850,000, conditioned upon achieving business objectives. Those objectives for 2023 were not achieved and therefore, Mr. Dabah is not entitled to a bonus for 2023. On December 19, 2023, the Board of Directors of the Company decided, pursuant to the directives of Section 11(a) of the Extension of Periods and Deferment of Dates Law, to extend the validity of the authorization granted for the terms and conditions of the tenure and employment of Mr. Isaac Dabah, the controlling shareholder in the Company, in his role as the CEO and a director. The extension will be for an additional period of four months, such that the terms and condition of his tenure and employment (including the insurance and indemnity arrangement) will remain valid and continue to fully apply to the parties until April 30, 2024.

- 2) The terms of employment of Ms. Gloria Dabah, the daughter of the Company's controlling shareholder, serving as President of Kids Division DG Premium Brands:

On April 4, 2022, the general meeting of shareholders, after approval by the Compensation Committee and the Board of Directors of the Company, approved the employment agreement with Ms. Gloria Dabah, President of Kids Division DG Premium Brands, who is the daughter of Mr. Isaac Dabah – the Company's controlling shareholder – whereby her annual salary, as of April 1 2022, is \$400,715 (which can be raised, once a year, subject to achieving a measurable objective determined in advance and approved by the general meeting of shareholders of the company) and she is entitled to an annual bonus of up to 50% of her annual salary and to a multi-year bonus at the end of 3 years of work, starting from April 1, 2022, totaling \$250,000 subject to achieving the objectives. According to the objectives set for her, Ms. Gloria Dabah is entitled to a bonus for 2023 totaling \$40,072.

- 3) On December 19, 2023, the Company's Board of Directors approved, after earlier approval by the Audit Committee in accordance with regulation 1(4) of the Company Regulations (Reliefs for Transactions with Interested Parties), 2000, the engagement of the Company, its controlling shareholder and his family, with Keshet. The terms and conditions of the transaction for the Company are not fundamentally different from those applying to the controlling shareholder and his family, proportionally to their share in the transaction. The engagement involves providing a donation of NIS 5 million for long-term support to orphans who were left with no living parents after the events of October 7, 2023. The donation will be made over an eight-year period in equal parts by the Company on the one hand, and the controlling shareholder and his family members, on the other hand (i.e. the Company will donate NIS 5 million and the controlling shareholder and his family members will donate together an additional NIS 5 million). This will be implemented through engagement of the Company and of the controlling shareholder and his family members in an agreement with Keshet, which will retain the donated money and act as directed by a management committee that will be set up by the Company, the controlling shareholder and his family.
- 4) Amendment of the Management Agreement Between the Company and Delta Israel

On May 22, 2023, the Company's Board of Directors approved an amendment of the management agreement between the Company and Delta Israel Brands Ltd., after an earlier approval by the Audit Committee and its recommendation to go ahead with this move. According to the existing management agreement, which was signed between the parties on February 21, 2021, the Company undertook to provide Delta Brands with management services in various operating areas, in exchange for a management fee at 1.05% of the total annual sales of Delta Brands up to and including NIS 850 million, and 0.5% of any annual sales over NIS 850 million ("The Existing Management Agreement").

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 18 – Transactions and balances with related parties (continued)

4) Amendment of the Management Agreement Between the Company and Delta Israel

The proposed amendment to the Existing Management Agreement introduced a third bracket to the two existing ones (i.e. 1.05% for sales of up to NIS 850 million and 0.5% for any amount of sale exceeding that). According to the new bracket, sales exceeding NIS 1,020 million will require Delta Israel Brands Ltd. to pay the Company an additional 0.25%, up to a total annual cap of NIS 11 million. Note that the amendment was approved on June 27, 2023 by the general meeting of shareholders of Delta Brands by a special majority, after an earlier approval by the Audit Committee and the Board of Directors of Delta Israel. The amendment became effective retroactively as of January 1, 2023.

5) On December 19, 2023, after confirmation by the Audit Committee that this is a non-exceptional transaction, the Company's Board of Directors approved a donation of US\$32 thousand and US\$27 thousand for 2023 and 2024, respectively, to Shenkar College as part of the Company's relationship with academic institutions in general and Shenkar College in particular. Mr. Isaac Dabah, the controlling shareholder and CEO of the Company and Noam Lautman, Chairman of the Company's Board of Directors, are members of the Board of Trustees of Shenkar College.

6) On December 19, 2023, after earlier confirmation by the Audit Committee that this is a non-exceptional transaction, the Company's Board of Directors approved a donation of approximately \$27 thousand for each of the years 2023 and 2024, for the Bat Sheva Dance Company. Ms. Tzipora Carmon, who is a director of both the Company and Bat Sheva.

b. Balances with related parties

	As of December, 31	
	2023	2022
	US\$ in thousands	
Current payables balance for director remuneration:		
As of balance sheet date:	128	104
Current payables for salaries and bonuses to related parties employed by the Company.		
As of balance sheet date:	200	4,137
Current payables for purchases from related parties as of the balance sheet date – companies accounted for using the equity method.	4,880	4,280

c. Directors remuneration, exemptions and insurance

The Company has indemnification, exemption of liability and insurance arrangements with directors and senior executives, including directors and officers insurance and including in subsidiaries where the Company holds at least 25% of equity. The amount of indemnification is limited to 25% of the Company's equity as disclosed in its latest financial statements prior to payment of the indemnification in practice. The limit of liability on the directors' insurance policy is US\$20 million per event and per period, and the annual premium in its respect is US\$54,000. In addition, the Company exempted, in advance and retrospectively, its senior executives (including the controlling shareholder) from any liability to damages resulting from breach of their duty of care, subject to the reservations stated in the written exemption from liability as granted to the senior officers.

d. Negligible transactions with interested parties

The Company's Board of Directors decided to adopt guidelines and general guidelines for the classification of a transaction as a "negligible transaction", as defined in Regulation 41(a3) of the Securities (Financial Statements) Regulations, 2010.

These rules and guidelines will also be used to examine the scope of disclosure regarding a Company's transaction with a controlling shareholder or the controlling shareholder has a personal interest in the approval as stipulated in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 and Regulation 54 of the Securities Regulations (Details of the Prospectus and the Draft Prospectus - Structure and Form), 1969 as well as for examining the need for the submission of an immediate report regarding such transaction of the Company, as stipulated in Regulation 37A(6) of the Securities Regulations (Periodic and Immediate Reports), 1970.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 18 – Transactions and balances with related parties (continued)

The Company's Board of Directors determined that a transaction of the Company with a controlling shareholder or the controlling shareholder has a personal interest in its approval, will be considered a "negligible transaction" if all of the following conditions are met:

- 1) It is not an anomalous transaction, as this term is defined in Section 1 of the Companies Law, 1999;
- 2) The deal is not expected to have a material or strategic effect on the Company, from the qualitative point of view of the deal.
- 3) Its effect on the relevant parameter (as stipulated below) is up to 1%. For this matter, the parameter relevant to the transaction will be considered as the most relevant parameter among the following: (a) Sales ratio - that is, the total sales that are the subject of to the transaction divided by the total annual sales of the Company; (b) Cost of Sales ratio - that is, the transaction cost divided by the Company's total annual sales; (c) Profits ratio - that is, the profit or loss associated with the transaction divided by the annual profit or loss; (d) Assets ratio - i.e., the scope of the assets that are the subject of to the transaction divided by the Company's total assets; (e) Liabilities ratio - that is, the liabilities that are the subject of the transaction divided by the Company's total liabilities; (f) Operating expenses ratio - that is, the scope of the expense that are the subject of to the transaction divided by the Company's total operating expenses; (g) Operational Expenditure ratio – that is, the liabilities that are the subject of the transaction divided by the total liabilities of the Company;

The effect of the transaction will be examined on an annual basis, based on the Company's annual (consolidated) and audited financial statements.

In cases where, according to the Company's discretion, all the quantitative benchmarks stipulated above are not relevant to examining the negligibility of the transaction, the transaction will be considered negligible, in accordance with another relevant quantitative benchmark, which will be determined by the Company, provided that the relevant benchmark calculated for the transaction will be at a rate that does not exceed 1% of the relevant parameter.

- 4) When examining the negligent nature of the transaction that is supposed to occur in the future, one must examine, inter alia, the degree of likelihood of the materialization thereof and the materialization of its effects.
- 5) Separate transactions, which have a dependency between them, so that in practice they are part of the same contractual association – will be examined as one transaction.

The negligence of the transaction will be examined by the Company's CFO, who will report as soon as possible to the Chairman of the Audit Committee regarding the transaction and the results of the examination he conducted.

Notwithstanding the above stated, the Company may report transactions with the controlling shareholder even in cases where it is not obligated to do so in accordance with the above.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information

a. Cash and cash equivalents

	As of December, 31	
	2023	2022
	US\$ in thousands	
Cash in bank	160,923	97,963
Short-term bank deposits	13,540	28,686
Cash and Cash Equivalents	174,463	126,649

b. Trade and other receivables

1. Trade receivables

	As of December, 31	
	2023	2022
	US\$ in thousands	
Open accounts	240,164	234,618
Checks collectible	1,052	2,154
	241,216	236,772
The item is presented net of a provision for credit loss of:	6,550	6,352

As of December 31, 2023, a trade receivables balance of approximately US\$ 12 million (approximately US\$ 4.5 million as of December 31, 2022), is a contractually overdue balance for which no provision for credit losses has been recognized and was not settled by the date of approving these financial statements. The balance is composed of a large number of unrelated customers with no history of insolvency.

