

**Delta Galil Industries Ltd.**

**2020 Periodic Report**



**March 9<sup>th</sup> 2021**

# **Delta Galil Industries Ltd.**

## **2020 Periodic Report**

### Table of Contents:

1. Chapter A – Description of the Corporation's Business
2. Chapter B – Board of Directors' Report on the State of Corporate Affairs
3. Chapter C – Financial Statements
4. Chapter D – Additional Information Regarding the Corporation

# **Delta Galil Industries Ltd.**

## **Chapter A**

### **Description of the Corporation's Business**

**As of December 31 2020**

## **TABLE OF CONTENTS**

|                                                                                                                                | <b><u>Page</u></b> |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------|
| <b>Chapter A – Description of the General Development of the Corporation’s Business.....</b>                                   | <b>7</b>           |
| 1. The Corporation’s Activity and Description of the Development of its Business .....                                         | 7                  |
| 2. The Corporation’s Operating Segment .....                                                                                   | 11                 |
| 3. Investments in the Corporation’s Equity and Transactions in its Shares .....                                                | 12                 |
| 4. Distribution of Dividends .....                                                                                             | 12                 |
| <br><b>Chapter B – Other Information .....</b>                                                                                 | <br><b>13</b>      |
| 5. Financial Information Regarding the Corporation’s Operating segments .....                                                  | 13                 |
| 6. General Environment and Impact of External Factors on the Corporation’s Activity .....                                      | 13                 |
| <br><b>Chapter C – Description of the Corporation’s Business by Operating Segment .....</b>                                    | <br><b>14</b>      |
| 7. General Information on Operating segments: Delta U.S.A. and Global Upper Market.....                                        | 14                 |
| 8. Customers in Operating segments: Delta U.S.A and Global Upper Market .....                                                  | 16                 |
| 9. Marketing and Distribution in Operating Segments: Delta U.S.A. and Global Upper Market                                      | 17                 |
| 10. Backlog in Operating Segments: Delta U.S.A. and Global Upper Market .....                                                  | 17                 |
| 11. Competition in Operating Segments: Delta U.S.A. and Global Upper Market: .....                                             | 18                 |
| 12. Production Capabilities in Operating Segments: Delta U.S.A. and Global Upper Market .....                                  | 19                 |
| 13. Intangible Assets in Operating Segments: Delta U.S.A. and Global Upper Market .....                                        | 19                 |
| 14. Raw Materials in the Operating Segments: Delta U.S.A. and Global Upper Market .....                                        | 20                 |
| 15. Working Capital in Operating Segments: Delta U.S.A. and Global Upper Market .....                                          | 22                 |
| 16. Restrictions and Supervision of the Corporation’s Activity in Operating Segments .....                                     | 22                 |
| 17. General Information on Operating Segments: Delta European Brands, Delta Premium Brands<br>and Delta Israel.....            | 23                 |
| 18. Customers in the Operating Segments: Delta European Brands, Delta Premium Brands and<br>Delta Israel .....                 | 27                 |
| 19. Marketing and Distribution in the Operating Segments: Delta European Brands, Delta<br>Premium Brands and Delta Israel..... | 27                 |
| 20. Backlog in Operating Segments: Delta European Brands, Delta Premium Brands, Delta Israel                                   | 29                 |
| 21. Competition in the Operating Segments: Delta European Brands, Delta Premium Brands and<br>Delta Israel .....               | 30                 |
| 22. Manufacturing Capabilities in the Operating Segments: Delta European Brands, Delta<br>Premium Brands and Delta Israel..... | 31                 |
| 23. Intangible Assets in the Operating Segments: Delta European Brands, Delta Premium Brands<br>and Delta Israel.....          | 31                 |

|                                                                                                                                                          |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 24. Raw Materials and Vendors in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel.....                               | 32        |
| 25. Working Capital in the Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel.....                                         | 32        |
| 26. Restrictions and Supervision of the Corporation's Activity in Operating Segments: Delta European Brands, Delta Premium Brands and Delta Israel ..... | 33        |
| <b>Chapter D – Additional Information at the Corporate Level.....</b>                                                                                    | <b>35</b> |
| 27. General Information on the Operating Segments.....                                                                                                   | 35        |
| 28. Company's Products .....                                                                                                                             | 35        |
| 29. Seasonality.....                                                                                                                                     | 35        |
| 30. Fixed Assets, Real Estate and Facilities.....                                                                                                        | 36        |
| 31. Research and Development.....                                                                                                                        | 42        |
| 32. Human Capital .....                                                                                                                                  | 43        |
| 33. operating Working Capital.....                                                                                                                       | 46        |
| 34. Financing .....                                                                                                                                      | 47        |
| 35. Taxation .....                                                                                                                                       | 48        |
| 36. Goals and Business Strategy .....                                                                                                                    | 48        |
| 37. Financial Data on Geographic Regions .....                                                                                                           | 50        |
| 38. Discussion of Risk Factors .....                                                                                                                     | 50        |

## **Introduction**

The Company, Delta Galil Industries Ltd., hereby submits a report describing the Corporation's business as of December 31<sup>st</sup> 2020, which reviews the description of the Corporation and the development of its business, as they occurred in 2020 (“**the Reported Period**”). The report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

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

### **Glossary**

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

|                                         |                                                  |
|-----------------------------------------|--------------------------------------------------|
| <b>“The Company” or “Delta”</b>         | Delta Galil Industries Ltd.                      |
| <b>“The Group” or “the Delta Group”</b> | Delta Galil Industries Ltd. and its subsidiaries |
| <b>“Delta USA”</b>                      | Delta Galil USA Inc.                             |
| <b>“Schiesser”</b>                      | Schiesser Group                                  |
| <b>“Eminence”</b>                       | Eminence Group                                   |
| <b>“Bogart”</b>                         | Bogart Group                                     |
| <b>“Dollar”</b>                         | US dollar                                        |

## Description of the Corporation's Business

### Chapter 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 business, as of March 9<sup>th</sup> 2021.

1.1 The Company was incorporated in Israel in 1975 as a private company in accordance with the Companies Order. In 1982 the Company went public on the Tel Aviv Stock Exchange Ltd. On March 25<sup>th</sup> 1999, the Company issued American Depositary Shares ("ADS") in such manner that each ADS represents a single ordinary Company share of 1 NIS par value. ADS may be traded on the U.S. OTC trading arena, or on the Tel Aviv Stock Exchange Ltd. (subject to their conversion to regular Company shares). On July 31<sup>st</sup>, 2020, trading in the Company's ADSs on the OTC Pink List was discontinued and the Company's ADS program was canceled.

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

1.3 In July 2019 the Company acquired the Bogart Group, a vertical manufacturer engaged in development and marketing of intimate apparel, mainly brassieres and swimwear for private brands of leading customers in the upper market segment in the US and Europe. Bogart was established in 1993 and is one of the largest brassiere manufacturers in the world. Bogart Group holds a number of subsidiaries in the Far East (China, Thailand, Myanmar) and owns cutting and sewing factories for the manufacture of apparel products and the manufacture of raw materials (lace and pads) for self-use and for external customers. For details regarding the total acquisition cost, see Note 6 to the Financial Statements included in Part C of this periodic report.

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

1.4 On October 1<sup>st</sup>, 2020, the Company acquired Bare Necessities, a leading U.S. e-commerce company that markets branded intimate apparel and offers over 160 leading brands and 6,400 styles in the intimate apparel and swimwear categories for women, shapewear, sleepwear and socks.

Bare Necessities' results have been consolidated in Delta's financial statements as of October 1<sup>st</sup>, 2020. For details regarding the acquisition cost, see Note 6 to the Financial Statements included in Part C of this periodic report.

1.5 On September 30<sup>th</sup>, 2020, the Company announced that Delta Galil Israel Brands Ltd., a wholly owned subsidiary of the Company (hereinafter the "**Subsidiary**"), submitted an application to the Securities Authority for permission to publish a prospectus together with a draft prospectus for supplementation and a shelf prospectus. The Company further announced that on the same day, before submitting the permit application and the draft prospectus, the Company 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" operating segment (excluding non-material activities), in exchange for shares issued to it by the Subsidiary.

On February 25<sup>th</sup>, 2021, the Company announced that the Subsidiary has published a prospectus for supplementation of an initial public offering that also constitutes a shelf prospectus.

On March 4<sup>th</sup>, 2021, the Subsidiary published a prospectus for supplementation. On the

same day, the Subsidiary reported the results of the offering. In accordance with the results of the offering, the Subsidiary issued 20% of its shares for a (gross) consideration of approximately NIS 262.5 million.

On March 5<sup>th</sup>, 2021, the Split Agreement and the transfer of the said operating segment for tax purposes was completed, retroactively as of September 30<sup>th</sup>, 2020. The Company and the Subsidiary intend to act in order for the splitting of the activity to be done tax-free, in accordance with the relevant legal provisions.

On March 9<sup>th</sup>, 2021, the Subsidiary shares began trading on the Tel Aviv Stock Exchange.

For further details see immediate reports dated September 30<sup>th</sup>, 2020, February 25<sup>th</sup>, 2021 and March 4<sup>th</sup>, 2021 (reference no. 2020-01-097861, 2021-01-023076 and 2021-01-026811, respectively) included in this report by way of reference, and the Subsidiary's immediate report dated March 7<sup>th</sup>, 2021 (reference no. 2021-01-027303).

## 1.6 Effect of the Covid-19 spread

In December 2019, or thereabouts, a pandemic caused by the Covid-19 virus (hereinafter "**the Virus**" or "**Corona Virus**") broke out in the city of Wuhan in China. The Virus began to spread around the world, especially beginning in February 2020, when in March 2020 the World Health Organization announced a "pandemic" (global epidemic) following the spread of the Virus.

This pandemic, which began in China, affected the Company's production activities in the Group's factories - some fully owned and some together with others, as well as the activities of some of the Company's suppliers and subcontractors who returned to work after an extended holiday.

As of March 2020, the impact of the pandemic has expanded to most countries around the world. In order to prevent the spread of the Virus, various countries around the world have taken various measures, including the closure of shopping centers (including street stores, stores located in malls, department stores), manufacturing plants, workplaces, and global traffic restrictions that have significantly affected the selling markets in which the Company operates have been imposed - in the United States, Europe and Israel.

For further details regarding the effect of the Corona Virus and the actions taken by the Company, see section 1.3 of the Board of Directors' Report, in Part B of this periodic report.

## 1.7 The Group's sales are divided as follows:

### 1.7.1 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 and Fix.

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

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

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

The products sold within the framework of license agreements largely consist of Intimate apparel, socks, children's wear, leisurewear and activewear. The Company pays royalties to the license holder in return for use of the brand name.

### 1.7.2 Sale of Products bearing the Private Labels of the Customers

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

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

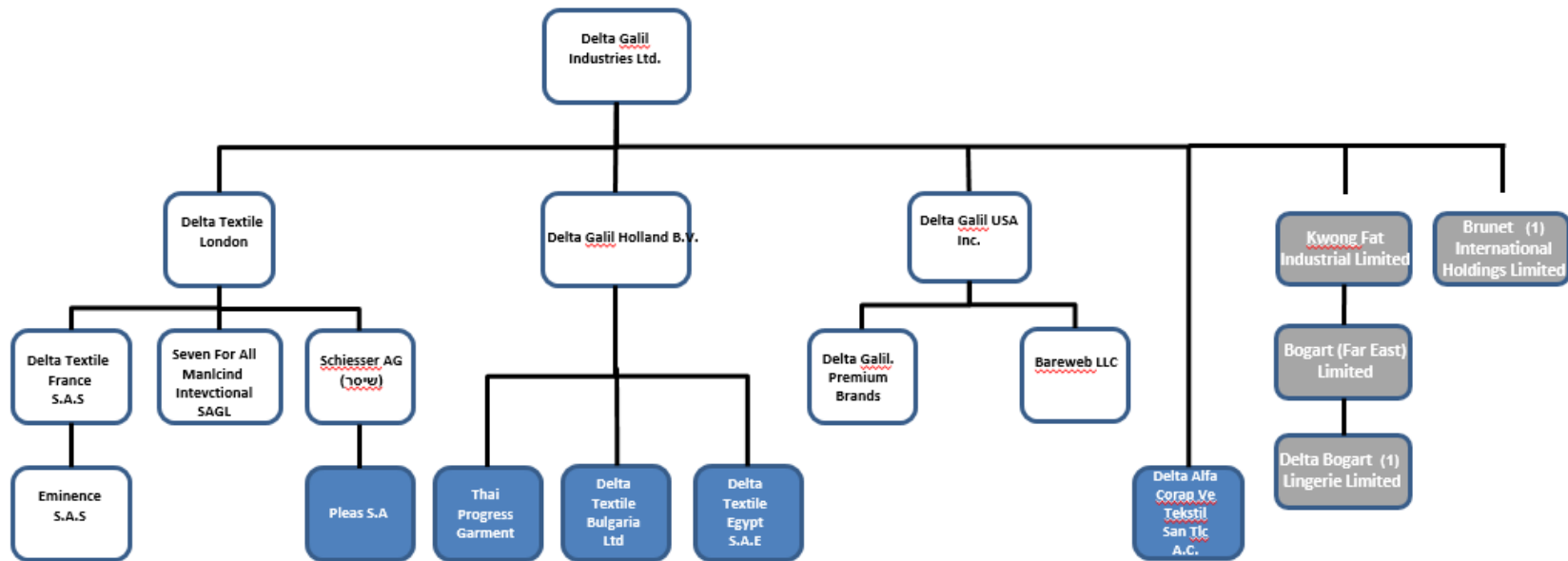
These products are sold to the customer who owns the brand, and he sells them to the consumers through his distribution channels.

#### 1.8 Marketing, Development and Manufacturing Activity

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

The Company designs and develops its products primarily in Israel, in Germany, Switzerland, France, the US, China and Hong Kong. The Company manufactures the products it sells both via subcontracting and in its factories in the Middle East, Europe, Central America and the Far East.

Following is a chart of the structure of the Company's holdings in the key companies as of December 31<sup>st</sup> 2020. All of the stakes in the following countries are 100%.



Some of the companies in the Bogart Group



Manufacturing Companies

(1) These companies hold all the stakes in subsidiaries in which manufacturing operations are carried out in China, Thailand and Myanmar.

## 2. **The Corporation's Operating Segment**

The Company has five main operating segments reported in its December 31<sup>st</sup>, 2020 Consolidated Financial Statements: (a) Delta USA; (b) Global Division Upper Market; (c) Delta European Brands; (d) Delta Premium Brands and (e) Delta Israel.

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

### 2.1 **Following is a short description of each of the operating segments in question:**

#### 2.1.1 **Operating segment Delta USA**

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

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

#### 2.1.2 **Operating segment Global Upper Market**

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

As of July 2019, this operating segment also includes the Bogart Group's activities, see section 1.3 above.

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

#### 2.1.3 **Operating segment Delta European Brands**

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

In December 2020, the subsidiary in Romania was sold.

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

#### 2.1.4 **Operating segment Delta Premium Brands**

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

The "7 For All Mankind" brand is a leading global denim label and the brands "Splendid" and "Ella Moss" are leading U.S. clothing brands for women's outerwear and accessories. The products of this operating segment are sold through the Company's retail chain in the United States and in Europe, through

the website and in wholesale activity at retail marketing chains. The activity of the "Ella moss" brand, which was also included in the operating segment, was changed to a franchise model in the course of 2018.

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

#### 2.1.5 Operating segment Delta Israel

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

On March 5<sup>th</sup>, 2021, the activity included in this operating segment (except Puma) was transferred to the subsidiary Delta Israel Brands Ltd. For further details regarding the transfer, see section 1.5 above.

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

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

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

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

### 4. Distribution of Dividends

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

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

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

In 2020 the Company has made, with no need for court approval, a dividend distribution of 25.5 cents per share or about \$ 6.5 million paid on March 17<sup>th</sup> 2020.

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 \$ 316.2 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 debentures (Series A, B, E 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 19E to the financial statement, Chapter C of this report.

## **Chapter B – Other Information**

### **5. Financial Information Regarding the Corporation's Operating segments**

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

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

#### **6.1 Description of Market Risks to Which the Group is Exposed**

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

The Group's activity is exposed to macroeconomic risks, to industry risks and to risks unique to its activity. Full detailing of these risk factors, to which the Group is exposed, can be found in section 38 below.

## **Chapter C – Description of the Corporation's Business by Operating Segment**

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

### **Delta USA and Global Upper Market**

#### **7. General Information on Operating segments: Delta U.S.A. and Global Upper Market**

The following is a description of the operating segments noted in the heading above where the operating segments have similar business characteristics, and which are different from the characteristics of the Company's other operating segments. These operating segments shall hereby be referred to, in sections 7 to 16 as **"the Operating Segments"**. Specific subjects to a certain operating segment shall be clearly noted separately.

##### **7.1 Structure of the Operating Segments and Changes Occurring Therein**

###### **7.1.1 Delta U.S.A.**

Delta U.S.A engages in the development, design and marketing of intimate apparel, socks and sportswear for women, men and children to major U.S. retailers. Sales in this operating segment are primarily to private labels as well as under brand names in accordance with license agreements it has entered into (see section 13.3 below), and under brands in its possession, such as P.J. Salvage.

Also carried out under this operating segment is the Company's activity in the field of intimate apparel in the UK.

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

###### **7.1.2 Global Upper Market**

This operating segment mainly engages in the development, design, manufacture and marketing of men's and women's intimate apparel and socks, most of which are manufactured at the Company's factories and when the remainder are manufactured by subcontractors, for retail chains and leading brands in the U.S. as well as under brand names in accordance with license agreements the Company has entered into (see section 13.3 below).

Most of the sales for the Upper Market operating segment are to private labels.

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

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

##### **7.2 Changes in Scope of Activity and Profitability of Operating Segments**

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

##### **7.3 Developments in Markets of the Operating segment or Changes in Customer Characteristics**

The primary target markets of the Company's products in the above operating segments are North America 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, as well as the effects of the Corona crisis, 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.

#### 7.4 Critical Success Factors in Operating segment and Changes Occurring Therein

The Company estimates that success in the operating 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 fashions and to the needs of the relevant consumers, while ensuring constant innovation.
- 7.4.5 Upholding a marketing and distribution array 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 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 Using the Company' size as an advantage, both in the scope of purchase orders by customers and in the number of items ordered from each model manufactured, which helps reduce manufacturing costs.
- 7.4.10 An efficient operational array and chain of supply providing full support for sales' needs and meeting short supply times.
- 7.4.11 Engagement in license agreements that demonstrate the esteem of brand owners for the Company's capabilities in developing, manufacturing and designing the products under the brands they own.

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

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

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

- 7.5.1 Familiarity and understanding of the fashion industry's requirements and preferences of the end consumer tastes.
- 7.5.2 Stable, long-term relations with large customers (retail fashion outfits and companies owning fashion labels).
- 7.5.3 Innovation in the development and design of fashion products.
- 7.5.4 Large customers usually require a commitment on behalf of the manufacturer to uphold the compliance process testing the fitness of the plant and its

compliance with strict standards based on customers' requirements. In addition, during the commitment period, these customers often conduct periodic inspections of the production array. Failure to meet the quality requirements and standards set by customers may lead to the end of the engagement with them.

- 7.5.5 The existence of efficient operational 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 these operating segments.

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

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

**8. Customers in Operating segments: Delta U.S.A and Global Upper Market**

- 8.1 As of the date of this report and in 2019 and 2020, the Group has no material customers, sales to which constitute approximately 10% of the Group's total consolidated sales. Until 2018, Walmart was the Company's material customer, however in light of the increase in the Company's business operations, amongst other things, due to the acquisition of Bogart in July 2019, and in light of the decline in the Company's sales to Walmart, the rate of sales to this customer declined to under 10%. It will be clarified that his customer remains an important customer of the Company, and the Company believes that a drop in the scope of sales to Walmart may have a materially negative impact on its financial results.

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

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

- 8.2 For a breakdown of sales by geographical attribution see Note 5c to the Company's December 31<sup>st</sup> 2020 Financial Statements, Chapter C of this periodic report and section 2.3.2 of the Board of Directors report, in Chapter B of this report.

8.3 Characteristics of Engagements with Primary Group Customers

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

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

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

9. **Marketing and Distribution in Operating Segments: Delta U.S.A. and Global Upper Market**

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

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

The Company is not dependent on its marketing channels.

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

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

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

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

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

10.1 **Backlog in Delta USA:**

|                       | Backlog as of February 15 <sup>th</sup><br>2021 | Backlog as of December 31 <sup>st</sup><br>2020 |
|-----------------------|-------------------------------------------------|-------------------------------------------------|
| <b>First quarter</b>  | 49.7                                            | 51.4                                            |
| <b>Second quarter</b> | 43.8                                            | 24.9                                            |
| <b>Third quarter</b>  | 10.5                                            | 0.6                                             |
| <b>Fourth quarter</b> | <u>2.8</u>                                      | <u>0.2</u>                                      |
| <b>Total</b>          | <u>106.8</u>                                    | <u>77.1</u>                                     |

10.2 **Backlog in the Global Upper Market:**

|                       | Backlog as of February 15 <sup>th</sup><br>2021 | Backlog as of December 31 <sup>st</sup><br>2020 |
|-----------------------|-------------------------------------------------|-------------------------------------------------|
| <b>First quarter</b>  | 94.4                                            | 113.6                                           |
| <b>Second quarter</b> | 76.8                                            | 47.8                                            |
| <b>Third quarter</b>  | <u>21.9</u>                                     | <u>13.8</u>                                     |
| <b>Total</b>          | <u>193.1</u>                                    | <u>175.2</u>                                    |

## **11. Competition in Operating Segments: Delta U.S.A. and Global Upper Market:**

### **11.1 General**

The operating segments in which the Company operates are considered competitive. In recent years, production costs began to increase, which caused product prices for consumers started to gradually rise. Competition in the field of intimate apparel turns on three main parameters: product price, product quality and the level of customer service. The Company believes that it has several advantages over its competitors, 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 packages its items in attractive packaging. The Company invests significant sums in innovative design and in developing fabrics and products. For further details, see section 31 below.

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

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

### **11.2 Competitive Conditions in the Operating Segments**

In recent years, retail chains have been trying not to use the services of private companies designing and developing intimate apparel and enter into direct relationships with the production plants so that they manufacture products directly for them, in order to reduce product costs. For details see section 38.3.3 below.

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

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

#### **11.3.1 Delta U.S.A.**

The Company's material competitors in this operating 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 and Gelmart.

#### **11.3.2 Global Upper Market**

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

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

### **11.4 Methods for Dealing with the Competition**

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

Furthermore, in order to differentiate and create a competitive edge the Company invests a great deal of resources in increasing the branded segment of its activity by entering into new license concession agreements and acts to increase its activewear, brassiere and

men's and women's undergarment sales with existing customers. In addition, the Company invests in establishing new plants and joint ventures in order to strengthen its connection with its customer and improve its level of service.

## **12. Production Capabilities in Operating Segments: Delta U.S.A. and Global Upper Market**

- 12.1 In Delta USA operating segment, about 91% of sales are of products purchased from subcontractors, so production capability is irrelevant.

In the Global Upper Market operating segment, about 18% of sales are of products purchased from subcontractors.

In the event of increased manufacturing needs, the process of entering into agreements with and qualifying existing and additional subcontractors requires preparations, 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 the scope of activity.

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

The Company estimates that nothing is restricting it from increasing its production capabilities in its factories.

## **13. Intangible Assets in Operating Segments: Delta U.S.A. and Global Upper Market**

The intangible assets attributed to the operating segments as of December 31<sup>st</sup> 2020 mainly include \$ 108.0 million for goodwill, \$ 59.7 million for customer relations, \$ 17.5 million for trademarks and brand names and \$ 29.0 million for agreements for label usage rights.

### **13.1 Goodwill**

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

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

In 2020, 2019 and 2018, the Company did not reduce the value of goodwill attributed to these operating segments, following the annual examination and the examination conducted in March 2020 following the Corona crisis.

### **13.2 Customer Relations**

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

The balance of customer relations amounted to \$ 59.7 million as of December 31<sup>st</sup> 2020 and is amortized over a period of 20 years. The original cost amounted to about \$ 80.4 million.

### **13.3 Agreements for the Receipt of Usage Rights for Brands**

In the Delta USA operating segment, the Company enters from time to time into agreements to receive usage rights for international brands such as: Columbia, Lacoste

(until the end of 2019), Converse, Wilson, Tommy Hilfiger, Kenneth Cole, Calvin Klein, Ted Baker and Spalding.

The license agreements are usually for a period of 3 to 4 years, and they include the payment of royalties to the concession owner of between 5% and 20% of revenues and usually include a stipulation for royalties payment at a minimal sum set based on the minimal sales levels over the course of the agreement period.

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

The agreements generally include commitments on behalf of the Company to provide the party granting the license a prototype and production molds of the products prior to their manufacture, and an obligation to constantly uphold the quality, reputation and image of the license granter's products. The party granting the license has the right to inspect and supervise the manufacture of the products.

Royalty expenses in the operating segments amounted to \$ 12.8, \$ 17.4 and \$ 17.4 million in 2020, 2019 and 2018, respectively. The decrease in royalty expenses in 2020 compared to 2019 is due mainly to the decrease in sales due to the Corona crisis.

The Company estimates that brand usage rights constitute one of the factors behind the success of the operating segments, and they integrate into the Company's strategy to grow in the brand operating segment (see section 36.5 below).

#### **14. Raw Materials in the Operating Segments: Delta U.S.A. and Global Upper Market**

##### **14.1 Primary Raw Materials Used in the Operating Segments**

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

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

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

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

##### **14.2 Relations with Vendors**

The Company maintains ties with dozens of vendors, 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 vendors used by the Company are approved by the customers and some are dictated by them.

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

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

standards of the Company and the customer may take several months

#### 14.4 Manufacturing Process at the Company's Plants

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

##### 14.4.1 Purchase and manufacturing of Raw Materials

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

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

##### 14.4.2 Knitting

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

##### 14.4.3 Sock Knitting

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

##### 14.4.4 Dyeing

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

##### 14.4.5 Cutting

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

##### 14.4.6 Sewing

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

##### 14.4.7 Manufacture of Seamless Clothing

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

##### 14.4.8 Outsourcing

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

##### 14.4.9 Quality Assurance

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

## 15. **Working Capital in Operating Segments: Delta U.S.A. and Global Upper Market**

### 15.1 Delta U.S.A.

Following are details regarding the average inventory used by the operating segment and inventory days for 2020 and 2019:

|                                        | <u>2020</u> | <u>2019</u> |
|----------------------------------------|-------------|-------------|
| <b>Average inventory (million USD)</b> | 64.8        | 85.7        |
| <b>Inventory days (average)</b>        | 89          | 87          |

The decrease in the average inventory in 2020 compared to 2019 was due to tight management and the sale of surpluses.

### 15.2 Global Upper Market

Following are details regarding the average inventory used by the operating segment and inventory days for 2020 and 2019:

|                                        | <u>2020</u> | <u>2019</u> |
|----------------------------------------|-------------|-------------|
| <b>Average inventory (million USD)</b> | 66.6        | 71.1        |
| <b>Inventory days (average)</b>        | 77          | 56          |

The increase in the inventory days in 2020 compared to 2019 was due to the decrease in sales due to the Corona crisis.

For information regarding working capital see section 33 below.

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

### 16.1 Legality in the Countries in which the Company is Active

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

### 16.2 Free Trade Agreements

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

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

The sales of these operating segments included in the free trade agreements detailed above constitute about 5% of total sales of the operating segments in question in 2020. The balance of sales, which constitutes about 95% of the total sales of the operating segments in question in 2020 and which is not included above, is liable to customs.

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

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

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

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

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

#### **17.1 Structure of the Operating segments and Changes Occurring Therein**

##### **17.1.1 Delta European Brands**

This operating segment includes the activity of the Schiesser Group and the activity of the Eminence Group which was purchased in July 2018.

In this operating segment, the Group markets brand intimate apparel for men, women and children as well as socks, sleepwear, swimwear and sports product, with activity beginning from the designing and planning of the collection, through purchasing, manufacturing and finishing the items of clothing, to the marketing and distribution of the products.

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

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

In the operating segment, the Group provides its products to about 9,500 wholesale points of sales in Europe, including unique undergarment and clothing retailers, shop and department store chain operators, through the wholesale sales channel. In the retail sector, the operating segment sells its products through 106 Schiesser stores, of which 24 are ordinary stores and 82 are factory outlets and through 7 Eminence stores and 2 Liabel stores (as of December 31<sup>st</sup> 2020), as well as through e-commerce.

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

About 65% of product sales in the operating segment are in the intimate apparel for men category.

In this operating segment, approximately 59% of the Company's sales are of products purchased from subcontractors in the Far East, Eastern Europe and North Africa, while the remainder (approximately 41%) is from the production of collections at the Company's production sites in the Czech Republic, Slovakia, France and Romania. The subsidiary in Romania was sold at the end of 2020. In addition, in the operating segment the Company operates a buying office in Hong Kong.

### 17.1.2 Delta Premium Brands

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

The "7 For All Mankind" brand is a leading global denim brand and the "Splendid" brand is a leading U.S. clothing brands for outerwear and associated products. The products of this operating segment are sold both through the Company's retail chain in the United States and in Europe, through the website and in wholesale activity at retail marketing chains.

In the Delta Premium Brands operating segment, the Group provides its products to about 4,000 wholesale points of sales in the United States and Europe. In the retail sector, the Group sells its products through 96 stores operated by it, of which 75 stores are in the United States and 18 stores are in Europe and 3 stores in Brazil (as of December 31<sup>st</sup> 2020), as well as through e-commerce.

About 70% of the Delta Premium Brands operating segment products are for women.

About 76% of the operating segment products are sold under the "7 For All Mankind" brand.

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

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

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

### 17.1.3 Delta Israel

In the Delta Israel operating segment, the Company designs, markets and sells a variety of intimate apparel, leisurewear, activewear, socks and footwear. In the retail field the Company operates through its chain of "Delta" stores, "FIX" stores and "Puma" stores, most of which it operates and some of which are operated by outside operators. Furthermore, in the retail field the Company operates websites. In addition, the Company operates through marketing to retail chains, marketing to private stores and small retail chains and marketing of private brands.

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

Over the course of 2020 the Company has opened 3 stores and closed 5 stores, so that as of the report date there are 204 stores active, including 170 Delta stores, 31 Fix stores and 3 Puma stores. Of this total number of stores, 164 are operated by the Company and 40 are operated by licensors.

**As stated in section 1.5 above, the activity of this operating segment (except Puma) was transferred on March 5<sup>th</sup>, 2021 in effect from September 30<sup>th</sup>, 2020 to the subsidiary Delta Israel Brands Ltd. In this context, it will be clarified that details and data contained in this chapter and referring to the operating segment are not necessarily the same as those published in Delta Israel Brands Ltd., among other things, as a result of the fact that non-material Puma activity was not transferred as part of the split to the new company, and also due to the fact that Delta**

**Israel's reports are in shekels and Delta Galil reports are translated into dollars.**

On December 24<sup>th</sup>, 2020, the Company, together with its subsidiary Delta Israel Brands Ltd. ("Delta Israel"), which at that time was a private company wholly owned by the Company, entered into a non-material agreement with Amarla Retail SA, on its amendments (the "Partner" and the "Agreement"), according to which the Partner and Delta Israel will establish a joint company that will open and operate stores and a commerce website of the Bath & Body Works® brand ("the Brand") in Israel, in accordance with the Partner's rights under agreements with the brand owner, which are subject to the Partner's compliance with its obligations towards the brand owner, as well as to the terms and the approval mechanism set forth in these agreements. In the Agreement, the Company undertook to provide the Partner and the joint company with loans and letters of credit to an extent that is not material to the company. It should be noted that prior to the date of amendment of the Agreement, the Partner had a conditional right to open and operate the Victoria's Secret® brand stores in Israel, and this right was revoked.

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

**17.2.1 Delta European Brands**

Sales in this operating segment are mainly for wholesale customers in Germany and France and neighboring European countries. As the German and European fashion market is characterized by increasing competition and a decrease in points of sale in recent years, Schiesser developed a growth strategy by expanding the chain of stores in its possession, which in 2018 included opening 9 new stores alongside two stores closing.

As of 2019 and in 2020, Schiesser changed this strategy, focusing on improving store location while reducing their total number, from 111 at the end of 2018 to 107 at the end of 2019, and to 106 at the end of 2020, simultaneously with an increase in sales through e-commerce.

The target market for the Company's products in the operating segments is Western Europe, and Germany and France in particular. The continued process of concentration in these markets, characterized by a reduction in the number of chains and the strengthening of those remaining and those characterized by full verticality, as well as sales to customers of the French public sector based primarily on tenders, coupled with the strengthening of online sales and the decrease in points of sale constitute the significant challenges in the operating segment.

**17.2.2 Delta Premium Brands**

In Delta Premium Brands operating segment, the Group markets leading clothing labels in the denim category, outerwear and accessories. The products of this operating segment are sold both through the retail chain deployed in the United States and in Europe, through its websites and through wholesale activity at retail marketing chains. In the course of 2020, the Company opened 8 stores (3 of which in the US, 2 in Europe, and 3 in Brazil), and closed down 4 stores, (3 of which in the US and 1 in Europe).