The movement in the loss provisions for the balance of 2021, 2022 and 2023 as made by the Company is as follows:

	US\$ in thousands
Balance as at January 1, 2021 -	8,838
Lifetime expected credit losses	1,334
Uncollected balances written off in 2021	(788)
Exchange rate gains and losses	(374)
Balance as at December 31, 2021	9,010
Lifetime expected credit losses	(1,184)
Uncollected balances written off in 2022	(1,040)
Exchange rate gains and losses	(434)
Balance as at December 31, 2022	6,352
Lifetime expected credit losses	1,006
Uncollected balances written off in 2023	(890)
Exchange rate gains and losses	82
Balance as at December 31, 2020	6,550

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

2. Other Receivables

	As of December, 31	
	2023	2022
	US\$ in thousands	
Prepaid expenses	13,119	9,836
Government institutions	13,849	8,815
Income receivables	8,696	8,949
Advances to suppliers and subcontractors	5,473	4,005
Others	7,783	4,784
	48,920	36,389

The fair value of the monetary items included in other receivables approximates their carrying amount. The balances included in other receivables in respect of non-monetary items do not include overdue amounts. The maximum exposure to credit risks as of 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.

c. Inventory

Composition of Inventory:

	As of December, 31	
	2023	2022
	US\$ in thousands	
Finished goods	289,788	410,033
Goods in process	33,855	33,991
Raw materials	28,079	36,862
Packaging and other materials	9,694	6,421
	361,416	487,307

As of December 31, 2023, the balance of impaired inventory is presented less provision for impairment of \$40.1 million (as of December 31, 2022 – \$44.7 million). Inventory balance is presented as the lower of cost and net realizable value, less cost of sales. The change in the provision for impairment is recognized in the statements of profit or loss and other comprehensive income under "cost of sales".

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

d. Short-term bank borrowings

- 1) The total lines of credit, including off-balance sheet credit, that were extended to the Company by the banks for a short time as at December 31, 2023 totaled approximately \$335 million (approximately \$345 million 2022), of which approximately \$295 million were not exploited (about \$252 million in 2022). The lines of credit used, as stated, include receiving short-term borrowings as well as utilizing a letter of credit and guarantees. In addition to these lines of credit, as at December 31, 2023, the Company has cash and cash equivalents and short-term deposits in the amount of about \$174 million so that the total of the Company's unused credit sources as at December 31, 2023 amounted to about \$469 million (about 442 million dollars in 2022). The total of the above credit sources include about \$75 million non-binding lines of credit. During 2023 the Company extended the binding credit framework agreements with banks in Israel in the amount of \$125 million. As at the date of this report, the interest rate on these credit frameworks is SOFR + 2.10% -12.80 % per annum.
- 2) On September 1, 2021, the subsidiary Delta USA signed a credit agreement with Bank Leumi and Discount Bank USA for a two-year period. The total short-term revolving loan is \$80 million. This credit agreement is secured by an unlimited floating pledge on Delta USA's assets and rights and on some of the assets of its subsidiaries.

As at December 31, 2023, some \$6 million of this credit has been exploited in the USA, as part of a letter of credit. As at the date of this report, the interest rate of short term loans is SOFR + 2.1145 or Prime.

The credit agreement is subject to the following financial covenants:

- a. Delta USA's net annual profit, less payment of royalties to sister companies, will not be less than \$1.
- b. Tangible equity – defined as equity less intangible assets (primarily goodwill) – will not be less than \$28 million.
- c. Tangible equity to total assets less intangible assets ratio will not be less than 20%.

Notwithstanding the above, if the net balance of trade receivables less loans of Delta USA is greater than \$40 million, the above covenants will be disregarded and the Company will be deemed as being compliant with the terms of the agreement.

As at balance sheet date, the Company has complied with the above stated financial covenants.

The fair value of the short-term loans equals their carrying amount in the accounting records, since the impact of capitalization is immaterial.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

e. Long-term bank loans

- 1) On July 1, 2018, the Company signed a long-term loan agreement of €70 million (approximately \$81 million as at the date of receiving the loan) with an Israeli bank. The term of the loan is five years. Half of the loan would be repaid in equal quarterly installments, and the other half would be repaid at the end of the period in one installment. The annual interest rate is a fixed 1.99%. The loan agreement is secured by an unlimited floating pledge on the Company's rights, assets and property.

The loan is conditional upon the following covenants:

- a. Equity of not less than \$180 million.
- b. Net financial debt to CAP ratio does not exceed 60%.

Additionally, the Company undertook to comply with the following conditions in order to approve the distribution of a dividend:

- a. The total dividend distribution may not exceed 50% of the distributable profits, as defined in the provisions of Section 302 of the Companies Law.
- b. The balance of equity may not fall below \$220 million after the distribution of the dividend.
- c. The ratio of net financial debt to EBITDA may not exceed 3.5 after distribution.

As at the balance sheet date, the Company complied with the aforementioned financial covenants.

- 1) On August 18, 2021, the Company signed a long-term loan agreement with an Israeli bank of an amount of approximately \$56 million. The loan period is for 11 years, which will be repaid over the period in annual payments, with a grace period of one year. The interest rate is 3.1% fixed interest. The loan agreement is secured by an unlimited floating pledge on the Company's rights, assets and property.

The loan is subject to the following covenants:

- a. The Company's equity will not decrease from \$180 million.
- b. The ratio of net financial debt to CAP shall not exceed a rate of 60%.

In addition, the Company undertook to comply with the following conditions in order to approve the dividend distribution:

- a. The total dividend distribution may not exceed 50% of the distributable profits, as defined in the provisions of Section 302 of the Companies Law.
- b. The balance of equity may not fall below \$220 million after the distribution of the dividend.
- c. The ratio of net financial debt to EBITDA may not exceed 3.5 after distribution.

As at the balance sheet date, the Company complied with the aforementioned financial covenants.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

- 2) On August 19, 2021, the Company signed a \$19 million long-term loan with an Israeli bank. The loan is for 11 years and will be repaid over that period in annual installments, with a one-year grace period. The interest rate is SOFR for three months plus a margin of 2.18%. The loan agreement is secured by an unlimited floating pledge on its rights, assets and property of the Company.

The loan, is subject to the following financial covenants:

- a. The Company's shareholders' equity may not fall below \$180 million;
- b. The ratio of net financial debt to CAP shall not exceed a rate of 60%.

Additionally, the Company committed to comply with the following conditions for approving a dividend distribution:

- a. The total dividend distribution may not exceed 50% of the distributable profits, as defined in the provisions of Section 302 of the Companies Law.
- b. The balance of equity may not fall below \$220 million after the distribution of the dividend.
- c. The ratio of net financial debt to EBITDA may not exceed 3.5 after distribution.

As at the balance sheet date, the Company complied with the aforementioned financial covenants.

- 3) On February 7, 2022, the Company received a long-term loan from an Israeli bank of an amount of approximately \$54 million. The loan period is for 11 years, which will be repaid according to the period in annual installments, with the addition of grace for one year. The annual interest rate is 3.55% fixed interest. The loan agreement is secured by a current and unlimited pledge on the Company's rights, assets and property.

The loan is subject to the following financial covenants:

- a. The Company's shareholders' equity may not fall below \$180 million;
- b. The ratio of net financial debt to CAP shall not exceed a rate of 60%.

Additionally, the Company committed to comply with the following conditions for approving a dividend distribution:

- a. The total dividend distribution may not exceed 50% of the distributable profits, as defined in the provisions of Section 302 of the Companies Law.
- b. The balance of equity may not fall below \$220 million after the distribution of the dividend.
- c. The ratio of net financial debt to EBITDA may not exceed 3.5 after distribution.

As at the balance sheet date, the Company complied with the aforementioned financial covenants.

- 4) In December 2022, Shiesser Investments Ltd. (a subsidiary Company) signed a long-term loan with Uni Credit Bank AG of an amount of €6 million (about \$ 6.4 million). The loan period is for 10 years, to be repaid according to the period in quarterly installments, starting December 30, 2022. The interest rate is 3.36% fixed interest. The loan agreement is guaranteed by the lien of the building and a Schiesser Company guarantee.

- 5) On July 4, 2023, the Company signed a long-term loan agreement with an Israeli bank of an amount of € 30 million (about \$33 million on the day of receiving the loan). The loan period is for 5 years, and will be repaid in equal quarterly installments. The variable annual interest rate is 6.1670% (calculated by margin of 2.58% and EURIBOR interest at the time of granting a loan of 3.587%) The loan agreement is secured by a current and unlimited lien on the rights, assets and property of the Company

The loan is subject to the following covenants:

- a. The Company's shareholders' equity may not fall below \$180 million;
- b. The ratio of net financial debt to CAP shall not exceed a rate of 60%.

Additionally, the Company committed to comply with the following conditions for approving a dividend distribution:

- a. The total dividend distribution may not exceed 50% of the distributable profits, as defined in the provisions of Section 302 of the Companies Law.
- b. The balance of equity may not fall below \$220 million after the distribution of the dividend.
- c. The ratio of net financial debt to EBITDA may not exceed 3.5 after distribution.