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

**17.2.3 Delta Israel**

The scope of activity of Delta Israel has increased in recent years, mainly due to an increase in sales in same stores, due to an increase in online sales as well as an expansion of product lines sold under the "Delta" brand stores. In addition, the "Fix" chain was launched in 2015, and its activity expanded since then, due to a wider deployment of stores and due to the launch of the website. The Delta Israel activity also expanded in recent years through the launch of the "Puma" brand. Recently and for commercial reasons, the operating segment management has decided not to renew the franchise agreement with

"Puma" which ended at the end of 2020.

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

The primary target markets of the Company's products in the above operating segments are North America, Europe and Israel. The changes in the economic condition in these markets as expressed in recent years, by way of a financial crisis and concerns of the recession's continuation, 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.

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

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

- 17.4.1 Marketing and reinforcing of the Company brands through constant investment in advertising and reinforcing Company brands in order to differentiate the brands and emphasize their advantages, innovation and cutting-edge fashion as well as through the Company's customers' club and its website.
- 17.4.2 Investing resources in design and development departments while constantly focusing on local and global developments in the field of intimate apparel and customer taste as well as developing and designing fashion collections, while ensuring to apply constant innovation.
- 17.4.3 Engagement in license agreements.
- 17.4.4 Wide deployment and store location.
- 17.4.5 Maintaining a steadfast, reliable and flexible manufacturing infrastructure through overseas subcontractors and at competitive costs.
- 17.4.6 The existence of an effective product QA system.
- 17.4.7 The existence of efficient operational arrays, chains of supply and distribution systems providing full support for sales needs and meeting supply times, which have shortened in recent years.

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

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

- 17.5.1 Construction of brands with significant awareness in the fashion market and preserving them on a long-term basis through significant investments in marketing and advertising.
- 17.5.2 Capital investments in the establishment of a retail chain and store maintenance.
- 17.5.3 The need for a critical mass of sales to allow a competitive operational costs structure.
- 17.5.4 The difficulty in establishing long-term relationships with primary wholesale customers.

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

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

There are many alternatives to the Company's products in the operating segments offered by local manufacturers and importers marketing at a variety of points of sale. The Company is acting to reinforce and preserve its products' advantage over alternative products, by differentiating itself and making itself more conspicuous in terms of fashion, quality and assigning added value to its brands by ensuring cutting-edge design,

development, competitive pricing, product variety and advertising on various media.

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

**18.1 Delta European Brands**

The Company's customers in the operating segment include wholesale customers and retail customers, through its chain stores attributed to this operating segment in Western Europe. Sales of the operating segments in 2020 amounted to about \$ 298.2 million, compared to \$ 308.5 million in 2019 and compared to \$ 273.3 million in 2018. The decrease in sales in 2020 compared to 2019 was due to the Corona crisis, see section 1.6 above. The increase in sales for the operating segment in 2019 is due to the consolidation of Eminence over a full year, compared to the consolidation of its results over a period of 6 months in 2018. Of the sales in 2020, approximately 67% of the sales were made through the wholesale channel through department stores, supermarkets and hypermarkets and 33% of sales were through the retail chain and the Schiesser and Eminence websites. Germany and France constitute the largest markets of the operating segments and sales therein constitute approximately 56% and 26% out of total sales in 2020, respectively. The remaining sales were in other Western European countries, mainly Switzerland, Belgium, Italy and the Netherlands.

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

**18.2 Delta Premium Brands**

The Company's customers in the operating segments include wholesale customers and retail customers, through its U.S. and European retail chain. The sales of the Delta Premium Brands operating segment are primarily to the upper market segment, when the sales under the "Jen7" brand are to the mid-market segment. Approximately 47% of the products of the operating segment are sold on the wholesale channel. Sales for the operating segment in 2020 amounted to \$ 189.2 million, of which 68% were in the United States, 26% in Europe and 6% in other areas. In 2019 sales for the operating segment amounted to \$ 274.6 million.

The decrease in sales in the operating segment was due to the Corona crisis, see section 1.6 above and sections 1.3.1 and 2.3.5 of the Board of Directors' report, included in Part B of this periodic report.

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

**18.3 Delta Israel**

The Company's customers in this operating segment are divided into retail and wholesale customers, all of them in Israel. The Company's retail customers are the consumers shopping at the "Delta", "Fix" and Puma retail outlet stores and through e-commerce.

The Company's wholesale customers include department stores, supermarkets and fashion chains. The total sales of the operating segments in Israel in 2020 and 2019 amounted to \$215.8 million and \$214.8, respectively. Out of total sales in 2020, 14% of sales were through the wholesale channel, meaning through department stores, supermarkets and private stores, and 86% of sales were through the retail channel, meaning through the Company's stores and through the Company's e-commerce.

According to the Company's estimates, it is not dependent on any of its customers in this operating segment.

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

The Company markets its products in the operating segments through the following two marketing channels: wholesale marketing and marketing through its retail outlets.

**19.1 Wholesale Marketing**

#### 19.1.1 Delta European Brands

The wholesale sales channel is the channel with the largest scope of sales in the operating segment. About 67% of sales in 2020 were carried out on the wholesale sales channel. Customers on the wholesale sales channel are mainly specializing clothing stores, department stores, supermarkets and hypermarkets, offering the operating segment's products in their businesses and as part of their product offerings.

Schiesser and Eminence handle distribution themselves, in the wholesale sales channel in Germany, France and Italy, respectively. Sales not in 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 potential using the "shop-in-a-shop" sales method at primary customers, while this method is not typical to Eminence.

#### 19.1.2 Delta Premium Brands

Approximately 47% of the products of the operating segment are sold on the wholesale channel. Customers on the wholesale channel are mainly specializing clothing stores and department stores offering the branded products in their businesses and as part of their product offerings. Sales outside the United States and Europe (mainly in Canada, Brazil and China) are carried out by distributors.

#### 19.1.3 Delta Israel

The Company's products are sold through a variety of marketing channels, including marketing to retail chains (such as: the New Mashbir Latzarchan, H&O), marketing to private stores and small chain stores (such as: Hatzi Hinam) and the marketing of private brands (such as: Superpharm's "Life" brand).

For marketing purposes, the Company operates an array consisting of sales agents, account executives, sales attendants and ushers and operates with some of its customers using the consignment method, according to which the inventory remains its property until its sale to the end customer.

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

### 19.2 Retail Marketing

#### 19.2.1 Delta European Brands

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

At the end of 2020, Schiesser's chain of stores included 106 stores, including 24 retail stores (of which 22 were in Germany) and 82 outlet stores (of which 66 stores in Germany and 16 in other Western European countries). The Eminence Group included 9 stores (of which 7 are in France and 2 in Italy) near the end of 2020. Retail stores are located in accessible locations in the centers of cities, in malls or at traditional sites and with sales areas of 120 m<sup>2</sup> each. Outlets are located at sites visited often by the public, such as business parks or as part of commercial centers. The sales floor area in outlets is generally larger, reaching 350 m<sup>2</sup> and larger, and serve to sell a significant portion of the collection and surplus items.

In addition to land-based retail, the Company set as a target for this operating segment the increase of sales to the end consumers through the online stores of the operating segment's brands.

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

#### 19.2.2 Delta Premium Brands

Marketing of products in this channel is through the Company's brand retail chain in North America, Europe and Brazil, numbering 96 stores as of the end of 2020, see section 17.1.3 above. The retail chain stores are largely located inside malls and in town centers.

In addition to the above retail chain, the products of the operating segment are sold through the Company's websites.

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

#### 19.2.3 Delta Israel

Marketing of products in this channel is through the Company's website and brand shops which, as of this periodic report, number 204 stores. The retail chain stores are located inside malls, in town centers and in "power centers" throughout the country.

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

### 19.3 Distribution

#### 19.3.1 European Brands

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

#### 19.3.2 Delta Premium Brands

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

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

#### 19.3.3 Delta Israel

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

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

### 20.1 European Brands

Backlog does not constitute a precise indication of the anticipated volume of sales in this operating segment, 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 some of the sales in this operating segment is to retail customers through the chain of stores and websites.

### 20.2 Delta Premium Brands

Backlog does not constitute a precise indication of the anticipated volume of sales in this operating segment, in light of the fact that a significant portion of the sales in this operating segment is to retail customers through the chain of stores and websites and to wholesale customers who do not order products from the Company long in advance.

### 20.3 Delta Israel

Backlog does not constitute a precise indication of the anticipated volume of sales in this operating segment, in light of the fact that a significant portion of the sales in this operating segment is to retail customers through the chain of stores and websites and to

other customers who do not order products from the Company long in advance.

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

**21.1 European Brands**

The primary activity of this operating segment is in the undergarment market, in which the Company competes against various competitors operating in the industry. The chief competitors in the various male, female and child labels are Hugo Boss, Mey, Triumph, Calida, Sanetta, Hunkemöller, Esprit, H&M, Contonella, France Freegun, Pompea, Hom, Dim and house labels of department stores and purchase groups. Most of the competitors are active both in the retail and wholesale markets.

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

In order to face the competition, the Company is investing in its online activities and in deepening sales relationships with customers operating via the Internet.

**21.2 Delta Premium Brands**

The Delta Premium Brands operating segment's primary activity is in the denim category, in which the Company faces various competition. Primary competitors in this category include: Paige, Frame, AG, Citizens of Humanity, J BRAND and more, while Splendid's primary competitors in the women's outerwear premium brands category include: Free People and Vince.

**21.3 Delta Israel**

As a rule, the Company's operating segment is characterized by being highly competitive. The competitive environment includes many entities including manufacturers, importers, international fashion chains, local fashion chains, international and local websites and private stores. In addition, in recent years, in accordance with the open skies policy and the increase in travel abroad, there has been an increase in purchases abroad at the expense of the local market.

The Company's main competitors are: Aphrodite, Intima, Hamashbir Latzarchan, H&O, Hoodies, Fox, AERIE, Golf, H&M, Shilav, Zara, Carter's, Castro and others<sup>1</sup>. In addition, there are other chains that sell products similar to products sold by the Company as part of the range of products they offer, and there are hundreds of private stores that market clothing products of the types marketed by the Company.

The market relevant to this operating segment consists of different markets and spans across different 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 stores' deployment, sales volumes and the Company's familiarity with the market, it estimates that its brands are market leaders and that it is one of the prominent competitors.

As a company operating in a competitive environment, the Company constantly strives to market to its customers products that are different from other products sold in the market in view of their quality and the combining of various technologies exclusive to the Company, up-to-date and innovative, to price its products competitively and make significant investments in marketing, advertising and sales promotions to preserve its marketing power. Other factors that affect the Company's competitive position include brand awareness, goodwill, design and innovation, logistics, store deployment and location, marketing systems including the online marketing system, and the customer club as well as the critical success factors listed in section 17.4 above.

---

<sup>1</sup> It should be noted with regard to 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.

To the best of the Company's knowledge, it is a significant market leader in its operating segment. Surveys commissioned by the Company in the field of brand awareness show that the Delta brand is the most well-known brand in the country among women and men aged 15-50 in the field of intimate apparel and leisure wear.

The market relevant to this operating segment consists of different markets and spans across 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.

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

**22.1 Delta European Brands**

Approximately 40% of the products sold in this operating segment are manufactured in factories owned by the Group, in the Czech Republic, Slovakia and France, and the remaining products are purchased from various sources in Asia, Eastern Europe and North Africa. The Company estimates that nothing is restricting it from increasing its production capabilities in its factories.

**22.2 Delta Premium Brands**

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

**22.3 Delta Israel**

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

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

**23.1 Delta European Brands**

The intangible assets of the Delta European Brands operating segment include: Goodwill generated by the Company for the acquisition of Eminence for approximately \$ 41.5 million, customer relations and franchise agreement created following the acquisition of Eminence and brand names created as part of the acquisition of Schiesser and Eminence.

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

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

The balance of the above brands in the Company's books amounts to \$ 60.5 million as of December 31<sup>st</sup> 2020.

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

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

The balance of customer relations under the operating segment in the Company's books as of December 31, 2020 amounted to approximately \$ 27.4 million.

Goodwill, brand names and customer relations balances in the operating segments are denominated in euros and are revalued to dollars in accordance with the exchange rate at the end of the report year. In 2020, the Company deducted \$ 2.1 million from the value of Eminence's goodwill following an examination it conducted in the Company's financial statements for the first quarter of the year. In 2019 and 2018, the Company did not reduce the value of the goodwill in accordance with the annual examination performed.

#### 23.2 Delta Premium Brands

The balance of the Delta Premium Brands operating segment in the Company's books amounted to \$ 44.6 million as of December 31<sup>st</sup> 2020. The brand's life span is not defined and is examined each year for impairment. The importance of "7 For All Mankind", "Splendid" and "Ella Moss" brands is material to this operating segment and constitutes a significant success factor and an entrance barrier to the activity. The Company estimates that the "7 For All Mankind" brand creates and preserves the Company's business distinction. The balance of customer relationships within the framework of the operating segment in the Company's books amounts to \$ 3.4 million as of December 31<sup>st</sup> 2020.

#### 23.3 Delta Israel

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

In addition, the Company signed license agreements to receive rights of use of the Disney, Wilson and other brands, which it uses in the intimate apparel, socks and children categories.

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

The Company estimates that the brands and license agreements are very important for the operating segment and they constitute a material success factor and entrance barriers for activity in the field. In addition, the Company estimates that the labels and license agreements provide a relative advantage that helps differentiate the Company.

In 2020 royalties expenses at Delta Israel and Delta European Brands amounted to \$ 8.5 million, compared to \$ 8.1 and \$ 7.1 million in 2019 and 2018, respectively.

#### 23.4 The increase in royalty expenses in 2020 compared to 2019 was mainly due to an increase in sales under the license agreements in Delta Israel.

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

As noted above, 40% of the Delta European Brands sales are self-manufactured. The raw materials and accessories serving production are purchased from subcontractors and suppliers (similar to the details presented in section 14 above).

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

#### 25.1 Delta European Brands

Following are details regarding the average inventory used by the operating segment and inventory days in 2020 and 2019 in the division's operating currency:

|                                         | <u>2020</u> | <u>2019</u> |
|-----------------------------------------|-------------|-------------|
| <b>Average inventory (million euro)</b> | 61.9        | 84.0        |
| <b>Inventory days (average)</b>         | 175         | 224         |

The decrease in inventory balance and inventory days in 2020 compared to 2019 is due to tight management and sale of surpluses.

#### 25.2 Delta Premium Brands

Following are details regarding the average inventory used by the operating segment and inventory days for 2020 compared with 2019 on a pro forma basis:

|                                        | <u>2020</u> | <u>2019</u> |
|----------------------------------------|-------------|-------------|
| <b>Average inventory (million USD)</b> | 60.8        | 71.6        |
| <b>Inventory days (average)</b>        | 255         | 222         |

The increase in the average inventory days in 2020 compared to 2019 was due mainly to the decrease in sales, see section 2.3.5 of the Board of Directors' report.

#### 25.3 Delta Israel

Following are details regarding the average inventory used by the operating segment and inventory days in 2020 and 2019 in the division's operating currency:

|                                        | <u>2020</u> | <u>2019</u> |
|----------------------------------------|-------------|-------------|
| <b>Average inventory (million NIS)</b> | 126.2       | 161.0       |
| <b>Inventory days (average)</b>        | 152         | 163         |

The decrease in average inventory and inventory days in 2020 compared to 2019 was due to tight management and sale of surpluses.

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

#### 26.1 Delta European Brands

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

26.1.2 As about 60% of the products sold in the operating segment are purchased from countries outside the EU, foreign trade and customs conditions have a material impact on its business activity. Imports and exports inside the European economic area are largely exempt from customs. The operating segment is also affected by all anti-dumping measures the EU may apply in accordance with its laws.

26.1.3 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.

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

#### 26.2 Delta Premium Brands

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

Europe.

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

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

#### 26.3 Delta Israel

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

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

## **Chapter D – Additional Information at the Corporate Level**

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

### **27. General Information on the Operating Segments**

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

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

#### **27.2 Changes in the Vendor Array and Raw Materials**

In recent years there were no material changes in the array of 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.

### **28. Company's Products**

#### **28.1 Women's Intimate Apparel and Activewear**

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

#### **28.2 Men's Undergarments and Activewear**

The Company manufactures basic and designer undergarments for men.

#### **28.3 Socks**

The Company manufactures a variety of socks for men, women and children in formal, sportive 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.

#### **28.4 Children**

The Company manufactures a variety of children's wear in sportive 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.

#### **28.5 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, tops, swimwear and associated products under the "Splendid" brand.

### **29. Seasonality**

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

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

|                           | <u>1<sup>st</sup> quarter</u> | <u>2<sup>nd</sup> quarter</u> | <u>3<sup>rd</sup> quarter</u> | <u>4<sup>th</sup> quarter</u> | <u>Total</u>     |
|---------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------|
| <b>2020 sales* - \$</b>   | <b>332,683</b>                | <b>270,947</b>                | <b>382,878</b>                | <b>459,679</b>                | <b>1,446,187</b> |
| <b>2020 sales* - %</b>    | <b>23.0%</b>                  | <b>18.7%</b>                  | <b>26.5%</b>                  | <b>31.8%</b>                  | <b>100%</b>      |
| <b>2019 sales** - \$</b>  | 365,375                       | 373,886                       | 446,139                       | 504,764                       | 1,690,164        |
| <b>2019 sales** - %</b>   | 21.6%                         | 22.1%                         | 26.4%                         | 29.9%                         | 100%             |
| <b>2018 sales*** - \$</b> | 334,487                       | 338,907                       | *370,763                      | 454,264                       | 1,498,421        |
| <b>2018 sales*** - %</b>  | 22.3%                         | 22.6%                         | 24.8%                         | 30.3%                         | 100%             |

\* The data includes Bare Necessities sales which were first consolidated in the fourth quarter of 2020 and amounted to \$ 23.2 million.

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

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

Sales in the second quarter of 2020 and their share of total annual sales were lower than usual due to the Corona crisis, see section 1.6 above and section 1.3 of the Board of Directors' Report, in Part B of this periodic report.

29.2 Following is a breakdown of the Group's pro-forma sales on a quarterly basis in, 2020, 2019 and 2018, which include the companies that were purchased, for the entire year (in thousands of dollars):

|                        | <u>1<sup>st</sup> quarter</u> | <u>2<sup>nd</sup> quarter</u> | <u>3<sup>rd</sup> quarter</u> | <u>4<sup>th</sup> quarter</u> | <u>Total</u>     |
|------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------|
| <b>2020 sales - \$</b> | <b>351,655</b>                | <b>297,482</b>                | <b>409,712</b>                | <b>459,679</b>                | <b>1,518,528</b> |
| <b>2020 sales - %</b>  | <b>23.1%</b>                  | <b>19.6%</b>                  | <b>27.0%</b>                  | <b>30.3%</b>                  | <b>100%</b>      |
| <b>2019 sales - \$</b> | 409,161                       | 415,174                       | 446,139                       | 504,764                       | 1,775,239        |
| <b>2019 sales - %</b>  | 23.1%                         | 23.4%                         | 25.1%                         | 28.4%                         | 100%             |
| <b>2018 sales - \$</b> | 363,511                       | 360,598                       | 370,763                       | 454,264                       | 1,549,136        |
| <b>2018 sales - %</b>  | 23.5%                         | 23.3%                         | 23.9%                         | 29.3%                         | 100%             |

### **30. Fixed Assets, Real Estate and Facilities**

#### **30.1 Real Estate and Facilities**

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

As of this periodic report, the Company owns real estate property in Israel used for manufacturing and as a fabrics 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 2021 and 2035. In general, the Company believes that according to current market conditions, it will be capable of renewing most of these rental agreements under terms not inferior to those in effect today.

The Group rents warehouses and offices in the U.S., Europe and China. The rental periods in these agreements are expected to expire between 2021 and 2034. In general, the Company believes that according to current market conditions, it will be capable of renewing these rental agreements under terms not inferior to those in effect today.

The above information pertaining to the Company's estimates regarding the extension of its rental agreements constitutes forward-looking information as defined in the Securities Law, 5728 – 1968. There is no certainty in respect of the Company's estimate, this, *inter*

*alia*, due to it being based on information existing as of this periodic report and its realization is dependent on factors external to the Company such as: market conditions, agreements with landlords and more.

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

The Company owns a logistical center in Hungary, which is intended for sale but due to the low probability of its realization was included under fixed assets and not in current assets, under assets available for sale.

### 30.2 Real Estate Assets Intended for Sale

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

30.3 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 sqm                     | Primary use                                                | Rented/ owned | Amortized Cost in the Financial Statements as of December 31 <sup>st</sup> 2020<br>In Millions of Dollars | Annual rental fees in 2020<br>In Millions of Dollars |
|---------|------------------------------------|---------------------------------|------------------------------------------------------------|---------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| Israel  | Carmiel                            | 14,014 structure<br>24,000 land | Fabric development and dyeing, offices and warehouses      | Ownership     | 5.1                                                                                                       |                                                      |
|         | Caesarea                           | About 9,500                     | Logistics center                                           | Rental        | 1.6                                                                                                       | 0.9*                                                 |
|         |                                    | About 5,000                     | Offices                                                    | Rental        | 10.4                                                                                                      | 0.9                                                  |
|         | Chain with 162 stores**            | About 26,000                    | Delta and Fix stores – national retail chain               | Rental        | 7.3                                                                                                       | 11.8*                                                |
| Egypt   | Cairo                              | 35,300                          | Knitting, cutting and sewing plant, offices and warehouses | Rental        | 2.5                                                                                                       | 0.3                                                  |
|         | El-Meina                           | 19,000 land                     | Knitting, cutting and sewing plant, offices and warehouses | Ownership     | 7.4                                                                                                       |                                                      |
|         | Khanka City - Qalyubia Governorate | 4,500                           | Dyeing plant                                               | Ownership     | 2.2                                                                                                       |                                                      |
| Turkey  | Duzce                              | 9,400                           | Sock manufacturing plant                                   | Rental        | 1.0                                                                                                       | 0.3                                                  |
| Vietnam | Phuong Thao                        | 43,700                          | Intimate apparel and socks manufacturing plant             | Ownership     | 11.7                                                                                                      |                                                      |
| USA     | New Jersey                         | 2,000                           | Offices                                                    | Rental        | 0.4                                                                                                       | 0.4                                                  |

| Country        | Town                                                                      | Area in sqm  | Primary use                                                | Rented/ owned        | Amortized Cost in the Financial Statements as of December 31 <sup>st</sup> 2020<br>In Millions of Dollars | Annual rental fees in 2020<br>In Millions of Dollars |
|----------------|---------------------------------------------------------------------------|--------------|------------------------------------------------------------|----------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------|
|                | New York                                                                  | 4,400        | Offices                                                    | Rental               | 11.4                                                                                                      | 1.9                                                  |
|                | New York                                                                  | 1,180        | Show Room 7 FAM                                            | Rental               |                                                                                                           | 0.9                                                  |
|                | Williamsport, Pennsylvania                                                | 22,480       | Warehouse, logistics center and offices                    | Ownership            | 0.6                                                                                                       |                                                      |
|                | Tifton, Georgia                                                           | 46,000       | Warehouse, logistics center and offices                    | Ownership            | 1.7                                                                                                       |                                                      |
|                | Los Angeles                                                               | 8,000        | Offices                                                    | Rental               | 2.0                                                                                                       | 1.0                                                  |
|                | Los Angeles Fontana                                                       | 29,600       | Distribution center                                        | Rental               | 2.7                                                                                                       | 1.8                                                  |
|                | Chain consisting of 75 stores (including 3 stores in Canada) (7 FAM/ SEM) | 15,000       | Retail chain                                               | Rental               | 4.0                                                                                                       | 15.0*                                                |
| Hungary        | Tizalok                                                                   | About 12,000 | Logistics center. Not used and intended for sale           | Ownership            | 0.9                                                                                                       |                                                      |
| Bulgaria       | Rousse                                                                    | 8,640        | Socks manufacturing plant                                  | Ownership and rental | 1.9                                                                                                       | 0.1                                                  |
| Czech Republic | Havirska                                                                  | 148,000      | Knitting, cutting and sewing plant, warehouses and offices | Ownership            | 7.4                                                                                                       |                                                      |
| Switzerland    | Mendrisio                                                                 | 1,000        | Offices                                                    | Rental               | 1.3                                                                                                       | 0.3                                                  |
| Slovakia       | Slovakia                                                                  | 28,700       | Sewing workshop                                            | Ownership            | 2.0                                                                                                       |                                                      |
| Germany        | Radolfzell                                                                | 64,000       | Warehouse, logistics                                       | Ownership and        | 0.4                                                                                                       | 0.8                                                  |

| Country              | Town                                                                                                                                                                       | Area in sqm  | Primary use                                                       | Rented/ owned        | Amortized Cost in the Financial Statements as of December 31 <sup>st</sup> 2020<br>In Millions of Dollars | Annual rental fees in 2020<br>In Millions of Dollars |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------------------------------------------------------------|----------------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------|
|                      |                                                                                                                                                                            |              | center and offices                                                | rental               |                                                                                                           |                                                      |
|                      |                                                                                                                                                                            | 4,540        | Investment property                                               | Ownership            | 3.4                                                                                                       |                                                      |
|                      | Chain consisting of 86 Schiesser stores                                                                                                                                    | 38,094       | Retail chain                                                      | Rental               | 1.7                                                                                                       | 8.6*                                                 |
|                      | Chain consisting of 6 "7 for All Mankind" stores                                                                                                                           | 789          | Retail chain                                                      | Rental               | -                                                                                                         | 0.7*                                                 |
| France<br>(Eminence) | Aimargues & Sauve                                                                                                                                                          | 27,975       | Sewing, cutting plant, warehouses, offices and a logistics center | Ownership            | 3.3                                                                                                       |                                                      |
|                      | Chain consisting of 8 stores                                                                                                                                               | 729          | Retail chain                                                      | Rental and ownership |                                                                                                           | 0.3*                                                 |
| England              | London                                                                                                                                                                     | About 500    | Offices                                                           | Rental               | 0.5                                                                                                       | 0.4*                                                 |
| Italy                | Biella                                                                                                                                                                     | 16,745       | Offices and warehouses                                            | Ownership            | 0.9                                                                                                       |                                                      |
| Western Europe       | The 7 For All Mankind chain consisting of 12 stores and Schiesser consisting of 20 stores in Belgium, the Netherlands, Switzerland, Denmark, France, Italy, UK and Austria | About 10,000 | Stores                                                            | Rental               | 1.1                                                                                                       | 1.9*                                                 |
| Thailand             | Ayutaya                                                                                                                                                                    | 1,700        | cutting and sewing plant                                          | Ownership            | 1.1                                                                                                       |                                                      |
|                      | Samut (Bogart)                                                                                                                                                             | 40,000       | Plant, offices and warehouses                                     | Ownership and rental | 4.3                                                                                                       |                                                      |

| Country   | Town                                   | Area in sqm | Primary use            | Rented/ owned | Amortized Cost in the Financial Statements as of December 31 <sup>st</sup> 2020<br>In Millions of Dollars | Annual rental fees in 2020<br>In Millions of Dollars |
|-----------|----------------------------------------|-------------|------------------------|---------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| China     | Panyu/Shenzhen (Bogart)                | 192,000     | Offices and plant      | Rental        | 1.0                                                                                                       | 1.6                                                  |
| Myanmar   | Yangon (Bogart)                        | 21,800      | Plant                  | Rental        | 1.6                                                                                                       | 0.4                                                  |
| Hong Kong | Kowloon (Bogart)                       | 1,800       | Offices                | Rental        | 0.3                                                                                                       | 1.0                                                  |
| Brazil    | Sao Paolo - State<br>7 For All Mankind | 689         | 3 stores and an office | Rental        | 0.1                                                                                                       | 0.3                                                  |

\* Rental fees for 2020 are net after discounts received from landlords due to the Corona crisis.

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

#### 30.4 Equipment

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

### 31. Research and Development

The Company has a number of creative teams featuring 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 mainly reside in Israel, Germany, the U.S., Switzerland, France, Hong Kong and China.

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

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

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

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

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

Development and design costs amounted to \$ 45 million and \$ 54 million in 2020 and 2019, respectively. The decrease in development and design costs in 2020 was due to the savings measures taken by the Company due to the Corona crisis.

Development and design costs for 2021 are expected to amount to about \$ 48 million, and constitute about 3% of expected sales.<sup>2</sup>

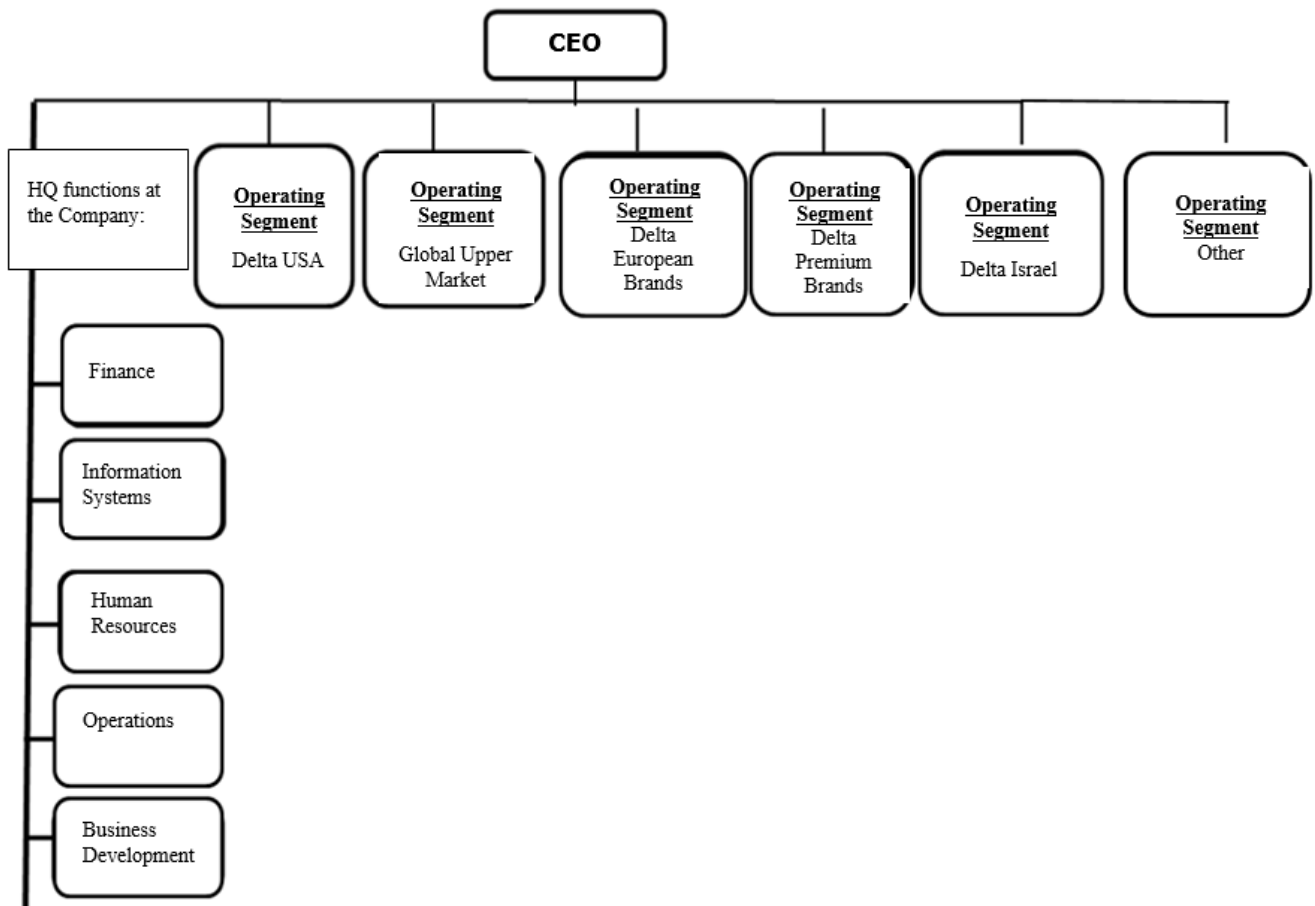
---

<sup>2</sup> The above 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.

## 32. Human Capital

### 32.1 Description of the Organizational Structure

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



32.2 Workforce:

As of December 31<sup>st</sup> 2020, the Company employs 23,100 employees.