As at the balance sheet date, the Company complied with the aforementioned financial covenants.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

f. Other payables

	As of December, 31	
	2023	2022
	US\$ in thousands	
Accrued expenses	50,246	60,831
Employees and payroll-related institutions	40,991	47,163
Liability for minimum royalty payments	23,561	19,477
Institutions	18,808	18,380
Provision for vacation and recreation pay	9,707	8,495
Interest payable on bonds, see Note 11	1,336	3,069
Others	21,142	18,996
	165,791	176,411

The carrying amount of other payables reasonably approximate their fair value since the impact of discounting is immaterial.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

g. Realignment expenses

2022 realignment plan for Bogart

During the second quarter of 2022, the Company decided, as part of its strategy to constantly improve operational flexibility and efficiency, while improving the cost structure and strengthening the competitive advantage, to close the Bogart subsidiary plant in Shenzhen, China and to move the production activity to a new plant, which it launched in Vietnam in July.

The non-core cost of the plan is about \$5.5 million. This cost was included as an expense in the Group's reports for 2022 and includes compensation and other costs due to the termination of the employment of approximately 780 employees of the subsidiary.

The implementation of the plan was completed during June 2022 and the payments were spread out starting from the second quarter until the end of 2022.

As at December 31, 2022, the Company completed the plan in full.

The 2023 realignment program

- a. During the first quarter of 2023, the group decided, as part of its strategy to focus on attractive countries for it and its customers, while improving the structure of the costs and the bolstering of the competitive advantage, on the realignment plan. The program includes closing the distribution center of the Bare Necessities operation in the USA and the transfer of the logistics activity to outsourcing, closing a factory for the production of socks in Bulgaria (which was carried out in parallel to the construction of a new factory in Egypt) transferring Cut & Sew products production activity from the group's factory in Cairo to that at Al Miniya in Egypt and the consolidation of overheads in the field of 7 For All Mankind operations.

The non-core cost of the program in the amount of approximately \$5.4 million, was included as an expense in the report for 2023 and included approximately \$3.9 million in cash for severance and other costs due to termination of the employment of about 600 employees, and about \$1.5 million that are not in cash and are attributed to the reduction in value of fixed assets, in the group's factories.

The execution of the program is planned to be complete during the course of 2024

As of the end of 2023, the Company closed the Bare Necessities distribution center and the socks factory in Bulgaria and completed the consolidation of the overheads in 7 For All Mankind operations and in total carried out about \$4.7 million out of the total program

- b. During the second quarter of 2023 and as reported by the Company in the first quarter report for 2023, the Company decided, as part of its strategy that strives for constant improvement in flexibility and operational efficiency, to reduce Bogart's production operation in China. The non-core cost of the program is about \$6.0 million. This cost was included as an expense in the 2023 report and includes \$5.3 million in cash, for compensation and other costs for terminating the employment of about 550 employees of the subsidiary and about \$0.7 million that are not in cash and are attributed to a reduction in the value of fixed assets, at a factory in China.

The implementation of the plan should be complete by the end of the second quarter of 2024

As of the end of 2023, the Company has implemented approximately \$3.1 million of the total plan.

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

1. Changes in the provision for employee costs, which are included in realignment expenses in 2023, 2022 and 2021:

	2023	2022	2021
	US\$ in thousands		
Opening balance	2,633	8,879	26,825
Additional provisions during the year	11,421	5,467	-
Utilized during the year	(10,480)	(11,713)	(17,946)
Closing balance	3,574	2,633	8,879

The balance as at December 31, 2023, is with respect to the two plans from 2023

2. The main expense elements of the realignment plan are as follows:

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Costs connected to workforce reductions and others, see above	9,229	5,467	-
Impairment of property, plant and equipment and intangible assets	2,192	-	-
	11,421	5,467	-

h. Cost of Sales

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Purchases from subcontractors	454,030	668,615	645,970
Materials consumed	228,393	286,995	268,994
Payroll and related expenses	147,103	154,636	160,214
Shipment and customs	72,425	140,989	114,890
Royalties	23,831	26,297	23,771
Other production expenses	28,118	48,985	43,629
Depreciation and amortization	19,131	21,759	20,090
Decrease (increase) in inventory of finished goods and goods in process	124,053	(101,922)	(103,311)
Total Cost of Sales	1,097,084	1,246,354	1,174,247

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

i. Selling, marketing, general and administrative expenses

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Selling and marketing:			
Payroll and related expenses	223,608	222,950	204,858
Rent and maintenance	28,642	29,183	25,679
Rent concessions	-	-	(3,502)
Advertising	70,017	66,633	65,205
Shipment, packaging, storage and customs	53,583	51,922	53,656
Commissions to franchisees and agents	22,478	23,857	23,308
Depreciation and amortization	58,545	57,781	61,172
Amortization of intangible assets, excluding software	6,328	6,080	7,415
Royalties expenses	3,203	3,387	2,514
Other expenses	55,810	53,242	51,299
Total selling and marketing expenses	<u>522,214</u>	<u>515,035</u>	<u>491,604</u>
General and administrative:			
Payroll and related expenses	52,310	51,569	58,363
Professional fees	12,008	11,319	14,396
Office rent and maintenance	1,371	1,491	908
Per diem, travel and refreshments	1,221	1,942	1,435
Office expenses	3,282	1,857	1,671
Customer credit loss (gain)	1,006	(1,184)	1,334
Depreciation and amortization	9,798	8,390	8,997
Other expenses	13,004	11,311	9,621
Total general and administrative expenses	<u>94,000</u>	<u>86,695</u>	<u>96,725</u>
Total selling, marketing, general and administrative expenses	<u>616,214</u>	<u>601,730</u>	<u>588,329</u>

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

j. Expenses by Type

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Purchases from subcontractors	454,030	668,615	645,970
Payroll and related expenses	423,021	429,155	423,435
Materials consumed	228,393	286,995	268,994
Rent and Maintenance	33,295	32,531	24,756
Shipment, Packaging, Storage and Customs	126,008	192,911	168,546
Depreciation and amortization	93,802	94,010	97,674
Royalties Expenses	27,034	29,684	26,285
Advertising Expenses	70,017	66,633	65,205
Customer credit loss (gain)	1,006	(1,184)	1,334
Other Expenses	132,639	150,656	143,688
Change in inventory of finished goods and goods in process	124,053	(101,922)	(103,311)
Total cost of sales, selling and marketing expenses, general and administrative expenses	<u>1,713,298</u>	<u>1,848,084</u>	<u>1,762,576</u>

k. Other income (expenses), net

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Capital Gain on disposal of property, plant and equipment	1,482	4,435	277
Gain (loss) from financial instruments	451	2,124	(285)
Compensation for termination of license agreement	-	-	2,456
Indemnification received from the insurance company	5,026	-	-
Impairment of another receivable	-	(1,580)	(3,017)
Others	165	(83)	-
Total other income (expenses), net	<u>7,124</u>	<u>4,896</u>	<u>(569)</u>

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 19 – Additional financial statements information (continued)

l. Financing expenses, net

	For the year ended December 31		
	2023	2022	2021
	US\$ in thousands		
Interest expenses and commissions on bank borrowings and loans	14,568	(**)12,644	6,649
Interest expenses on bonds, see Note 11	6,614	8,061	12,298
Loss from early maturity of Series B bonds	-	-	5,056
Other interest expenses (*)	284	1,883	309
Discounting element of long-term liabilities	4,256	2,824	4,228
Interest expenses and fees on discounting arrangements with customers	3,762	(**)2,395	881
Lease liabilities	9,251	7,681	9,973
Total financing expenses	38,735	35,488	39,394
Interest income from banks and others	(4,058)	(1,164)	(243)
Exchange rate expenses (income), net	3,255	2,947	(1,754)
Total financing expenses, net	37,932	37,271	37,397

* In 2022, the above stated amount includes interest for the settlement of income tax and VAT assessments in Israel, of approximately 1.5 million US\$ dollars.

** Reclassification

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 20 – Details of investee companies that are held directly and through subsidiaries as at December 31, 2023:

<u>Holding Company</u>	<u>Name of the Company</u>	<u>Holding and control rate</u>	
Delta Galil Industries Ltd.	Delta Israel Brands Ltd.	80%	Subsidiary
	Delta Galil Properties (1981) Ltd.	100%	Subsidiary
	Delta Brayola Ltd.	100%	Subsidiary
	Delta Galil USA. Inc.	100%	Subsidiary
	Delta Galil Holland B.V.	100%	Subsidiary
	Delta Galil Vietnam Co. Ltd	100%	Subsidiary
	Kwong Fat Industrial Limited	100%	Subsidiary
	Brunet International Holdings Limited	100%	Subsidiary
	Delta Alfa Corap Ve Tekstil San Tic L. S.	100%	Subsidiary
	Delta Textiles (London) Ltd.	100%	Subsidiary
	D&A International Brands Ltd.	40%	Associate
Delta Israel Brands Ltd.	D&A International Brands Ltd.	60%	Subsidiary
Delta Galil Properties (1981) Ltd.	Zhejiang Guangtai Delta Socks Co. Ltd.	50%	Associate
	Delta Galil China Holdings Limited	100%	Subsidiary
Delta Galil USA. Inc.	Wundies Bangladesh Limited	100%	Subsidiary
	Delta Galil Premium Brands LLC	100%	Subsidiary
	7 for All Mankind LLC	100%	Subsidiary
	Bareweb LLC	100%	Subsidiary
	Mo Industries LLC	100%	Subsidiary
Delta Galil Holland B.V.	Delta Textile Egypt S.A.E.	100%	Subsidiary
	Century Wear Company Ltd	50%	Subsidiary
	Delta Textile Upper Egypt S.A.E	100%	Subsidiary
	Thai Progress Garment Co. Ltd	100%	Subsidiary
	Delta Textile Bulgaria Ltd.	100%	Subsidiary
	Delta Galil Hong Kong Ltd.	100%	Subsidiary
	Dominion Hosiery Mills Inc.	100%	Subsidiary
Kwong Fat Industrial Ltd.	Bogart (Far East) Ltd.	100%	Subsidiary
Brunet International Holdings Ltd.	BL France Ltd.	100%	Subsidiary
	Brunet International (Hong Kong) Ltd.	100%	Subsidiary