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

|                                                           | <u>As of December 31<sup>st</sup> 2020</u> | <u>As of December 31<sup>st</sup> 2019</u> |
|-----------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| <b>Thailand (Upper Market Segment)</b>                    | 4,675                                      | 4,520                                      |
| <b>China (Upper Market Segment)</b>                       | 3,250                                      | 5,000                                      |
| <b>Myanmar (Upper Market Segment)</b>                     | 3,190                                      | 2,800                                      |
| <b>Vietnam (Upper Market Segment)</b>                     | 2,080                                      | 2,375                                      |
| <b>Egypt (Upper Market Segment)</b>                       | 3,915                                      | 3,870                                      |
| <b>U.S.A (Delta USA and Delta Premium Brands)</b>         | 1,250                                      | 1,900                                      |
| <b>Israel (Upper Market Segment, Delta Israel and HQ)</b> | 1,225                                      | 1,325                                      |
| <b>Germany (mainly Delta European Brands)</b>             | 845                                        | 930                                        |
| <b>Czech Republic (Delta European Brands)</b>             | 585                                        | 600                                        |
| <b>France (Delta European Brands)</b>                     | 450                                        | 485                                        |
| <b>Bulgaria (Upper Market Segment)</b>                    | 580                                        | 585                                        |
| <b>Turkey (Upper Market Segment)</b>                      | 500                                        | 540                                        |
| <b>Slovakia (Delta European Brands)</b>                   | 200                                        | 230                                        |
| <b>Romania (Delta European Brands)</b>                    | -                                          | 130                                        |
| <b>Others</b>                                             | <u>365</u>                                 | <u>395</u>                                 |
| <b>Total employees</b>                                    | <u>23,100</u>                              | <u>25,685</u>                              |

32.4 Of the employees as of December 31<sup>st</sup> 2020, some 15,950 employees are employed in manufacturing activity and 7,150 employees are employed in development, logistics, marketing, sales and administrative activities.

32.5 Material Changes to the Workforce

The decrease in the number of employees as of December 31<sup>st</sup> 2020 compared to December 31<sup>st</sup> 2019 is mainly due to the implementation of the restructuring plan announced by the Company in the second quarter of 2020 and is mainly reflected in the decrease in the number of employees in China (Bogart), the sale of the subsidiary in Romania as well as in the Company's offices in the United States, Israel and other subsidiaries in Europe.

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

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

32.7 Plans for Human Capital Development

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

### 32.8 Benefits and the Nature of Employment Agreements

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

The workers employed by Schiesser in Germany and by Eminence in France are employed under a collective agreement signed between the Company and the Commerce Branch Committee in that country. Employees of Schiesser subsidiaries in the Czech Republic and Slovakia are also employed under similar collective agreements.

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

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

#### 32.9.1 Agreements with Senior Executives (Excluding Internal Auditor)

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

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

#### 32.9.2 Group Executive Remuneration Plan – Payment for Performance

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

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

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

#### 32.9.3 Senior Executive Remuneration Policy

The Company's remuneration policy was ratified by the General Meeting of the Company's shareholders on January 28<sup>th</sup>, 2021. For details see the immediate report on the convening of the meeting of December 23<sup>rd</sup> 2020 and the report on the results of the meeting of January 28<sup>th</sup>, 2021 (ref. no. 2020-01-131575 and 2021-01-011611, respectively), included in this report by way of reference.

#### 32.9.4 Severance Pay Liability

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

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

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

### 33. Operating Working Capital

Following is composition of net operating working capital as of December 31<sup>st</sup> 2020 and 2019 on a consolidated basis, in millions of dollars:

|                                                                                                                                                                                                 | 2020           | 2019           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Current assets – as reported</b>                                                                                                                                                             | <b>782.2</b>   | <b>688.7</b>   |
| <b>Net of:</b>                                                                                                                                                                                  |                |                |
| <b>Cash, restricted cash, derivative financial instrument</b>                                                                                                                                   | <b>(233.7)</b> | <b>(110.2)</b> |
| <b>Current operating assets</b>                                                                                                                                                                 | <b>548.5</b>   | <b>578.5</b>   |
|                                                                                                                                                                                                 |                |                |
| <b>Current liabilities – as reported</b>                                                                                                                                                        | <b>521.6</b>   | <b>401.8</b>   |
| <b>Net of:</b>                                                                                                                                                                                  |                |                |
| <b>Short term credit from banks, current maturities of long term loans from banks, maturities of bonds, derivative financial instrument and current maturities of liabilities due to leases</b> | <b>(130.9)</b> | <b>(104.7)</b> |
| <b>Current operating liabilities</b>                                                                                                                                                            | <b>390.8</b>   | <b>297.1</b>   |
| <b>Operating working capital, net</b>                                                                                                                                                           | <b>157.7</b>   | <b>281.4</b>   |
| <b>% of net operating working capital from sales – as reported</b>                                                                                                                              | <b>10.9%</b>   | <b>16.6%</b>   |
| <b>% of net operating working capital from sales – on a pro forma basis, see section 29.2. above</b>                                                                                            | <b>10.4%</b>   | <b>15.9%</b>   |

Operating working capital is an index that is not in accordance with generally accepted accounting rules, which the Company uses to measure the level of working capital used in its current operations and to the best of its knowledge is an accepted index used by other companies in the Company's operating segments.

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

The decrease in the level of operating working capital as % of sales as of December 31, 2020 compared to December 31, 2019 was mainly due to an improvement in inventory management in the Delta European Brands and Delta Israel operating segments.

#### 33.1 Raw Material Inventory Holding Policy

The main raw materials used by the Company are cotton thread, cotton blends and synthetic thread and other textile components. Most raw materials are purchased by the Company parallel to receiving manufacturing orders from customers, and therefore the

Company does not generally hold raw material inventories for extended periods of time.

33.2 Finished Product Inventory Holding Policy

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

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

34. Financing

34.1 Financial Covenants

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

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

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

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

34.3 The Corporation's Credit Rating

For details regarding the credit rating of Company debentures, see the designated disclosure for debenture holders detailed in section 10 of the Board of Directors' Report, in Chapter B of this periodic report.

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

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

34.5 Bank Liabilities

34.5.1 From time to time the Company has bank liabilities mainly deriving from the need to finance working capital and investments in fixed assets and at times for other acquisition needs. These liabilities are guaranteed by liens on assets of the Company and some of its subsidiaries.

The Company's credit facilities permit short-term loans and the receipt of documentary credit, and issuing collateral. The Company's short-term loans reach their redemption date within a period of up to 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 a banking corporations. For more details see Note 19e to the financial statements, in Chapter C of this periodic report.

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

34.6 Liabilities to Debenture Holders

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

35. **Taxation**

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

36. **Goals and Business Strategy**

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

36.1 **General**

The Company's main strategic goal is achieving growth in its business activity. The Company is interested in growing in its activity with existing and new customers, through a broad selection of products and entry into new categories.

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

36.2 **Strategic Acquisitions**

As noted, in order to achieve growth, the Company, from time to time, considers making strategic acquisitions that will complement its product lines and improve its relations with customers and allow penetration to new markets and customers. This is what it did, 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, a leading US e-commerce company, which it acquired in October this year. These acquisitions allowed the Company access to new customers.

In examining these purchases, 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 as stated, its 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 \$ 671 million in 2020, constituting 46% of sales (and \$ 846 million or 50% of sales in 2019 prior to the Corona crisis), prior to the Corona crisis.

In addition, the Company has targeted the European market as having large expansion potential, as expressed in the purchase of Schiesser in July 2012, the purchase of the Delta Premium Brands operating segment in August 2016 and the purchase of Eminence in July 2018, so that European sales increased from \$ 162 million or 24% of total sales in 2011 to \$ 470 million or 32% of total sales in 2020.

36.3 **Examining the possibility of an IPO to the American public and listing the Company's shares in the United States.**

The Company's management periodically examines, *inter alia*, through talks with foreign investment banks, the possibility of an IPO to the American public and listing of the

Company's shares for trading, also in the US, subject, *inter alia*, to market conditions, when in the eyes of the Company's management such an issue - if it is decided to carry it out - may take place within a period of 9-24 months from the date of this report.

For the sake of caution, it is clarified that at this stage this is only a matter of principle, when as of the date of this report no formal decision has been made in the Company's institutions to execute such an issue or regarding the basic terms of such an issue, including its timing, and there is no certainty as to the execution of this intention.

For the avoidance of doubt, it will be clarified that the aforesaid does not constitute an offer to sell securities or solicitation of an offer to purchase securities of the Company.

#### 36.4 Customers

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

##### 36.4.1 Increasing Sales to Existing Customers

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

##### 36.4.2 Maintaining Relationships with Company Customers

The Company's presence in the U.S. and in Europe allows the Company's design team to advise Company management on marketing and sales in Europe and the U.S. Despite the fact that a large portion of the Company's products are sold under its customers' private brand names, the Company's development and design experts cooperate closely with the Company's customers in designing and developing products. The development and design teams prepare presentations for customers that include, among other things, an analysis of successes and failures from previous seasons, 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 comprehensive package of services it offers its customers is a significant factor in the steadfastness of relations with it.

##### 36.4.3 Developing Relations with New Customers

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

##### 36.4.4 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, to allow penetration of new categories and to preserve its competitive advantage.

##### 36.4.5 Streamlining Production Processes and the Chain of Supply

The Company is constantly working to streamline its production processes, by continuing to transfer manufacturing processes requiring significant manpower to countries offering cheap workforce, and by continued automation of manufacturing processes and presenting new technologies.

The Company invests in the development of its chain of supply while recognizing its importance in guaranteeing high standards of service to its customers.

#### 36.5 Branding

The importance of branding is constantly increasing and plays a major role in the end

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

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

**36.6 Reinforcing and Expanding Branded Retail Activity**

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

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

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

**37. Financial Data on Geographic Regions**

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

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

**38. Discussion of Risk Factors**

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

**38.1 Macro-Economic Risk Factors**

**38.1.1 Increased Costs of Purchasing Finished Products from Far East Manufacturers**

The Company purchases and manufactures a significant portion of the products it sells, from subcontractors or at its factories located in Far East countries. Increases in the costs of purchase of finished products and self-manufacturing costs, that may derive from an increase in raw material prices as well as a result of increased salaries 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.

**38.1.2 Exchange Rate Fluctuations**

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

In order to limit the Company's exposure to fluctuations in exchange rates of the various currencies, from time to time the Company considers taking action to protect its currency exposure so that purchases and other costs will be denominated in the sales currency, including by purchasing future contracts to convert foreign currency to the USD at a pre-fixed price, and it 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 3.3 of the Board of Directors' Report, Chapter B of this periodic report.

#### 38.1.3 Free Trade Agreements

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

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

#### 38.1.4 Economic Situation in Target Markets

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

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

In light of the Company's activities in Egypt and Turkey, the deterioration of the security situation between Israel and the region's states in general and with these countries in particular, as well as the deterioration of the internal political conditions in these countries, may impact the Company's activities and production capabilities in these countries. Activity in Egypt is responsible for supplying 3% of the Company's sales in 2020. A worsening of the political, economic and social instability in that country may impact the Company's activity. Products manufactured in Turkey constitute 3% of the Company's sales in 2020.

#### 39.1.6. Health-related emergencies

Health-related emergencies can affect consumers' habits and scope of consumer consumption in the operating segments as well as the Company's ability to purchase raw materials and products, their prices, and its ability to

produce and sell products regularly.

In the Board of Directors' report, the Company updated the effect of the Corona virus on its operations as of the date of this report. For further details, see section 1.3 b of the Board of Directors' report, in Chapter B of this periodic report.

## 38.2 Industry Risk Factors

### 38.2.1 Competition

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

### 38.2.2 Seasonality

As a result of seasonal fluctuations, the results of the Company's activity on a quarterly basis might not reflect the Company's future performance. In light of seasonal consumer purchases, the Company's revenues underwent quarterly fluctuations in its operating results, in such a manner that the Company's revenues in the last two quarters exceeded the Company's revenues in the first two quarters thanks to holiday and back-to-school purchases. 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 estimate the Company's future performance.

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

### 38.2.4 Online Trade

The garment and fashion industry are subject to rapid changes and market trends according to which an increase has occurred in the market share of products, particularly labelled products, sold via websites. The Company believes that its customers sell products purchased wholesale from Delta online as well. 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 a number of websites of its own on which some of its branded products can be purchased in Israel, Europe and the United States, in the Delta Israel, Delta European Brands and Delta Premium Brands operating segments, mainly under the Delta, Fix, Schiesser, 7 For All Mankind, Splendid, Eminence, Athena and Liabel brands.

Furthermore, following the acquisition of Bare Necessities in October this year, the Company sells over 160 leading brands and 6,400 styles in the intimate apparel, swimwear, bodysuits, sleepwear and socks categories.

The percentage of online sales out of the total sales of the operating segments in question in particular and out of total Delta sales in general is relatively low, but on the rise, which was accelerated in the report year due to the Corona

crisis, see section 1.6 above and section 1.3 of the Board of Directors' Report, in Part B of this periodic report. If any of the Company's customers fails to open its own online sales channels and as a result, their sales levels are negatively impacted, the scope of sales of Company products intended for that customer may be indirectly impacted.

#### 38.2.5 Changes in Raw Material Costs and Shipping Prices

The Company has no control of changes in the prices of raw materials it uses or changes in shipping prices. Increases in costs of raw materials or shipping may harm the Company's profitability. The majority of raw materials used by the Company for the manufacture of its products 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 shipping prices, are unstable, in light of variable supply and demand conditions and in light of other market factors over which the Company has no control. Recently and in the wake of the Corona crisis, there has been a significant rise in maritime transport costs in light of the shortage of cargo ships carrying goods from the Far East. The Company might not be able to pass on the increase in costs in question to its customers. This situation may have a negative impact on the Company and on its economic status.

#### 38.2.6 Regulatory Developments

As the Company is active in the international market, it is exposed to changes in foreign laws, export restrictions, protective tariffs, trade barriers, 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 worthwhile timetables and may have a negative impact on its operating results.

### 38.3 Risk Factors Unique to the Company

#### 38.3.1 Dependence on Major Customers

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

#### 38.3.2 Completion of Integration and Operation Proceedings with Subsidiaries

In recent years, the Group has purchased a number of companies and/or activities, the integration with which has not been completed and which require administrative resources. Thus, for example, in July 2019 the Company purchased the Bogart Group. In addition, integration processes and administrative resources are also invested in the activity of the factory established in Vietnam and in new factories established in Egypt. The possibility exists that the Company will not successfully complete said integration and operation proceedings. The Company is continuing with the integration process of these purchases, with the aim of merging and combining the facilities, IT systems and personnel of the subsidiaries purchased in the Company and improve the operation level of the factory in Vietnam. The Company diverts a great deal of the time inputs of its senior management from their day-to-day activities in the United States and Europe for the purposes of this integration and as a result, a significant work load is created for the Company's management team. Completion of the integration process may be

negatively influenced by economic conditions, by failure to integrate economic and operational systems, by reactions from competitors or customers or by regulatory developments, if any. The Company's inability to successfully complete integration may have a negative impact on the Company.

### 38.3.3 Direct Engagement by Retailers with Far East Manufacturers

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

### 38.3.4 Reduction in the Market Share of Company Customers

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

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

|                                                                               | <u>Degree of Impact of Risk Factor on the Company</u> |                      |                     |
|-------------------------------------------------------------------------------|-------------------------------------------------------|----------------------|---------------------|
|                                                                               | <u>Major impact</u>                                   | <u>Medium impact</u> | <u>Minor impact</u> |
| <b><u>Macro-economic risks</u></b>                                            |                                                       |                      |                     |
| Increased Costs of Purchasing Finished Products from East Asian Manufacturers | X                                                     |                      |                     |
| Exchange Rate Fluctuations                                                    |                                                       | X                    |                     |
| Free Trade Agreements                                                         | X                                                     |                      |                     |
| Economic Situation in Target Markets                                          | X                                                     |                      |                     |
| Security and Political Situation                                              | X                                                     |                      |                     |
| Health-related emergencies                                                    |                                                       | X                    |                     |
| <b><u>Industry Risk Factors</u></b>                                           |                                                       |                      |                     |
| Competition                                                                   | X                                                     |                      |                     |
| Seasonal Factors                                                              |                                                       |                      | X                   |
| Changes in Fashion Preferences                                                |                                                       | X                    |                     |
| Online Trade                                                                  |                                                       | X                    |                     |
| Changes in Raw Material Costs and Shipping Prices                             | X                                                     |                      |                     |
| Regulatory Developments                                                       |                                                       | X                    |                     |
| <b><u>Risk Factors Unique to the Company</u></b>                              |                                                       |                      |                     |
| 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 2020**

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

## **For the period ending on December 31<sup>st</sup> 2020**

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 period ending December 31<sup>st</sup> 2020 (hereinafter: **“the Reporting Period”**), in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. The Board of Directors' Report is an integral part of the Periodic Report, on all of its parts, and the Periodic Report in its entirety must be read as a whole.

### **1. Summary Description of the Corporation and its Business Environment**

#### **1.1 General**

The Group is engaged in the development, design, production, marketing and sales of Intimate apparel, socks, 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: 7 For All Mankind, Splendid, Schiesser, Eminence, Athena, Liabel, P.J. Salvage, KN Karen Neuburger, Delta and Fix. 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, Carrefour.
- b. Sale of brands to which the Company holds a license, such as: Converse, Spalding, Wilson, Tommy Hilfiger, Kenneth Cole, Columbia, Original Penguin, Marc O'Polo, Calvin Klein, Disney and more. The products sold within the framework of licenses agreements consist primarily of intimate apparel, socks, children's wear, leisurewear and activewear. The Company pays the licensor royalties in return for use of the brand name.