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 20 – Details of investee companies that are held directly and through subsidiaries as at December 31, 2023 (continued):

<u>Holding Company</u>	<u>Name of the Company</u>	<u>Holding and control rate</u>	
Delta Textiles (London) Ltd	Delta Galil Textile Germany GmbH & Co. KG	99.9%	Subsidiary
	Delta Galil Germany GMBH	100%	Subsidiary
	Schiesser Investments GmbH	100%	Subsidiary
	Delta Galil Europe Ltd.	100%	Subsidiary
	7 For Aall Mankind Brazil Importaca o Comercio e Distribucao Ltda	51%	Subsidiary
	Delta London Holdings Ltd	100%	Subsidiary
	Delta Galil Brands International GmbH	100%	Subsidiary
	7 For All Mankind Brazil SAGL	100%	Subsidiary
	Delta Textile France SAS	100%	Subsidiary
	Sports Socks Co. (Belgium) BVBA	100%	Subsidiary
	DG Organic Basics ApS	100%	Subsidiary
	European Castle for Tableware Industries S.A.E	100%	Subsidiary
	Delta Galil China Holdings Ltd.	Delta Fashion Costume (Shanghai) Co. Ltd.	100%
Delta Textile Upper Egypt S.A.E	Delta Fabric Egypt	100%	Subsidiary
	Delta Textile Shamal El Saeed	23%	Subsidiary
Delta Galil Hong Kong Ltd.	Delta Galil Intimate Apparel (Guangzhou) Co. Ltd.	100%	Subsidiary
Bogart (Far East) Ltd.	Sun Hing Shing Fashion Factory Ltd.	100%	Subsidiary
	B&B Apparel Accessories Co. Ltd.	100%	Subsidiary
	Delta Bogart Lingerie Ltd.	100%	Subsidiary
	Hangamania Ltd.	100%	Subsidiary
	Bogart Lingerie (Thailand) Ltd.	100%	Subsidiary
	BL (Thailand) Ltd.	100%	Subsidiary
Brunet International (Hong Kong) Ltd.	Brunet International (Shenzen) Ltd.	100%	Subsidiary

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 20 – Details of investee companies that are held directly and through subsidiaries as at December 31, 2023: (continued)

<u>Holding Company</u>	<u>Name of the Company</u>	<u>Holding and control rate</u>	
Delta Galil Textile Germany GmbH & Co. KG	Schiesser GmbH	100%	Subsidiary
Delta Galil Germany GmbH	Delta Galil Textile Germany GmbH & Co. KG.	0.01%	Subsidiary
Schiesser Investments GmbH	Schiesser Immobilien GmbH	100%	Subsidiary
Delta London Holdings Ltd.	7 for all Mankind Mexico SA de CV	51%	Subsidiary
	7 for all Mankind LATAM SA	51%	Subsidiary
7 for all Mankind International SAGL	7 for all Mankind Austria GmbH	100%	Subsidiary
	7 for All Mankind Ireland Ltd.	100%	Subsidiary
	7 for All Mankind Belgium BVBA	100%	Subsidiary
	7 for All Mankind Germany GmbH	100%	Subsidiary
	7 for All Mankind Spain SL	100%	Subsidiary
	7 for All Mankind France SARL	100%	Subsidiary
	7 for All Mankind SRL	100%	Subsidiary
	7 for All Mankind Netherlands BV	100%	Subsidiary
Delta Textile France SAS	Boxer Holding SAS	100%	Subsidiary
Delta Fabric Egypt	Delta Textile Shamal El Saeed	77%	Subsidiary
Sun Hing Shing Fashion Factory Limited	Sun Hing Shing (Shenzhen) Fashion Factory Limited	100%	Subsidiary
	Brunet International (Xiamen) Ltd	100%	Subsidiary
B&B Apparel Accessories Company Limited	B&B Apparel Accessories (Shenzhen) Company Limited	100%	Subsidiary
	B&B Apparel Accessories (Kaiping) Company Limited	100%	Subsidiary
Delta Bogart Lingerie Ltd	Bogart Lingerie (Shenzhen) Limited	100%	Subsidiary
	Bogart Lingerie (Guangzhou) Limited	100%	Subsidiary
	Bogart Lingerie (Yangon) Limited	100%	Subsidiary
	B&D Lingerie Vietnam Co., Ltd	100%	Subsidiary
	Delta Bogart Industries (Guangzhou) Limited	100%	Subsidiary

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 20 – Details of investee companies that are held directly and through subsidiaries as at December 31, 2023: (continued)

Schiesser GMBH	Schiesser Marken GmbH	100%	Subsidiary
	Pleas s.r.o.	100%	Subsidiary
	Schiesser International ApS Denmark	100%	Subsidiary
	Schiesser Ges M.B.H. Austria	100%	Subsidiary
	Schiesser International BV	100%	Subsidiary
	Scheisser Schweiz GmbH Switzerland	100%	Subsidiary
	Schiesser International B.V Nederlands	100%	Subsidiary
Boxer Holding SAS	Eminence SAS	100%	Subsidiary
Eminence SAS	Liabel S.R.L	100%	Subsidiary
	Distrebem EURL	100%	Subsidiary
	Eminence Beneluxe SA	100%	Subsidiary
Brunet International (Xiamen) Ltd.	Brunet International (Xiamen) Ltd. – Guanzhou Branch	100%	Subsidiary

Delta Galil Industries Ltd.
Notes to the Financial Statements

Note 21 –Events Subsequent to the Balance Sheet Date

- a. On February 25, 2024, the Company's Board of Directors decided to distribute a dividend of an amount of about 9 million dollars, which is 35.0 cents per share. The determining date for the distribution day is March 5, 2024 and the payment day will be March 18, 2024.

The dividend will be distributed according to the representative exchange rate of the dollar as published the previous day to the day of payment.

- b. On February 25, 2024, the Company's Board of Directors approved a private offer that is not substantial and not unusual for the securities offering of 8,910 options and 1,938 restricted share units, for a number of employees in the Company and in a subsidiary.
- c. On February 25, 2024, the Company's Board of Directors approved a comprehensive realignment plan for Bare Necessities with the aim of improving business results, while implementing a new business model and the reduction of operating expenses.

As part of the program, the current trading platform operating mainly in the market will be used mainly in the American market, in addition to the current activity, for the marketing and sale of the Company's brands, those which it owns and some of those from whom it obtained licenses, as well as for the sale and launch of brands private owned by the Company such as Bare Necessities, Camio Mio, Reveal and others.

The current activity, which is mainly focused on the trade of leading brands that are not the Company's brands, will be significantly reduced while proactively downsizing to a number of selected brands. This through transitioning from the activity of purchasing products to a new business model of direct delivery of the products by the brands to the end customer (drop shipment) or of holding inventory on consignment, where the Company does not bear the ownership nor related risks related to inventory. Changing the business model and reducing the number of brands that Bare Necessities will market, as stated above, will be accompanied by a significant reduction in overheads.

The one-time cost of the program of an amount of approximately \$3.8 million, will be included in the report of the Company for the first quarter of 2024 and will include compensation and other cash costs of an amount of about \$1.5 million due to the termination of the employment of about 30 employees.

The implementation of the plan will begin in the first quarter of 2024 and should be completed during the first half of 2025.

Delta Galil Industries Ltd.
Chapter D

**Additional Information Regarding the
Corporation
As of December 31, 2023**

Chapter D – Additional Information Regarding the Corporation

Regulation 10a – Concise Quarterly Statements of Comprehensive Earnings

See Paragraph 2.2 of the Report of the Board of Directors.

Regulation 10c – Use of the proceeds of securities

The Company did not raise funds during the reported year.

Regulation 11 – List of investments in material subsidiaries, directly and indirectly, as of the report date

<u>Fully controlled and fully-held subsidiaries (100%) (*)</u>	<u>Number of shares held by the company, of any type</u>	<u>Par value of the shares</u>	<u>Cost of investment in thousands of Dollars</u>	<u>Holding Rate of Issued Capital</u>	<u>Balance sheet value in thousands of Dollars</u>	<u>Loans and capital notes in thousands of Dollars</u>
Delta Galil USA Inc.	100	10\$	39,126	100%	73,698	86,100
Delta (Textile) London Ltd.	10,002	GBP 10,000	12,941	100%	324,281	86,465
Delta Galil Holland B.V.	250	\$ 21,000	21	100%	136,842	-
Delta Israel Brands Ltd. (**)	20,000,000	NIS 2,000,000	110,948	80%	125,620	-

(*) The holding rate in Delta Israel Brands Ltd. is 80%

(**) The share value of Delta Israel Brands Ltd. as of December 31, 2023, is NIS 42.97

Regulation 12 – Changes regarding investments in material subsidiaries

There are no changes in the report year.