##### **1.1.2 Sale of Products for Customer Private Labels**

Sales of products to the customer's private label are made to leading customers such as: Wal-Mart, Target, Victoria's Secret, Athleta, Skims, Marks & Spencer, Primark, Amazon, Macy's, Kohl's, Hema, Nike, Calvin Klein, Maidenform, Tommy Hilfiger, Spanx, Lululemon, Sportmaster, Under Armour, Australia & Europe Hanes, Jockey, Techstyle Fashion Group, MGF, Adore Me, Inditex Clothing Group and more. The products sold to the customer's private label consist mainly of undergarments, socks and activewear.

#### **1.2 Marketing, Development and Manufacturing Activity**

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

### 1.3 **Material Events in the Corporation's Activities During and After the Report Period**<sup>1</sup>

#### 1.3.1 **Effect of the Corona virus spread (Covid-19)**

In December 2019, or thereabouts, a pandemic caused by the Covid-19 virus (hereinafter "**the Virus**" or "**Corona Virus**") broke out in the city of Wuhan in China. The Virus began to spread around the world, especially beginning in February 2020, when in March 2020 the World Health Organization announced a "pandemic" (global epidemic) following the spread of the Virus.

This pandemic, which began in China, affected the Company's production activities in the Group's factories - some fully owned and some in collaboration with others, as well as the activities of some of the Company's suppliers and subcontractors who returned to work after an extended holiday.

As of the date of this report, the Company's factories are operating as usual, in such a way that production activity is almost unaffected by the crisis.

For previous reports of the Company regarding the Corona Virus and its effects, see reports from February 3<sup>rd</sup>, 2020, February 11<sup>th</sup>, 2020, February 26<sup>th</sup>, 2020 (as part of its annual financial statements), March 18<sup>th</sup>, 2020, April 2<sup>nd</sup>, 2020, June 25<sup>th</sup> ], 2020, August 19<sup>th</sup>, 2020 and November 11<sup>th</sup>, 2020 (as part of its quarterly financial statements) (reference no. 2020-01-012606, 2020-01-015180, 2020-01-019290, 2020-01-026271, 2020-01-030814, 2020-01-058327 and 2020-01-080932, 2020- 01-112603 respectively).

As of March 2020, the impact of the pandemic has expanded to most countries around the world. In order to prevent the spread of the Virus, various countries around the world have taken various measures, including the closure of shopping centers (including street stores, stores located in malls, department stores), manufacturing plants, workplaces, and global traffic restrictions that have significantly affected the selling markets in which the Company operates have been imposed - in the United States, Europe and Israel.

Impact on sales in the various channels: company stores, wholesale customers, online.

In accordance with the aforementioned measures, starting in mid-March 2020, "Delta" and "Fix" stores in the Delta Israel operating segment, Schiesser and Eminence stores in the Delta European Brands operating segment and 7 for all mankind and Splendid stores in the Delta Premium Brands operating segments were temporarily closed. As of the end of April, the stores have opened gradually and in varying degrees according to the various guidelines between the countries.

As of September 18<sup>th</sup>, 2020, and in accordance with the instructions of the authorities, the chain stores in Israel were closed due to the second closure and reopened during December in a gradual manner. On December 24<sup>th</sup>, 2020, another closure was decided upon, a third one, and as a result, the Company's stores in Israel were closed until February 21<sup>st</sup>, 2021. In various European countries, there was also an increase in morbidity and restrictions were imposed that partially or completely closed the chain stores.

As of the date of the report, the Company is unable to assess the effect of the additional closures in the various countries as their duration, manner of exit therefrom and the effects on the structure of expenses during the closure period are unknown.

In addition, some of the Company's customers have announced the postponement of orders and in some cases even their cancellation in light of the decline they are experiencing in short-term demand. In addition, some of the Company's customers unilaterally announced the extension of credit terms for a period of approximately 60 days beyond the normal credit terms.

As of the date of this report, most of the customers who announced the extension of the credit terms as stated above, reinstated the credit terms to the level before the crisis.

---

<sup>1</sup> It should be noted that this section only lists events that occurred after the date of publication of the periodic report for 2019, on February 25<sup>th</sup>, 2020.

The Company's e-commerce sites operate and have operated during the entire pandemic period in full and in accordance with the instructions of the authorities in the various countries around the world, regarding the manner of delivering orders to customers. The significant increase recorded in this activity partially compensated for the harm to the Company's sales in the other sales channels.

#### Impact on Company stores

In Delta Israel, sales in stores decreased in the months in which closures were imposed and increased upon their canceling due to high demand and also due to a decrease in passenger travel abroad.

In the Delta Premium Brands operating segment, there was a decrease in sales in stores, mainly during periods when they were closed, but also thereafter due to a decrease in tourist traffic and a general slowdown in consumption.

In the Delta European Brands operating segment, there was a decrease in sales during periods when closures were imposed, in the various countries.

#### Impact on the Company's e-commerce sites

Sales on the Company's e-commerce sites in all of its operating segments - Delta Israel, Delta Premium Brands and Delta European Brands - increased throughout the year and especially in the months when restrictions and/or closures were imposed on the physical store chains.

#### Measures to reduce expenses

Due to the effects of the Virus, the Company took action and took significant steps to reduce its expenses in the various operating segments. In its retail operating segments, both in Israel and abroad, the Company has worked mainly to reduce wage expenses by sending employees on unpaid leave as well as to reduce rent costs in coordination with the landlords.

In addition, the Company took measures to reduce its expenses in all operating segments, including reducing the activity of the Company's headquarters in Israel and its subsidiaries, sending employees on unpaid leave, graded lowering of salaries - on the base salary without reducing social security provisions - by 10% to 20% for managers and employees and by 50% to the Company's CEO, for the period between April and December 2020. The Company informed its employees that it would re-examine from time to time the need for a salary reduction and its ability to cancel the salary reduction, depending on its situation and the state of the economy. On September 30<sup>th</sup>, 2020, the Company announced that the Company's Compensation Committee and the Board of Directors approved the cancellation of the salary reduction for officers as of October 1<sup>st</sup>, 2020, i.e., starting from October 2020, their salary will be the same as before the reduction. The cancellation of this reduction was made following the cancellation of the salary reduction made to the employees and managers of the Company starting from the October salary by the Company's management. See for details the immediate report from September 30<sup>th</sup>, 2020 reference no. 2020-01-096928.

In addition, the Company's directors initiated the reduction of the directors' salary paid to them by a rate of 25%, for the months of April to July 2020 (see in this regard the Company's immediate report dated June 25<sup>th</sup>, 2020, reference no.: 2020-01-058342). At the Board of Directors meeting on August 18<sup>th</sup>, 2020, the directors announced, of their own initiative, the extension of the period for the reduction of their salaries, until the end of December 2020. The Company also contacted its service providers to extend payment terms and receive a 10% - 20% discount on payments due them from April to the end of the first quarter of 2021.

#### Impact on production activity

In the Global Upper Market Segment, the Company worked to temporarily or partially shut down its production plants, depending on the restrictions due to the effect of the Virus and in accordance with the production volumes adapted to the updated demands from customers. Thus, for example, the Bogart plant in Myanmar was shut down from the last week of September 2020 for a period of about 3 weeks and returned to full operation on October 12<sup>th</sup>, 2020.

The restructuring plan approved by the Company's Board of Directors (in this matter, see

below) includes steps to close a factory in China and reduce production in factories in Egypt and Eastern Europe in order to lower production costs and improve the level of competitiveness.

From the beginning of the spread of the Corona Virus, the Company has worked to protect the health and safety of employees on the one hand, while maintaining the continuity of the Company's activities to the extent possible. The Company operates in accordance with the guidelines in order to maintain a protected work environment for employees in its various factories and sites.

It should be noted that a number of production lines in some of the Company's factories in France, Eastern Europe and China have been converted to the production of masks for the security forces as well as the private market, in order to assist in supplying demand in those countries.

#### Liquidity and sources of funding

As of December 31<sup>st</sup>, 2020, the Company has cash and cash equivalents in the amount of approximately \$ 231.7 million, approved and guaranteed credit facilities that have not yet been utilized, amounting to \$ 180 million and unsecured credit facilities amounting to \$ 68 million, of which \$ 11 million has been utilized.

Cash flow from operating activities neutralizing the effect of IFRS16 in 2020 amounted to approximately \$ 161.6 million, see section 3.1 below.

All of these indicate the high level of liquidity and the financial strength of the Company and its ability to meet the expected challenges.

In addition, during the second and third quarters of the year, the Group received loans from banking corporations in Israel, Germany, France and Switzerland, as follows:

Israel - Loan in the amount of NIS 100 million for a period of 5 years, without payment in respect of principal during the first year and interest of Prime + 1.5%. Part of this loan, in the amount of NIS 56 million, was assigned to the subsidiary, Delta Israel Brands Ltd.

Germany – Bullet loan of 9.5 million euros for a period of two years, at an interest rate of 2%.

Switzerland – Bullet loan of 0.5 million Swiss francs for a period of 5 years, without interest.

France – Bullet loan of 5.0 million euros for one year, at an interest rate of 0.5%.

#### Impact on the Company's reports for the fourth quarter and for 2020

##### a. The effect of the Corona Virus on sales and operating profitability

The Company estimates that the effects of the spread of the Corona Virus deducted approximately \$ 80 and \$ 340 million from sales in the fourth quarter and 2020, respectively, which constitute approximately 15% and approximately 19% of total sales expected in the reporting periods, and that the said decrease in sales is reflected in all of the Company's operating segments and sales markets.

The Company estimates that the decrease in operating profit in the fourth quarter and for the entire year, due to the impact of the Corona Virus, amounted to approximately \$ 15 million and approximately \$ 75 million, respectively.

##### b. Reduction in Accounts Receivables balances and other receivables

In recent months, as a result of the Corona crisis, the financial situation of a number of the Company's customers in the US and Europe has deteriorated and some have even gone bankrupt. As a result of the aforementioned development, the Company examined the outstanding debt of all customers and made a provision for impairment of \$ 0.9 and \$ 9.7 million, respectively, in the fourth quarter and for the entire year, attributed to the effects of the Corona pandemic, which is included in customer credit losses item.

In addition, in the first half of the year, the Company updated the receivables balances in respect of a franchise agreement in the amount of approximately \$ 3.0 million, which is included in the cost of sales item and other expenses (income) item, net in the

condensed statement of comprehensive income.

c. Examination of impairment of non-financial assets

As a result of the Corona crisis and its effect on the Company's results, the Company examined the value of the intangible assets, fixed assets and the value of the assets in respect of rights of use included in the Company's balance sheet and attributed to the various cash-generating units. For the purpose of the aforesaid examination and with regard to the valuation of some of the main intangible assets the Company was assisted by an external valuer.

As a result of the aforesaid examination, the Company reduced in the fourth quarter and in 2020 the value of some of the intangible assets, assets in respect of rights of use and fixed assets in the amount of \$ 4.0 and \$ 16.8 million, respectively, see section 2.3.3.1 below.

d. Restructuring plan

The Company's strategy strives for continuous improvement in flexibility and operational efficiency, in its marketing activities as well as in its development activities, while improving the cost structure, in order to position the Company in a leading position vis-à-vis its customers. Accordingly, and in order to enable improvement in profitability, the Company decided in the second quarter of 2020 to implement a comprehensive restructuring plan.

The plan includes reducing and/or closing some of its production activities in China, Turkey, Egypt and Eastern Europe, as well as reducing overheads at the Company's headquarters in the United States, Europe and Israel, while implementing changes in lateral processes aimed at adapting work processes to industry trends; Including, reinforcing the on-line sales array and assimilation of technological changes in the sales and development processes.

The cost of the plan amounts to approximately \$ 39.2 million and was included as an expense in the second quarter of the year. The total said cost includes approximately \$ 35.6 million in cash in respect of severance pay and other costs due to termination of employment of employees and approximately \$ 3.6 million that are not in cash and are attributed to a reduction in the value of fixed assets in the Company's factories.

During the second half of the year, the Company continued to implement the plan, mainly in factories in China, Egypt and Bulgaria, as well as reducing overheads in the US and Israel, so that as of the date of this report, the Company made approximately \$ 14.5 million for termination of employment (including \$ 10.2 million in cash) of the total plan and is expected to complete it in the course of 2021.

1.3.2 Midroog Ltd. Rating Report

On April 2020 the Company announced that Midroog Ltd. had reapproved the A1 rating for the debentures (Series A, B, E and F) issued by the Company and changed the outlook rating from stable to negative. For further information, see the immediate report of April 7<sup>th</sup> 2020 (ref. no. 2020-01-033082).

1.3.3 Cancellation of the Company's ADR program and deletion of the registration of the ADS certificates

On April 30<sup>th</sup>, 2020, the Company reported that it had notified the Bank of New York Mellon (the Custodian) of its request to cancel the Company's ADR program and delete the Company's ADS registration from the OTC Pink Sheets. The program ended on July 31<sup>st</sup>, 2020. For further details, see the immediate reports of April 30<sup>th</sup>, 2020 and August 2<sup>nd</sup>, 2020 (2020-01-042591 and 2020-01-081741).

1.3.4 Splitting the Delta Israel operating segment and the issuance of a subsidiary

On September 30<sup>th</sup>, 2020, the Company announced that Delta Galil Israel Brands Ltd., a wholly owned subsidiary of the Company (hereinafter the "Subsidiary"), submitted an application to the Securities Authority for permission to publish a prospectus together

with a draft prospectus for supplementation and a shelf prospectus. The Company further announced that on the same day, before submitting the permit application and the draft prospectus, it had entered into a conditional split agreement (the "Split Agreement") with the Subsidiary, according to which - shortly before the completion of the public offering according to the draft prospectus, the Company will transfer to the Subsidiary the Company's "Delta Israel" operating segment (excluding non-material activities), in exchange for shares issued to it by the Subsidiary.

On February 25<sup>th</sup>, 2021, the Company announced that the Subsidiary has published a prospectus for supplementation of a public offering that also constitutes a shelf prospectus.

On March 4<sup>th</sup>, 2021, the Subsidiary issued a prospectus for supplementation. On the same day, the Subsidiary reported the results of the offering. In accordance with the results of the offering, the Subsidiary issued 20% of its shares for a (gross) consideration of approximately NIS 262.5 million.

On March 5<sup>th</sup>, 2021, the Split Agreement and transfer of the aforesaid operating segment was completed, retroactively as of September 30<sup>th</sup>, 2020. The Company and the Subsidiary intend to take steps for the splitting of the activity to be done tax-free, in accordance with the relevant legal provisions.

On March 9<sup>th</sup>, 2021, the shares of the Subsidiary began trading on the Tel Aviv Stock Exchange.

#### 1.3.5 The acquisition of Bare Necessities

On October 1<sup>st</sup>, 2020, the Company acquired Bare Necessities, a leading U.S. e-commerce company that markets branded intimate apparel and offers over 160 leading brands and 6,400 styles in the intimate apparel and swimwear categories for women, shapewear, sleepwear and socks. The acquisition cost totaled \$ 12 million.

Bare Necessities' results were consolidated in the financial statements as of October 1<sup>st</sup>, 2020 and included in the segmentation under "Others".

The Company included in its reports for 2020 expenses in connection with the acquisition in the amount of \$ 0.3 million, which are included in the financial statements within the framework of the General and Administrative Expenses item, see section 2.3.3.1 below.

#### 1.3.6 Private offering of options and restricted stock units to employees; Publication of an outline for the offering of securities to officers and other employees

- a. On February 25<sup>th</sup>, 2020, the Compensation Committee and the Board of Directors approved the allocation of 60,000 options to officers, exercisable to up to 60,000 ordinary shares of the Company, from a pool of options allotted held by a trustee and used for allotments to employees, in accordance with the Company's guidelines. The vesting of options is subject to the fulfillment of set targets.
- b. On October 6<sup>th</sup>, 2020, the Compensation Committee, and in relation to officers and service providers, the Board of Directors as well, approved an allocation to 33 different offerees, including 6 officers, 26 employees and service providers, of 604,740 options exercisable up to 604,740 ordinary shares of the Company, from a pool of options allotted held by a trustee and used for allotments to employees in accordance with Company guidelines. The maturation of a significant portion of the options is subject to the fulfillment of targets set for most of the offerees.
- c. On November 10<sup>th</sup>, 2020, the Company's Board of Directors approved an outline for an offering of securities to officers and other employees (the "Outline"), for an offering of up to 1,200,000 options and 300,000 restricted share units. In the Outline, it was clarified that the Company will also be entitled to exercise 92,417 options and 533,161 restricted share units, which are held by the trustee as part

of the allotments made to the trustee in the past. On December 22<sup>nd</sup>, 2020, the Company published clarifications for the Outline at the request of the Tel Aviv Stock Exchange Ltd.