Regulation 13 – Revenues of material subsidiaries and the corporation's revenues therefrom in the report year (2023)

<u>Name of subsidiary ⁽³⁾</u>	<u>In Thousands of Dollars</u>					
	<u>Profit before tax</u>	<u>Net profit (after tax)</u>	<u>Total comprehensive Income</u>	<u>Interest income received from subsidiary ⁽¹⁾</u>	<u>Dividend income received from subsidiaries</u>	<u>Income from Management Fees ⁽²⁾</u>
Delta Galil USA Inc.	6,606	*21,820	21,783	5,110	-	-
Delta (Textile) London Ltd.	21,367	8,731	16,439	1,904	-	-
Delta Galil Holland B.V.	11,157	7,347	7,351	-	-	-
Delta Israel Brands Ltd. ⁽³⁾	32,357	25,077	19,922	-	9,535	2,550

* The profit after tax of Delta USA in 2023 includes deferred tax income for the year and for previous years.

(1) Data refers to interest income received or that the Company is entitled to receive from subsidiaries for 2023.

(2) For details regarding the management agreement, see section 1.3.9 of the Board of Directors' report, in part B of this periodic report.

(3) In the year of the report, the Company received from its subsidiary, Delta Israel Brands Ltd. NIS 5.9 million (approximately \$1.6 million) for a services agreement. In addition, the Company received NIS 18.5 million (approximately \$5.0 million) from the subsidiary for purchase orders and NIS 7.5 million (approximately \$2.0 million) for sublease fees for offices and logistic center. All the above stated amounts are in accordance with the agreements between the companies.

Regulation 20 – Stock market trade – securities listed for trade – dates and reasons for trade discontinuation

In the reported year, the number of shares issued and redeemed increased by 35,615 shares, due to exercise of options by employees and officers of the Company and its subsidiaries. As of December 31, 2023, the issued and outstanding capital amounted to 25,722,546 shares.

During the reported year, trade of the Company's securities listed for trade on the stock exchange was suspended on October 24, 2023, due to an immediate report regarding update in the guidance to the Company's results in 2023

Regulation 21 – Remuneration of Stakeholders and Senior Officers

- a. Below are details of the Company costs of remuneration in 2023 (remuneration given in the report year, including the Company's remuneration obligations for the reporting year) for the six most highly compensated of the Group's senior officers ⁽¹⁾, 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:

<u>Remuneration Recipient Details</u>									
<u>Name</u>	<u>Position</u>	<u>Scope of employment</u>	<u>Gender</u>	<u>Holdings in the Corporation's equity</u> ³	<u>Salary, social benefits and associated costs</u>	<u>Current Bonus</u> ⁽⁵⁾	<u>Share Based Payment</u> ²	<u>Total</u>	<u>Total in NIS (according to average exchange rate)</u>
						<u>In US Dollars</u>			
Isaac Dabah	CEO and Director	100%	M	49.85%	920,568	-	-	920,568	3,388,610
Eric Browndorf	Sourcing Manager at Delta USA	100%	M		610,088	203,362	-	813,450	2,994,310
Steve Moore	Private Label Activity Manager at Delta USA	100%	M		457,828	138,355	83,247	679,430	2,500,981
Gil Shimon	Private Label Segment Manager	100%	M		492,299	124,532	55,625	672,456	2,475,311
Itzhak Weinstock	Director and Chief Operating Officer, Delta USA	100%	M	0.43%	511,282	160,080	-	671,362	2,471,285
Asaf Alperovitz	Chief Financial Officer	100%	M		451,341	110,840	98,125	660,306	2,430,586

- (1) Ms. Francesca Toninato, who managed the 7 For All Mankind segment, left her job at the subsidiary in November 2023. The total rewards given to Ms. Toninato in the year of the report amounted to \$1,395,773 and included: \$744,747 for salary and fringe benefits, \$121,094 with respect to a bonus for 2023 and \$529,932 with respect to increased compensation, early notice fees and vacation pay redemption. In the reporting year, Ms. Toninato's compensation did not include a share-based payment.
- (2) Share-based payment includes the benefit component for options and blocked share units granted to executives as part of the Company's plans, 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 14 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 4, 2024 (ref. no. 2024-01-002232), included herein by way of reference.
- (3) Mr. Dabah's holdings above included holdings of Isaac Dabah Children's Trust, Isaac & Ivett Dabah Charitable Foundation and the Dabah Family 2022 Trust at a rate of 0.04%, 0.12% and 2.59%, respectively.

- b. Below are details of the remuneration paid to interested parties and to directors (excluding Isaac Dabah and Itzhak Weinstock, who were 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	Salary, social benefits and associated costs	Bonus	Remuneration for Services ⁽¹⁾		
						Long-term Bonus ⁽⁵⁾	Total	Total in NIS
						In US Dollars		
Directors ⁽²⁾	7 in number		9.9% ⁽³⁾	366,378	-	-	366,378	1,338,364
Gloria Dabah ⁽⁴⁾ ⁽⁵⁾	GM of Splendid Kids, Ladies and Men's	100%	-	457,014	40,071	-	497,085	1,829,772

- (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, 2023, the Company has seven directors, as stated.
- (3) Refers to the holding of 9.89% of the Company's equity by Mr. Noam Lautman, 0.04% by Mr. Israel Baum and 0.01% by Mr. Richard Hunter.
- (4) For further information regarding the terms of employment of Ms. Gloria Dabah, see Note 18 to the Financial Statements, in Chapter C of this periodic report as well as regulation 22 below.
- (5) The multi-year bonus is conditional upon the achievement of goals, in accordance with Ms. Dabah's terms of employment, see regulation 22 below. The Company's management estimates that there is a low probability that the conditions for the payment of the long-term bonus will be met and therefore, it is expected that the bonus will not be paid.

Remuneration sums for directors Tzipporah Carmon, Rinat Gazit, Shlomo Scharf, and Richard Hunter are each paid to companies under their full control: "Tzippah Carmon Exports Ltd.", "Gaia Nona Ltd.", "S. Scharf Ltd." and "Hunter Consulting and Management Ltd.", respectively.

Mr. Isaac Dabah, Company's CEO and Director

Mr. Isaac Dabah began working at the Company in 2008.

With regard to the terms of his office and his employment as CEO of the Company in 2023 and thereafter, as approved by the Compensation Committee, the Board of Directors, and the General Meeting of the Company, see Section 1 of the report on the convening of the amended meeting published by the Company on January 19, 2023 (ref. 2023-01-009894) and the immediate report on the outcome of the meeting dated January 24, 2023 (ref. 2023-01-011088 included herein by way of reference. It should be noted that on December 19, 2023, the company's Board of Directors decided to extend the validity of the approval for the terms of office and employment of Mr. Isaac Dabah until April 30, 2024, in accordance with Section 11(a) of the Law on Extension of Periods and Postponement of Deadlines (Temporary Order - Swords of Iron) (Administrative Procedures, Periods Tenure and Corporations), 2023 (**"Law on Extension of Periods and Postponement of Deadlines"**).

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.

According to the goals set for him, Mr. Dabah is not entitled to a bonus for 2023.

For Mr. Dabah's holdings in the Company's securities, see regulation 24 below.

Mr. Iric Browndorf, Sourcing Manager at Delta USA

Mr. Browndorf started working at the subsidiary in July 2016. Below are the main terms of his employment:

Mr. Browndorf's gross annual salary is \$550,000 and he is entitled to social benefits, and reimbursement of various expenses as is customary in Delta USA.

According to the employment agreement with him, Mr. Browndorf is entitled to an annual bonus based on the company's compensation policy and goals that will be set for him by the Compensation Committee and the Company's Board of Directors. Mr. Browndorf's annual grant will not exceed 6 monthly salaries. The Compensation Committee and the company's Board of Directors set the following goals for Mr. Browndorf in order to be eligible for an annual bonus: Meeting the company's operating profit target (EBIT) before non-core items (20% of the bonus), meeting the operating profit target before non-core items of the subsidiary (60%) and meeting measurable personal goals (20% of the bonus). According to the goals set for him, Mr. Browndorf is entitled to a bonus in the amount of \$203,363 for 2023.

Mr. Steve Moore, Private Label activity Manager at Delta USA

Mr. Moore started working for the Company in July 2019. Following are the main terms of his employment:

Mr. Moore's gross annual salary is \$400,000 and he is entitled to social benefits as is customary in Delta USA. According to the employment agreement with him, Mr. Moore is entitled to an annual bonus based on the Company's compensation policy and on goals set for him by the Compensation Committee and the company's Board of Directors. The annual bonus of Mr. Moore will not exceed 6 monthly salaries. The Compensation Committee and the company's Board of Directors set the following goals for Mr. Moore in order to be eligible for an annual bonus: Meeting the company's operating profit target before non-core items (EBIT) (10% of the bonus), meeting the operating profit target before non-core items in the segment (70%) and meeting measurable personal goals (20% of the bonus). According to the goals set for him, Mr. Moore is entitled to a bonus of an amount of \$138,355 for 2023.

As of December 31, 2023, Mr. Moore was granted 37,508 options and 949 restricted share units conditional on achievement of operational goals. For Mr. Moore's holdings in the Company's securities, see regulation 24 below.

Mr. Gil Shimon, Private Label Segment Manager

Mr. Shimon began working at the Company in February 2017; below are the key terms of his employment:

Mr. Shimon's gross annual salary is NIS 1,320,000 (approximately \$358 thousand) and he 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 the Company bonus policy and on goals to be set by the Company's Compensation Committee and Board of Directors. The annual bonus Mr. Shimon is entitled to will not exceed 6 months' salary. The Company's Compensation Committee and Board of Directors set, with respect to Mr. Shimon, the following goals for eligibility for his annual bonus: Meeting the Company's operating profit target (EBIT) before non-core items (20% of the bonus), meeting the operating profit target (EBIT) before non-core items of the segment (60% of the bonus), and meeting measurable personal goals (20% of the bonus). According to the goals set for him, Mr. Shimon is entitled to a bonus of \$ 124,532 for 2023.

As of December 31, 2023, Mr. Shimon was granted 30,000 options contingent upon the achievement of operational objectives.

For Mr. Shimon's holdings in the Company's securities, see regulation 24 below.

The employment contract of Mr. Shimon was drawn up for an indefinite period and each of the parties may terminate it by giving 6 months' prior written notice to the other party.

Mr. Itzhak Weinstock, Chief Operating Officer at Delta USA

Mr. Weinstock started working for the subsidiary, Delta USA, in January 2011. below are the main terms of his employment: Mr. Weinstock's gross annual salary is \$460,000 and he is entitled to social benefits and reimbursement of various expenses as is customary in Delta USA.

According to the employment agreement with him, Mr. Weinstock is entitled to an annual bonus based on the Company's compensation policy and goals that will be set for him by the Compensation Committee and the company's Board of Directors. Mr. Weinstock's annual bonus will not exceed 6 monthly salaries. The Compensation Committee and the company's Board of Directors set the following goals for Mr. Weinstock in order to be eligible for an annual bonus: Meeting the operating profit target (EBIT) before non-core items of the Company (30% of the bonus), meeting the operating profit target before non-core items of the subsidiary (50%) and meeting measurable personal goals (20% of the bonus). According to the goals set for him, Mr. Weinstock is entitled to a bonus of \$160,080 for 2023.

For Mr. Weinstock's holdings in the Company's securities, see regulation 24 below.

Mr. Asaf Alperovitz, CFO

Mr. Alperovitz began working at the Company in October 2019; below are the key terms of his employment:

Mr. Alperovitz's gross annual salary is NIS 1,200,000 (approximately \$326,000) and he is entitled to social benefits as is customary in the Company.

According to his employment contract, Mr. Alperovitz is entitled to an annual bonus based on Company policy and on goals to be set by the Company's Compensation Committee and Board of Directors. The annual bonus Mr. Alperovitz is entitled to will not exceed 6 months' salary. The Company's Compensation Committee and Board of Directors set, with respect to Mr. Alperovitz, the following goals for the purpose of receipt of his annual bonus: Meeting the Company's operating profit target (EBIT) before non-core items (80% of the bonus) and meeting measurable personal targets (20% of the bonus). According to the goals set for him, Mr. Alperovitz is entitled to a bonus totaling \$110,839 for 2023. This amount includes a special bonus by discretion granted to Mr. Alperovitz of an amount of 3 months' salary, totaling \$81,500.

As of December 31, 2023, 59,872 options and 655 restricted share units, conditional on achieving operational objectives, have been granted to Mr. Alperovitz.

Mr. Alperovitz's employment contract is for an indefinite period and each party may terminate it by giving 4 months' prior written notice to the other party.

Company's Board of Directors – as of December 31, 2023, the Company's Directors¹ are entitled to annual compensation and remuneration for participation, according to the maximum amounts as per the Companies Regulations, Rules Regarding Remunerations and Expenses for External Directors, 2000, (“**the Remuneration Regulations**”) according to the Company's performance. The directors are entitled to annual compensation of NIS 120,000 and to remuneration for participation of NIS 4,625 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 company

On April 4, 2022 the General Meeting of Shareholders of the Company, after the Compensation Committee and Board of Directors approved a new employment agreement with Mrs. Gloria Dabah, the daughter of Mr. Isaac Dabah, the controlling shareholder, as President of Splendid Kids, Ladies and Men's, by which her annual salary will total, as of April 1, 2022, \$400,715, and she will be entitled to an annual bonus of up to 50% of her annual salary, subject to her meeting the goals.

The Compensation Committee and the Board of Directors set the following goals for Ms. Dabah, in order to be eligible for an annual bonus: Meeting the Company's operating profit target (EBIT) before non-core items (10% of the bonus) meeting the operating profit target of the field of activity before non-core items (70%) and meeting measurable personal goals (20% of the bonus).

According to the goals set for her, Ms. Dabah is entitled to a bonus of \$40,072 for 2023.

Also, according to the terms of her employment, Ms. Dabah is entitled to a long-term bonus at the end of 3 years of work as of April 1, 2022, of an amount of \$250,000, subject the operating profit of Splendid Ladies, Men's & Kids unit in 2024 will be 25% higher than the operating profit of the unit in 2021.

Regulation 21a – Control of the Corporation

The controlling shareholder of the Company is Mr. Isaac Dabah, who holds 12,114,383 shares of the Company, which constitute about 47.1% of the Company's shares. The holding of the Company's shares is through the GMM Capital LLC fund, in an irrevocable trust whose trustees are the spouses Isaac and Ivette Dabah, in trust for their children, Gloria Dabah, Morris Dabah and Muriel Dabah. Out of the above stated total shares, 11,506,783 shares of the company are held by Mr. Isaac Dabah through GMM Trust and 607,600 shares are held by Mr. Isaac Dabah directly. In addition, the Isaac Dabah Children's Trust, a fund held by Mr. Isaac Dabah and his wife Ms. Ivette Dabah in trust for their children, the Isaac and Ivette Dabah Charitable Foundation held by Mr. Isaac Dabah and his wife Ms. Ivette Dabah in trust for the purpose of donation and the Dabah Family 2022 Trust, a fund under the control of Mr. Isaac Dabah and his family members together holds about 2.75% of the company's shares, so that the total holding of the controlling shareholder amounts to 12,821,694 shares or 49.85% of the Company's total issued capital.

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.

Regulation 22 – Transactions with the Controlling Shareholder

Transactions Listed in Section 270(4) of the Companies Law, 5759 – 1999

<u>Identity of the parties</u>	<u>Description of the transaction</u>	<u>Identity of the authorizing body approving the transaction and approval date</u>
Delta USA and Mrs. Gloria Dabah, daughter of the Company's controlling shareholder	<p>On April 4, 2022, the General Meeting of the Company's shareholders approved the new employment agreement with Ms. Gloria Dabah, the daughter of the controlling owner of the company Mr. Isaac Dabah, in her position as President, Splendid Ladies, Men's & Kids, according to which her annual salary will be, starting April 1, 2022, US \$400,715 and she will be entitled to an annual bonus of up to 50% of her annual salary, and a multi-year bonus at the end of 3 years of employment, as of April 1, 2022, of an amount of US \$250,000 subject to her goals.</p> <p>For further details, see the meeting convening report dated February 25, 2022 (reference 2022-01-023083) and the immediate report on the results of the meeting dated April 4, 2022 (reference: 2022-01-042826).</p>	<p>The Company Board of Directors and Compensation Committee – February 23, 2022</p> <p>The General Meeting – April 4, 2022</p>
The Company and Mr. Isaac Dabah, CEO of the company and the controlling shareholder	<p>Approval of the terms of employment of Mr. Isaac Dabah as the CEO of the Company and the Company's contract with him in a new employment agreement, for the period from January 1, 2023 until the end of 2023, according to which his annual salary, as of January 1, 2023, will be US \$850,000 and he will be entitled to an annual bonus of an amount up to his annual salary, subject to his compliance with the goals established in the new employment agreement.</p> <p>The terms and conditions of Mr. Isaac Dabah's tenure and employment include the granting of insurance cover, exemption and indemnity letters in the same terms as the exemption and indemnity letters granted to the other directors and officers of the Company.</p> <p>For further details, see the revised immediate report regarding the convening of the meeting dated January 19, 2023 (reference: 2023-01-009894) and the report on the results of the general meeting dated January 24, 2023 (reference: 2023-01-011088).</p> <p>It should be noted that on December 19, 2023, the company's Board of Directors decided to extend the validity of the approval of Mr. Dabah's tenure and employment conditions by four months, including the granting of the exemption, indemnity and insurance letters, until April 30, 2024, and this in accordance with the law on extending periods and postponing deadlines.</p>	<p>The Compensation Committee – December 13, 2022, and January 19, 2023</p> <p>The Company Board of Directors – December 20, 2022, and January 19, 2023</p> <p>The General Meeting – January 24, 2023</p>