- d. As part of the outline, and out of the options and restricted stock units referred to in subsection b above, the trustee for 108 offerees (none of whom is an officer) was allotted 473,700 options and 30,095 restricted stock units.
- e. On January 11<sup>th</sup>, 2021, the Compensation Committee approved an allotment for 31 of the Company's employees, of 164,500 options and 7,676 restricted share units, exercisable up to 172,176 ordinary shares of the Company, from a pool of options and restricted stock units held by a trustee and used for allotments to employees. The vesting of a significant portion of the options and stock units is subject to the fulfillment of targets set for most of the offerees.

For further details, see the immediate reports from October 7<sup>th</sup>, 2020, November 11<sup>th</sup>, 2020, December 22<sup>nd</sup>, 2020 and January 12<sup>th</sup>, 2021 (reference no. 2020-01-100330, 2020-01-112672, 2020-01-131227, and 2021-01-005019, respectively). These reports are included in this report by way of reference.

#### 1.3.7 Results of Shareholders' Meetings

On January 28<sup>th</sup>, 2021, an annual general meeting was held of the Company's shareholders, when on its agenda: (a) The reappointment of directors serving in the Company (who are not external directors), Messrs. Noam Lautman, Isaac Dabah, Itzhak Weinstock, Tzipporah Carmon, Israel Baum, Rinat Gazit and Richard Hunter, for an additional period up to the end of the first annual general meeting following the appointment; (b) The reappointment of the of PWC Israel accounting firm (Kesselman and Kesselman) as the Company's auditing accountant up to the date of the next annual general meeting of the Company; (c) A discussion of the Company's Financial Statements and Board of Directors' Report for the year ending December 31<sup>st</sup> 2019; (d) Approval of the terms of office and employment of the Company's CEO, director and controlling shareholder of the Company, and amendment of section 5 of the Remuneration Policy; (e) Amendment of the Remuneration Policy; (f) Granting of an exemption letter to all officers in the Company, except its controlling shareholder; (g) Granting of an exemption letter to Mr. Isaac Dabah, the Company's CEO, director and controlling shareholder. All resolutions put to the vote were approved. For further information, see the immediate report on the convening of the meeting of December 23<sup>rd</sup>, 2020 (ref. no. 2021-01-131575) and the immediate report on the results of the meeting of January 23<sup>rd</sup>, 2021 (ref. no. 2021-01-011611), included herein by way of reference.

#### 1.3.8 Settlement in respect of income tax assessment for 2014

Following the immediate report of the Company dated January 10<sup>th</sup>, 2020 (reference 2020-01-004072, included herein by way of reference), in which the Company reported that its auditors had received an assessment to the best of judgment for 2014, according to which the Company was required to pay an additional \$ 10 million (as of the same date), before CPI (consumer price index) linkage and interest differentials, the Company reported on February 7<sup>th</sup>, 2021 that the said tax assessment was settled with the tax authorities by way of settlement, and that the total additional tax liability in connection with 2014, which will be paid partly in cash and partly by way of reduction of tax credit, will amount to approximately US \$ 1.5 million, not including CPI linkage and interest (total of approximately US \$ 1.8 million, including CPI linkage and interest differentials). For further details, see the immediate report dated February 7<sup>th</sup>, 2021 (reference 2021-01-015126), included herein by way of reference.

#### 1.3.9 Tax assessment for the years 2015 - 2017

On January 3<sup>rd</sup>, 2021, the Company reported that its auditors had received a tax assessment to the best of judgment for the years 2015 - 2017, according to which the maximum additional tax amount that the Company will be required to pay for the above years, in the event all its arguments are dismissed, stands as of the reporting date on the

amount of approximately \$ 23 million, before CPI linkage and interest differentials. The Company disagrees with the Tax Authority's position and believes, among other things, based on the position of its professional advisers, that it has good and well-founded arguments against the Tax Authority's position. -01-000201) presented in generalization by way of reference. For further details, see the immediate report dated January 3<sup>rd</sup>, 2021 (reference no. 2021-01-000201), included herein by way of reference.

## **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 statement of financial position items, in millions of dollars (some of the data in the table were rounded up):

| Item                                                 | December 31 <sup>st</sup><br>2020 | December 31 <sup>st</sup><br>2019 | Explanation of the key changes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Cash and Cash Equivalents and Restricted Cash</b> | <b>231.7</b>                      | <b>109.2</b>                      | The increase in cash balance as of December 31 <sup>st</sup> 2020 mainly derives from the positive cash flow from operating activities net of the effects of IFRS16 in 2020 in the amount of approximately \$ 161.6 million and the receipt of long-term loans in the amount of \$ 34.7 million, which were partially offset by the repayment of debentures in the amount of approximately \$ 37.6 million, investment in fixed assets and other assets in the amount of approximately \$ 25.2 million and the acquisition of Bare Necessities for \$ 12 million. |
| <b>Current Assets</b>                                | <b>782.2</b>                      | <b>688.7</b>                      | The increase in the balance of the current assets as of December 31 <sup>st</sup> 2020 compared to December 31 <sup>st</sup> 2019 mainly derives from an increase in the cash item as stated above, which was partially offset by a decrease in receivables due to a decrease in sales in light of the Corona crisis and a decrease in inventory due to tight management and the sale of surpluses.                                                                                                                                                               |
| <b>Non-Current Assets</b>                            | <b>910.1</b>                      | <b>899.1</b>                      | The increase in the balance of the non-current assets as of December 31 <sup>st</sup> 2020 compared to December 31 <sup>st</sup> 2019 mainly derives from an increase in the balance of value of derivative financial instrument.                                                                                                                                                                                                                                                                                                                                 |
| <b>Balance Sheet Total</b>                           | <b>1,692.3</b>                    | <b>1,587.8</b>                    | The increase in the total balance sheet as of December 31 <sup>st</sup> 2020 compared to December 31 <sup>st</sup> 2019 mainly derives from the increase in the balance of current assets, as detailed above.                                                                                                                                                                                                                                                                                                                                                     |
| <b>Current Liabilities</b>                           | <b>521.6</b>                      | <b>401.8</b>                      | The increase in the balance of the current liabilities as of December 31 <sup>st</sup> 2020 compared to December 31 <sup>st</sup> 2019 mainly derives from an increase in trade and other payables due to the extension of credit terms, see section 1.3.1 above and due to provisions remaining for the restructuring plan for future implementation and the consolidation of Bare Necessities.                                                                                                                                                                  |
| <b>Non-Current Liabilities</b>                       | <b>694.3</b>                      | <b>679.0</b>                      | The increase in the balance of the non-current liabilities as of December 31 <sup>st</sup> 2020 compared to December 31 <sup>st</sup> 2019 mainly derives from the receipt of long-term loans from banks, which were partially offset by the repayment of debentures.                                                                                                                                                                                                                                                                                             |
| <b>Equity</b>                                        | <b>476.4</b>                      | <b>506.9</b>                      | The decrease in the equity balance as of December 31 <sup>st</sup> 2020 compared to December 31 <sup>st</sup> 2019 mainly derives from the comprehensive loss in 2020 in the amount of \$ 25.6 million, and due to dividends distributed to shareholders in the amount of \$ 6.5 million.                                                                                                                                                                                                                                                                         |
| <b>Total equity and liabilities</b>                  | <b>1,692.3</b>                    | <b>1,587.8</b>                    | The increase in the equity and liabilities as of December 31 <sup>st</sup> 2020 compared to December 31 <sup>st</sup> 2019 mainly derives from the increase in the liabilities items primarily due to the receipt of long-term loans, which was partially offset by a decrease in the equity item, as detailed above.                                                                                                                                                                                                                                             |

## 2.2 Operating Results

Following is a summary of the Group's profit and loss statements for 2020 and 2019 on a quarterly basis for 2020 and for the fourth quarter of 2019, where certain sections therein are sorted differently than in the financial statements, in order to allow analysis and comparison with corresponding reporting periods. An adaptation of the net profit before non-recurring items, is presented in 2.2.2 below. The data is presented in \$ thousands (excluding profit per share data):

|                                                               | Year             |           |                | Quarterly Breakdown |          |          |                |
|---------------------------------------------------------------|------------------|-----------|----------------|---------------------|----------|----------|----------------|
|                                                               | 2020             | 2019      | Q4.2020        | Q3.2020             | Q2.2020  | Q1.2020  | Q4.2019        |
|                                                               | Audited          |           |                | Unaudited           |          |          |                |
| <b>Sales</b>                                                  | <b>1,446,187</b> | 1,690,164 | <b>459,679</b> | 382,878             | 270,947  | 332,683  | <b>504,764</b> |
| Cost of sales                                                 | <b>922,502</b>   | 1,086,005 | <b>275,252</b> | 236,839             | 191,461  | 218,950  | <b>317,468</b> |
| Gross profit                                                  | <b>523,685</b>   | 604,159   | <b>184,427</b> | 146,039             | 79,486   | 113,733  | <b>187,296</b> |
| % of sales                                                    | <b>36.2%</b>     | 35.7%     | <b>40.1%</b>   | 38.1%               | 29.3%    | 34.2%    | <b>37.1%</b>   |
| Selling and marketing expenses                                | <b>385,507</b>   | 429,705   | <b>113,796</b> | 93,551              | 74,223   | 103,937  | <b>117,196</b> |
| % of sales                                                    | <b>26.7%</b>     | 25.4%     | <b>24.8%</b>   | 24.4%               | 27.4%    | 31.2%    | <b>23.2%</b>   |
| Administrative and general expenses                           | <b>77,011</b>    | 73,177    | <b>21,036</b>  | 17,318              | 17,385   | 21,272   | <b>21,568</b>  |
| % of sales                                                    | <b>5.3%</b>      | 4.4%      | <b>4.6%</b>    | 4.5%                | 6.4%     | 6.4%     | <b>4.3%</b>    |
| Loss of credit from customers                                 | <b>9,671</b>     | (865)     | <b>927</b>     | 799                 | 3,876    | 4,069    | <b>(1,405)</b> |
| Other expenses (income), net and equity profits in Subsidiary | <b>2,237</b>     | (4,689)   | <b>935</b>     | 767                 | 230      | 305      | <b>(1,288)</b> |
| <b>Operating Profit Before Non-Recurring Items</b>            | <b>49,259</b>    | 105,966   | <b>47,734</b>  | 33,604              | (16,228) | (15,850) | <b>51,225</b>  |
| % of sales                                                    | <b>3.4%</b>      | 6.3%      | <b>10.4%</b>   | 8.8%                | (6%)     | (5%)     | <b>10.1%</b>   |
| Non-recurring items, net                                      | <b>56,400</b>    | 2,286     | <b>4,340</b>   | 0                   | 39,154   | 12,906   | <b>(987)</b>   |
| <b>Operating profit</b>                                       | <b>(7,141)</b>   | 103,680   | <b>43,394</b>  | 33,604              | (55,382) | (28,756) | <b>52,212</b>  |
| Financing expenses, net                                       | <b>37,475</b>    | 36,065    | <b>9,762</b>   | 8,663               | 8,647    | 10,403   | <b>10,630</b>  |
| Profit before tax on income                                   | <b>(44,616)</b>  | 67,615    | <b>33,632</b>  | 24,941              | (64,029) | (39,159) | <b>41,582</b>  |
| Tax on income                                                 | <b>(4,095)</b>   | 9,915     | <b>9,892</b>   | 5,399               | (10,735) | (8,650)  | <b>6,013</b>   |

|                                                                                                                      | Year            |        |               | Quarterly Breakdown |          |          |               |
|----------------------------------------------------------------------------------------------------------------------|-----------------|--------|---------------|---------------------|----------|----------|---------------|
|                                                                                                                      | 2020            | 2019   | Q4.2020       | Q3.2020             | Q2.2020  | Q1.2020  | Q4.2019       |
|                                                                                                                      | Audited         |        |               | Unaudited           |          |          |               |
| <b>Net profit for the period</b>                                                                                     | <b>(40,521)</b> | 57,700 | <b>23,740</b> | 19,542              | (53,294) | (30,509) | <b>35,569</b> |
| <b>Net profit before inclusion of non-recurring items, net of tax for the period, see section 2.2.2</b>              | <b>3,811</b>    | 60,213 | <b>27,270</b> | 19,542              | (22,969) | (19,990) | <b>34,809</b> |
| Attribution of net income for the period:                                                                            |                 |        |               |                     |          |          |               |
| To the Company shareholders                                                                                          | <b>(39,850)</b> | 57,898 | <b>24,068</b> | 19,637              | (53,152) | (30,403) | <b>35,721</b> |
| To holders of non-controlling interests                                                                              | <b>(671)</b>    | (198)  | <b>(328)</b>  | (95)                | (142)    | (106)    | <b>(152)</b>  |
|                                                                                                                      | <b>(40,521)</b> | 57,700 | <b>23,740</b> | 19,542              | (53,294) | (30,509) | <b>35,569</b> |
| <b>Net profit attributes to the shareholders before non-recurring items, net of tax for the period</b>               | <b>4,483</b>    | 60,411 | <b>27,599</b> | 19,637              | (22,869) | (19,884) | <b>34,961</b> |
| <b>Diluted profit per share attributable to Company shareholders – in USD</b>                                        | <b>(1.56)</b>   | 2.26   | <b>0.94</b>   | 0.77                | (2.08)   | (1.19)   | <b>1.39</b>   |
| <b>Diluted profit per share before non-recurring items net of tax, attributable to Company shareholders – in USD</b> | <b>0.18</b>     | 2.36   | <b>1.08</b>   | 0.77                | (0.89)   | (0.78)   | <b>1.37</b>   |

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

|                                                                                            | <u>Fourth quarter</u> |             | <u>Year</u>    |             |
|--------------------------------------------------------------------------------------------|-----------------------|-------------|----------------|-------------|
|                                                                                            | <b>2020</b>           | <b>2019</b> | <b>2020</b>    | <b>2019</b> |
| <b>Sales</b>                                                                               | <b>459.7</b>          | 504.8       | <b>1,446.2</b> | 1,690.2     |
| <b>Operating Profit before non-recurrent items</b>                                         | <b>47.7</b>           | 51.2        | <b>49.3</b>    | 106.0       |
| <b>Operating Profit</b>                                                                    | <b>43.4</b>           | 52.2        | <b>(7.1)</b>   | 103.7       |
| <b>EBITDA</b>                                                                              | <b>71.9</b>           | 76.1        | <b>144.0</b>   | 195.6       |
| <b>Net profit before non-recurring items net of tax</b>                                    | <b>27.3</b>           | 34.8        | <b>3.8</b>     | 60.2        |
| <b>Net profit before non-recurring items net of tax attributed to Company shareholders</b> | <b>27.6</b>           | 35.0        | <b>4.5</b>     | 60.4        |
| <b>Net profit attributed to company shareholders</b>                                       | <b>24.1</b>           | 35.7        | <b>(39.8)</b>  | 57.9        |
| <b>Cash flow from operating activity</b>                                                   | <b>86.0</b>           | 112.2       | <b>218.4</b>   | 155.0       |
| <b>Cash flow from operating activity net of the effects of IFRS16</b>                      | <b>75.6</b>           | 96.8        | <b>161.6</b>   | 97.1        |

**Calculating EBITDA <sup>(1)</sup> in \$ millions\*:**

|                                                  | <u>Fourth quarter</u> |             | <u>Year</u>   |              |
|--------------------------------------------------|-----------------------|-------------|---------------|--------------|
|                                                  | <b>2020</b>           | <b>2019</b> | <b>2020</b>   | <b>2019</b>  |
| <b>Net earnings for the period - as reported</b> | <b>23.7</b>           | 35.6        | <b>(40.5)</b> | 57.7         |
| <b>Taxes on income</b>                           | <b>9.9</b>            | 6.0         | <b>(4.1)</b>  | 9.9          |
| <b>Net financing expenses</b>                    | <b>9.8</b>            | 10.6        | <b>37.5</b>   | 36.1         |
| <b><u>Non-recurring items:</u></b>               |                       |             |               |              |
| <b>Decrease in value of non-financial assets</b> | <b>4.0</b>            | -           | <b>16.8</b>   | -            |
| <b>Companies' acquisition expenses</b>           | <b>0.3</b>            | -           | <b>0.4</b>    | 3.3          |
| <b>Restructuring expenses</b>                    | -                     | (1.0)       | <b>39.2</b>   | (1.0)        |
| <b>Depreciation and amortization</b>             | <b>24.3</b>           | <b>25.0</b> | <b>94.8</b>   | <b>89.7</b>  |
| <b>EBITDA</b>                                    | <b>71.9</b>           | <b>76.1</b> | <b>144.0</b>  | <b>195.6</b> |
| <b>EBITDA net of the effects of IFRS16</b>       | <b>55.6</b>           | <b>60.7</b> | <b>81.1</b>   | <b>137.7</b> |

\* Some of the data in the table have been rounded.