<u>Identity of the parties</u>	<u>Description of the transaction</u>	<u>Identity of the authorizing body approving the transaction and approval date</u>
<p>The Company, Mr. Isaac Dabah, CEO of the company and the controlling shareholder and Keshet Donor-Advised Fund (Keshet DAF) Ltd. (Keshet)</p>	<p>On December 19, 2023, the company's Board of Directors, after obtaining approval from the company's Audit Committee, in accordance with regulation 1 (4) of the Company Regulations (Facilitation of Transactions with Interested Parties), 2000, approved the company's contractual association together with its controlling shareholder and his family for their transaction with "Keshet", in a transaction whose terms regarding the company are not significantly different from its terms regarding the controlling owner and his family, taking into account their relative share in the transaction, to provide a donation of NIS 5 million which will be designated to support the needs of orphans (with no live parents) of the events of October 7, 2023, over the years. The donation will be made equally by the company and the controlling shareholder and his family members over a period of 8 years (the company will donate NIS 5 million and the controlling owner and his family members will donate an additional NIS 5 million), through the company and the controlling owner and his family members entering into an agreement with "Keshet". Keshet will retain the donation money and will act on it in accordance with the instructions of a management committee established by the company, the controlling shareholder and his family.</p>	<p>Audit Committee - Board of Directors - December 19, 29023</p>
<p>The Company and Shenkar College</p>	<p>On December 19, 2023, after the approval of the Audit Committee, that the case in point is not an unusual transaction – the company's Board of Directors approved a payment of up to NIS 120,000 (about \$32,000) for 2023 and up to NIS 100,000 (about \$27,000) for 2024, as part of the company's relationship with academia in general and with Shenkar College, in particular. Mr. Isaac Dabah, the controlling owner and CEO of the company and Noam Lautman, the Chairman of the Company's Board of Directors, are members of Shenkar's Board of Trustees</p>	<p>Company Board of Directors – December 19, 2023</p>

Regulation 24 – Holdings of Stakeholders and Senior Executives

For details regarding shares and securities of the Company held by stakeholders and by senior officers at the Company, see the immediate report dated January 4, 2024 (ref. no. 2024-01-002232), included herein by way of referral.

For details regarding the dormant shares held by the Company, see the immediate report dated January 4, 2024 (ref. no. 2024-01-002232).

Regulation 24a – Registered capital, issued capital and convertible securities

For details regarding registered capital, issued capital and convertible securities, including options and restricted shares units granted to Company employees, see Note 14 to the Financial Statements in Chapter C of this periodic report.

Regulation 24b – Register of the Corporation's Shareholders

For details regarding the register of the corporation's shareholders, see the immediate report dated January 17, 2024 (ref. no. 2024-01-007437), included herein by way of referral.

Regulation 25a – The Corporation's registered address and details

Address: 45 Ha'eshel St., Caesarea Industrial Park, 3088900 Israel

Telephone no: +972-76-817-7009; Fax: +972-76-817-7280

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

<u>Director's Name</u>		<u>ID number</u>	<u>Address</u>			<u>Date of Appointment</u>		
<u>Surname</u>	<u>First Name</u>		<u>City</u>	<u>Street</u>	<u>House no.</u>	<u>Year</u>	<u>Month</u>	<u>Day</u>
Lautman	Noam	24407280	Tel Aviv	Dubnov	33	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	Savyon	Hatichon	9	09	10	20
Hunter	Richard	011179538	Ra'anana	Deganya	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	Yehoshua	051744415	Tel Aviv	Emil Zola	28	18	12	05

c. 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	33 Dubnov St., 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 a stakeholder	No
Education and occupation over the past five years	<p><u>Education:</u> 2000 – M.B.A. – New York University 1995 – B.Sc. – Mathematics and Computer Sciences – Tel-Aviv University</p> <p><u>Employment:</u> <u>Lautman Foundation</u> 2006 – to date – 2gether Capital Ltd – CEO</p>
Other corporations in which he serves as a director	Babcom Centers Ltd, Adinoam Properties Ltd, N.D.R.L Investments 1998 Ltd, Shefa Digital Media Delta Israel Brands Ltd.
Family member of another stakeholder 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	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 a stakeholder	Yes – Company CEO; and the person responsible for market risk management at the Company
Education and occupation over the 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 of the Company: Delta Galil USA Inc., Delta Textile (London) Ltd. , Schiesser Gmbh (Supervisory Board) , Delta Textile Egypt SAE, Thai Progress Garment Co. Ltd, Delta Israel Brands Ltd.
Family member of another stakeholder in the corporation	Yes – the father of Ms. Gloria Dabah, the President of Splendid Ladies Mens and Kids unity
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, 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 a stakeholder	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 stakeholder 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	Tzipora Carmon
ID number	051528933
Citizenship	Israeli
Date of birth	December 7, 1952
Address for service of court documents	9 Hatichon St., Savyon, Israel
Date of commencement of office	October 20, 2009
Membership of Board committee/ committees	Compensation 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 a stakeholder	No
Education and occupation over the past five years	<p>Education: M.B.A. – International Marketing and Trade – UCLA, California B.A. – Sociology and Education – Hebrew University of Jerusalem</p> <p>Employment: 1993 – to date – Manager and owner of T.C. Export</p>
Other corporations in which she serves as a director	Alpha Cosmetics Ltd.
Family member of another stakeholder 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 St., 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 a stakeholder	No
Education and occupation over the past five years	Education: B.Sc. – Production Engineer - Temple University, Philadelphia
Other corporations in which he serves as a director	No
Family member of another stakeholder 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 St., Tel Aviv
Date of commencement of office	October 21, 2018
Membership of Board committee/ committees	Committee for the Examination of Financial Statements, Audit 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 a stakeholder	No
Education and occupation over the past five years	<p>Education: M.Sc. in Business Administration, Recanati School of Business Administration, Tel Aviv University; B.A. in Political Science and Sociology and Anthropology from the University of Haifa.</p> <p>Employment: Mergers and acquisitions consultant for international companies such as: Ormat Technologies, Magal Security Systems, GP Minerals and TSC Capital.</p>
Other corporations in which she serves as a director	<p>Melisron Ltd.;</p> <p>The Edmond Benjamin de Rothschild Property Corporation (2001) Ltd.;</p> <p>The Edmond Benjamin de Rothschild Caesarea Development Corporation Ltd.;</p> <p>Ratio Petroleum Energy – Limited Partnership;</p> <p>Manara Ventures</p> <p>Delek Israel Properties</p>
Family member of another stakeholder 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 Sherf
ID number	030223549
Citizenship	Israeli
Date of birth	September 10, 1949
Address for service of court documents	1 Rothschild Blvd., Tel Aviv
Date of commencement of office	October 21, 2018
Membership of Board committee/ committees	Audit Committee, Compensation Committee, Committee for the Examination 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 a stakeholder	No
Education and occupation over the past five years	Education: B.Sc. in Mechanical Engineering - Ben Gurion University Employment: 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 at Midroog Ltd.;
Family member of another stakeholder 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	51744415
Citizenship	Israeli
Date of birth	December 24, 1952
Address for service of court documents	28 Emil Zola St., Tel Aviv
Date of commencement of office	December 5, 2018
Membership of Board committee/ committees	Audit Committee, Committee for Examination of Financial Statements, Compensation 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 a stakeholder	No
Education and occupation over the past five years	<p>Education: B.A. in Economics majoring in Business Administration, Ben Gurion University of the Negev. M.A., M.Sc. in Economic Management, Ben Gurion University of the Negev.</p> <p>Employment: Chairman of OPC Rotem Ltd. (until 2016); Executive Vice Chairman of IC Power Ltd. (until 2016); Owner of NPV Economic Consulting Ltd. (until July 2018).</p>
Other corporations in which he serves as a director	None
Family member of another stakeholder 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	Richard Hunter
ID number	011179538
Citizenship	Israeli
Date of birth	August 24, 1969
Address for service of court documents	18 Deganya St., Ra'anana
Date of commencement of office	October 21, 2018
Membership of Board committee/ committees	No
External or independent director	No
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 a stakeholder	No
Education and occupation over the past five years	<p><u>Education:</u> LL. B. Graduate of Law at the College of Management, Rishon LeZion; MBA from Insead.</p> <p><u>Employment:</u> Partner in the Green Lantern Group and has invested through it in various companies.</p>
Other corporations in which he serves as a director	<p>Green Lantern Management Ltd; Holmes Place International Ltd; Gilro Industries Ltd; Mediterranean Car Agency Holdings ltd. Gad Dairies Ltd.; Feldman Ice Cream (Falco) Ltd.; Yarkon Club Ltd.; Marina Mushrooms of the Galilee Ltd.; The French Bakery Ltd.; Yechiam Delicacies; Story-Line Ltd.</p>
Family member of another stakeholder 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 Company²

Name of Senior Officer	Mark Stocker
Passport number	555774040
Date of birth	September 17, 1972
Date of commencement of office	January 30, 2023
Position in the company, in a subsidiary or a stakeholder therein	President of the Brands activity at Delta USA
Education and occupation in past five years	<p>Education: B.S. - Finance / Economics, Saint. Vincent College</p> <p>Employment: December 2021 – January 2022 – VP Of Marketing Lord & Taylor March 2006 – July 2021 – Strategic Manager of Clothing Division at Macy’s August 2021 – December 2021 – CEO of Horizon Consulting</p>
Stakeholder in the Company or family member of a stakeholder or other senior officer in the Company	No

Name of Senior Officer	Steve Moore
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 a stakeholder therein	President of the Private Label activity at Delta USA
Education and occupation in past five years	<p>Education: B.S from Michigan State University MBA Wake Forest University</p> <p>Employment: Gildan VP Sales August 2016 – July 2019 Hanes VP Sales prior to August 2016</p>
Stakeholder in the Company or family member of a stakeholder or other senior officer in the Company	No

² Excluding officers whose tenure has ended prior to the report date.

Name of Senior Officer	Sasha Gomez
Passport number	AAI761468
Date of birth	October 6, 1972
Date of commencement of office	November 6, 2023
Position in the company, in a subsidiary or a stakeholder therein	Manager of 7 for All Mankind Segment
Education and occupation over the past five years	<p>Education: B. Sc. in Managerial and Administrative Studies Ashton University, UK</p> <p>Employment: Jan 2019 – July 2022 Senior Director Sales and Business Development, 7 For All Mankind</p> <p>July 2022 – March 2023 VP of Wholesale and International Business Development</p> <p>April 2023 – October 2023 General Manager International / VP Global Sales, Purple Brand</p>
Stakeholder in the Company or family member of a stakeholder 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 a stakeholder therein	Chief Financial Officer Responsible for management of market risk associated with exchange rates and interest Director in several subsidiaries
Education and occupation over the past five years	<p>Education: Business Administration certification – Tel Aviv University B.A. in Accounting and Economics – Tel Aviv University</p> <p>Employment: 2012 to 2019 - CEO of Allium Medical Solutions Ltd. Director at Allmed Solutions Ltd.</p>
Stakeholder in the Company or family member of a stakeholder 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 a stakeholder therein	SVP of Business Development
Education and occupation over the past five years	<p>Education: Law degree – Harvard Law School B.A. in History – Columbia College</p> <p>Employment: 2009 to 2014 – Director – Fishman Thermal Technologies</p>
Stakeholder in the Company or family member of a stakeholder 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 a stakeholder therein	VP Finance, Director at several subsidiaries
Education and occupation over the past five years	<p>Education: Certified Public Accountant M.B.A. – Tel-Aviv College of Management B.A. – Accounting and Business Education – Tel-Aviv College of Management</p>
Stakeholder in the Company or family member of a stakeholder or other senior officer in the Company	N/A

Name of Senior Officer	Michal Segal
ID number	25326570
Date of birth	May 30, 1973
Date of commencement of office	January 1, 2023
Position in the company, in a subsidiary or a stakeholder therein	SVP Human Resources
Education and occupation over the past five years	<p>Education: BA in Economics, Sociology and Anthropology – the Hebrew University in Jerusalem MA in Organizational Consulting – the Hebrew University of Jerusalem</p> <p>Employment: 2018 – 2021 – VP of HR, IDE Technologies</p>
Stakeholder in the Company or family member of a stakeholder or other senior officer in the Company	No

Name of Senior Officer	Adi Nov
ID number	057973562
Date of birth	October 4, 1963
Date of commencement of office	July 25, 2021
Position in the company, in a subsidiary or a stakeholder therein	VP of Information Systems
Education and Employment over the Past Five Years	Graduate of The Technion – Faculty of Mechanical Engineering Experience in the field of Data Security and Cyber Protection
Stakeholder in the Company or family member of a stakeholder 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 a stakeholder therein	Private Label Segment Manager
Education and Employment over the Past Five Years	Education: Graduate - Economics and Business Administration – Haifa University Employment: July 2013 to January 2017 – CEO of Tefron
Stakeholder in the Company or family member of a stakeholder or other senior officer in the Company	N/A

Name of senior officer	Anat Bogner
ID number	038305900
Date of birth	December 21, 1975
Date of commencement of office	February 19, 2019
Position in the company, in a subsidiary or a stakeholder therein	CEO of a subsidiary – Delta Israel Brands Ltd.
Education and Employment over the Past Five Years	Education: Graduate – LL. B. degree in law, Tel Aviv University and holds an attorney's license. Employment: Employed by Delta since February 2, 2015 Prior to that, Manager of Fashions chains in the Golf Group
Stakeholder in the Company or family member of a stakeholder or other senior officer in the Company	No

Name of senior officer	Yaniv Lecker
ID number	039046842
Date of birth	February 13, 1983
Date of commencement of office	June 30, 2023
Position in the company, in a subsidiary or a stakeholder therein	Corporate Controller
Education and Employment over the Past Five Years	<p>Education: CPA - CPA – Certified Public Accountant Bachelor's degree in economics and accounting – Haifa University</p> <p>Employment: 2019 - 2021 – Finance director at GES – Global Environment Solutions</p>
Stakeholder in the Company or family member of a stakeholder or other senior officer in the Company	No

Name of senior officer	Iric 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 a stakeholder therein	Sourcing Manager at Delta USA
Education and Employment over the Past Five Years	<p>Education: Masters Degree in Communications – Arizona State University</p> <p>Employment: September 2012 - July 2016 – SVP, Global Sourcing and Manufacturing at Li & Fung USA</p>
Stakeholder in the Company or family member of a stakeholder 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 a stakeholder therein	Internal Auditor
Education and occupation over the past five years	<p>Education: CPA - Certified Public Accountant B.A. in Economics and Accounting – Tel Aviv University.</p> <p>Employment: 2003 – to date – senior partner at Chaikin Cohen Rubin & Co.</p>
Stakeholder in the Company or family member of a stakeholder 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 non-disclosure agreements.

Regulation 27 – The Company’s Auditors

Auditor’s Name: PWC Israel (Kesselman and Kesselman)

Office Address: 146 Menachem Begin Way, Tel Aviv, Israel

Regulation 28 – Changes to Memorandum of Association or Articles of Association

In the report 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

Following are the resolutions of the special General Meeting during or after the report period:

For details regarding the approval of the Company’s Board of Directors regarding dividend distribution during and after the reporting period - see Section 4 of Chapter A of this periodic report.

On January 24, 2023, a special general meeting of the Company’s shareholders was held, the agenda of which was: (a) Approval of the terms of office and employment of Mr. Isaac Dabah in his position as CEO of the company, who is a controlling owner of the company and also serves as a Director of the company; (b) approval of amendments to the company’s compensation policy. All the decisions that were put to the vote were approved.

For further details, see the revised immediate report regarding the convening of the meeting dated January 19, 2023 (reference no: 2023-01-009894) and the report on the results of the meeting dated January 24, 2023 (reference no: 2023-01-011088).

On December 19, 2023, the Company’s Board of Directors decided, in accordance with Section 9 of the Law on Extension of Periods and Postponement of Deadlines, to postpone the deadline for convening an annual general meeting, no later than four months from the original date required for the convening, that is, no later than April 30, 2024.

In light of this, the term of office of the incumbent directors of the Company (with the exception of the external directors) and the auditing accountant will also be postponed until the date of the convening of the annual general meeting.

Regulation 29a – Corporate Decisions

Below 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 Compensation 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.

On July 18, 2023, the Compensation Committee of the company approved the extension of the company's contractual association in the insurance policy to cover the liability of directors and officers serving in the company and its subsidiaries for another month, until August 30, 2023.

Furthermore, the Compensation Committee approved, on August 25, 2023, the Company engaging with a policy covering the liability of directors and officers serving in it and in its subsidiaries. The policy has a liability limit of \$20 million, for any insurance event and in aggregate for the insurance period. The insurance period ends August 31, 2024. The total annual premium for said policy is approximately \$54,000.

On January 28, 2023, the terms of employment of Mr. Isaac Dabah as CEO of the company until December 31, 2023 were approved, and on December 19, 2023, a decision was taken to extend them up to April 30, 2024, pursuant to Section 11 (a) of the Extension of Periods and Deferment of Dates Law.

The above stated terms of employment include liability insurance cover for Directors and Officers under the same terms and conditions approved for the rest of the directors and officers serving the company and in subsidiary companies. (For further details regarding Mr. Dabah's terms of employment, see regulation 21 above).

Indemnity for Directors and Officers

On January 2, 2017 the Company's General Meeting approved, after receiving the approval of the Compensation Committee and the Board of Directors, the re-issuance of the letters of undertaking to indemnify Company Directors and Officers serving in the Company from time to time, 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 January 28, 2021, the terms of employment of Mr. Isaac Dabah as CEO of the Company were approved until December 31, 2022, and on December 19, 2023, a decision was taken to extend them up to April 30, 2024, pursuant to Section 11 (a) of the Extension of Periods and Deferment of Dates Law. The terms of employment, as stated, include the granting of letters of commitment for indemnification (for further details regarding the terms of employment of Mr. Dabah, see Regulation 21 above).

Exemption for Directors and Officers

On January 28, 2021, the Company's general meeting approved, after approval by the Compensation Committee and the Board of Directors, the granting of letters of exemption to the Company's directors and officers, including the controlling shareholder in the Company, in the form of the letters of exemption attached as appendixes to the letter convening the meeting of December 23, 2020 (reference: 2020-01-131575).

On January 28, 2021, the terms of employment of Mr. Isaac Dabah as CEO of the Company until December 31, 2022 were approved, and on December 19, 2023, a decision was taken to extend them up to April 30, 2024, pursuant to Section 11 (a) of the Extension of Periods and Deferment of Dates Law.

The terms of employment as stipulated include the granting of letters of commitment for indemnification (for further details regarding the terms of employment of Mr. Dabah, see regulation 21 above).