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

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

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

|                                                                 | <u>Fourth quarter</u> |             | <u>Year</u> |             |
|-----------------------------------------------------------------|-----------------------|-------------|-------------|-------------|
|                                                                 | <u>2020</u>           | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Net earnings for the period - as reported                       | 23.7                  | 35.6        | (40.5)      | 57.7        |
| Net of:                                                         |                       |             |             |             |
| Restructuring expenses, net                                     | -                     | (1.0)       | 39.2        | (1.0)       |
| Decrease in values of non-financial assets                      | 4.0                   | -           | 16.8        | -           |
| Companies' acquisition costs                                    | 0.3                   | -           | 0.4         | 3.3         |
| Minus tax effect due to non-recurring items                     | (0.8)                 | 0.2         | (12.1)      | 0.2         |
| Net profit for the period before non-recurring items net of tax | <u>27.3</u>           | <u>34.8</u> | <u>3.8</u>  | <u>60.2</u> |

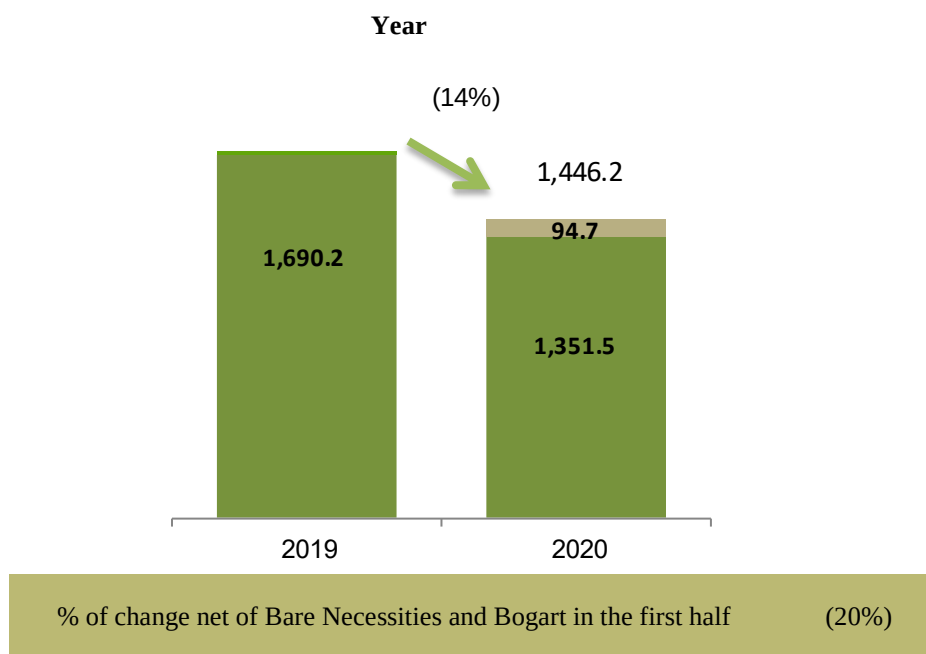
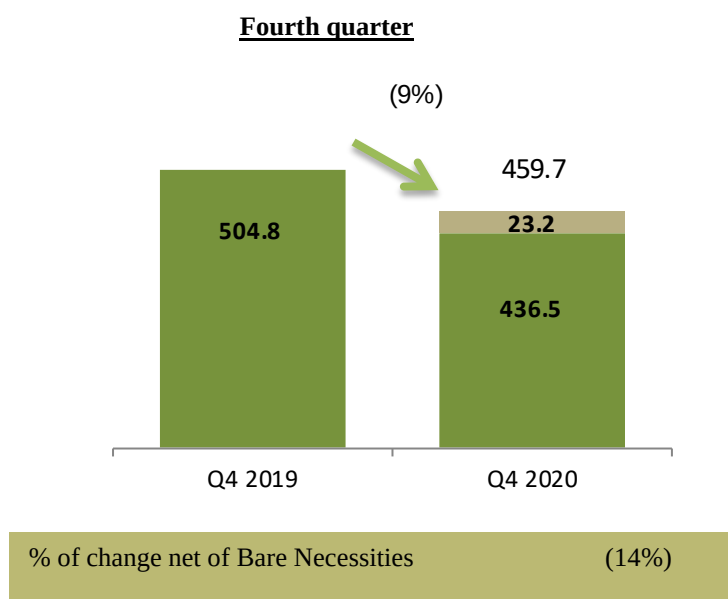
\* Some of the data in the table has been rounded.

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

### 2.3.1 Sales

The Group's sales in the fourth quarter and for 2020 decreased by approximately 9% and 14% compared to the corresponding reporting periods last year, respectively.

The graph below presents the change in the Company's sales during the report periods compared to the corresponding reporting periods, while distinguishing between the contributions of Bare Necessities sales that was consolidated as of the fourth quarter this year, and the organic decrease in the Company's sales, in millions of dollars:



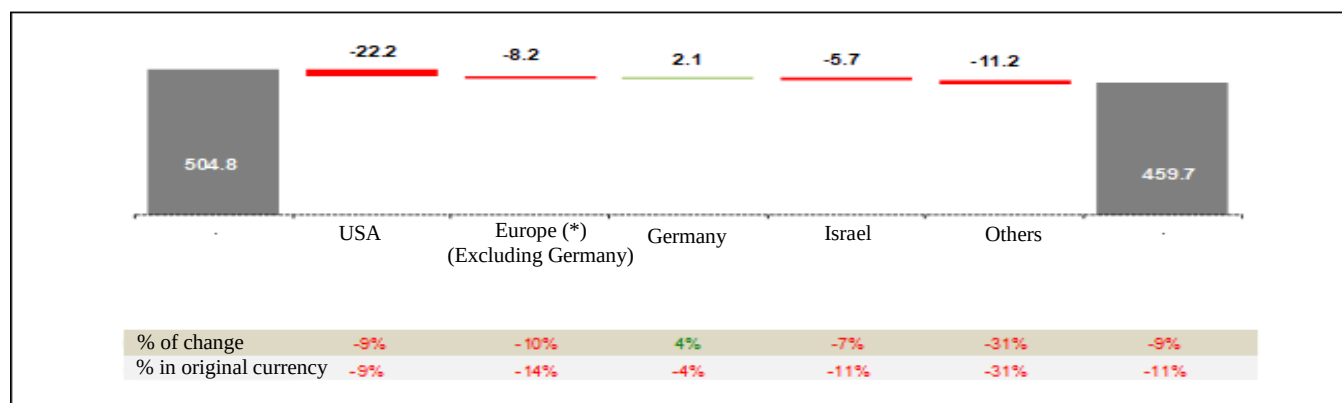
2.3.2 Following is the distribution of Company sales by geographical areas, in millions of dollars\*:

|                            | Fourth Quarter                   |             |       |            |       |            | Year                             |             |         |            |         |            |
|----------------------------|----------------------------------|-------------|-------|------------|-------|------------|----------------------------------|-------------|---------|------------|---------|------------|
|                            | % of change in original currency | % of change | 2020  | % of total | 2019  | % of total | % of change in original currency | % of change | 2020    | % of total | 2019    | % of total |
| USA                        | (9)                              | (9)         | 228.9 | 50         | 251.0 | 50         | (21)                             | (21)        | 671.3   | 46         | 846.1   | 50         |
| Europe (excluding Germany) | (14)                             | (10)        | 76.5  | 17         | 84.7  | 17         | (11)                             | (10)        | 281.2   | 19         | 312.1   | 18         |
| Germany                    | (4)                              | 4           | 58.8  | 13         | 56.7  | 11         | (8)                              | (6)         | 187.2   | 13         | 198.2   | 12         |
| Israel                     | (11)                             | (7)         | 71.0  | 15         | 76.7  | 15         | (3)                              | 1           | 217.2   | 15         | 215.7   | 13         |
| Others                     | (31)                             | (31)        | 24.5  | 5          | 35.6  | 7          | (24)                             | (24)        | 89.3    | 6          | 118.1   | 7          |
| Total                      | (11)                             | (9)         | 459.7 | 100%       | 504.8 | 100%       | (15)                             | (14)        | 1,446.2 | 100%       | 1,609.2 | 100%       |

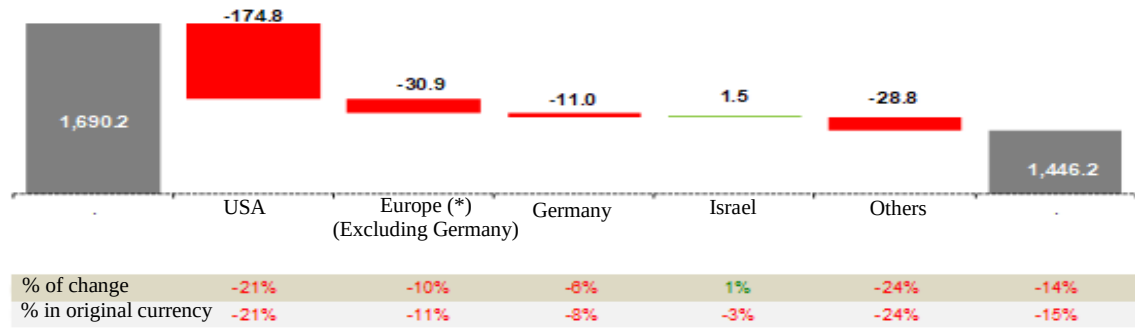
\* Some of the data in the table has been rounded.

The figures in the graph below show the change in the Company's sales in the various geographic regions in the fourth quarter and in 2020 compared to corresponding reporting periods last year.

#### Fourth Quarter



Year



## **USA**

The decrease in sales in the US in the 2020 report periods compared to 2019, resulted from the decrease in sales in the Global Upper Market operating segment, without Bogart, Delta USA and Delta Premium Brands due to the Corona crisis, see sections 1.3.1 and 2.3.5 below.

In the fourth quarter of 2020, some of said decrease was offset due to the consolidation of Bare Necessities sales, which was consolidated as of October 1<sup>st</sup>, 2020.

## **Europe (excluding Germany)**

The decrease in sales in Europe (excluding Germany) in the fourth quarter of 2020 compared to the corresponding quarter last year, is due mainly to the decrease in sales of the Delta Premium Brands and Delta European Brands operating segments.

The decrease in sales in Europe (excluding Germany) in 2020 compared to 2019 was due to the decrease in sales in the UK and in sales of the Global Upper Market, Delta Premium Brands and Delta European Brands operating segments, due to the Corona crisis, see sections 1.3.1 and 2.3.5 below.

## **Germany**

The increase in sales in Germany in the fourth quarter of 2020 compared to the corresponding quarter last year was due to the strengthening of the average exchange rate of the euro against the dollar by about 8%.

The decrease in sales in Germany in the original currency during the report period of 2020 compared with the corresponding report periods in 2019 was due to a decrease in chain stores sales and in sales to wholesale customers in Delta European Brands and Delta Premium Brands operating segments, due to the Corona crisis, see sections 1.3.1 and 2.3.5 below.

## **Israel**

In dollar terms, sales in Israel increased by about 1% in 2020 due to the appreciation of the average exchange rate of the shekel against the dollar by about 4% compared to the average exchange rate last year.

The decrease in sales in Israel in the reporting periods of 2020 compared to the corresponding reporting periods last year was due mainly from the decrease in sales of stores and the other marketing channels, due to the Corona crisis, which was partially offset by an increase in e-commerce sales, see sections 1.3.1 and 2.3.5 below.

## **Others**

The decrease in sales in other areas during the reporting periods of 2020 was mainly due to the decrease in sales in Global Upper Market and Delta USA operating segments, due to the Corona crisis.

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

|                                                               |          | Fourth Quarter |         | Explanation of key changes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------|----------|----------------|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                               |          | 2020           | 2019    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|                                                               | % change | Unaudited      |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Gross profit</b>                                           | (2%)     | <b>184,427</b> | 187,296 | The decrease in the gross profit in the fourth quarter of the year compared to the corresponding quarter last year stemmed from a decrease in sales.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| % of sales                                                    |          | 40.1%          | 37.1%   | The increase in the gross profit from sales in the fourth quarter of the year compared to the corresponding quarter last year is due mainly to the increase in the gross profit in Delta Israel and Delta European Brands due to an improvement in the product mix and the strengthening of the average exchange rates of the shekel and euro compared to the dollar by approximately 8% and 4%, respectively. Furthermore, the gross profit in the fourth quarter of 2020 increased due to the consolidation of Bare Necessities whose results are characterized by gross profit at a higher rate than the average in Delta. |
| Selling and marketing expenses                                | (3%)     | <b>113,796</b> | 117,196 | The decrease in selling and marketing expenses in the fourth quarter of the year compared to the corresponding quarter last year is due mainly to the steps taken by the Company to reduce its expenses as described in section 1.3.1 above, due to the Corona crisis and which were partially offset due to the consolidation of Bare Necessities results.                                                                                                                                                                                                                                                                   |
| % of sales                                                    |          | 24.8%          | 23.2%   | The increase in the selling and marketing expenses in the fourth quarter of 2020 was mainly due to the rise in the relative share of Delta Israel and Delta European Brands operating segments, characterized by selling and marketing expenses relatively higher than the other operating segments as well as due to the consolidation of Bare Necessities which is also characterized by a high rate of selling and marketing expenses.                                                                                                                                                                                     |
| Administrative and general expenses                           | (2%)     | <b>21,036</b>  | 21,568  | The decrease in administrative and general expenses in the fourth quarter was due to the savings measures taken by the Company, partially offset by an increase due to the consolidation of Bare Necessities as of October 1 <sup>st</sup> , 2020.                                                                                                                                                                                                                                                                                                                                                                            |
| Customer credit losses                                        |          | <b>927</b>     | (1,405) | See section 1.3.1 b.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Other expenses (income), net and equity profits in Subsidiary |          | <b>935</b>     | (1,288) | Other expenses in the fourth quarter of the year included loss from hedging in the amount of \$ 1.3 million when offsetting equity profits from the sale of fixed assets and part of an investee company's equity profits. In the corresponding quarter the year before, other income included compensation for the termination of a franchise agreement in the amount of \$ 1.0 million and part in equity profits in the amount of \$ 0.3 million.                                                                                                                                                                          |
| <b>Profit from transactions before non-recurring items</b>    |          | <b>47,734</b>  | 51,225  | The decrease in the operating profit before non-recurring items in the fourth quarter of the year compared to the corresponding quarter last year was due mainly to the decrease in the gross profit due to the decrease in sales and due to customer credit loss.                                                                                                                                                                                                                                                                                                                                                            |
| % of sales                                                    |          | 10.4%          | 10.1%   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Non-recurring items                                           |          | <b>4,340</b>   | (987)   | See detailing in section 2.3.3.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Operating profit</b>                                       |          | <b>43,394</b>  | 52,212  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Financing expenses, net                                       | (8%)     | <b>9,762</b>   | 10,630  | See detailing in section 2.3.3.3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Profit before tax                                             |          | <b>33,632</b>  | 41,582  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Tax on income                                                 |          | <b>9,892</b>   | 6,013   | The increase in tax expenditure in the fourth quarter of the year compared to the corresponding quarter last year, stemmed mainly expenses in respect of previous years.                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Net profit for the period                                     |          | <b>23,740</b>  | 35,569  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Net profit before non-recurring items, net of tax             |          | <b>27,270</b>  | 34,809  | The decrease in the net profit before non-recurring items in the fourth quarter of 2020, was due mainly to a decrease in the operating profit and due to an increase in tax expenditure, which was offset by the decrease in financing expenses.                                                                                                                                                                                                                                                                                                                                                                              |

|                                                               |          | Year            |         | Explanation of key changes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------|----------|-----------------|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                               |          | 2020            | 2019    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                                               | % change | Audited         |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Gross profit</b>                                           | (13%)    | <b>523,685</b>  | 604,159 | The decrease in the gross profit in 2020 compared to 2019 stemmed from a decrease in sales, due to the Corona crisis.                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| % of sales                                                    |          | 36.2%           | 35.7%   | The increase in the gross profit from sales in 2020 was mainly due to an increase in the gross profit in Delta Israel and Delta European Brands due to an improvement in the product mix and the strengthening of the average exchange rates of the shekel and euro compared to the dollar by approximately 4% and 2%, respectively                                                                                                                                                                                                                            |
| Selling and marketing expenses                                | (10%)    | <b>385,507</b>  | 429,705 | The decrease in selling and marketing expenses in 2020 stemmed from the steps taken by the Company to reduce its expenses as described in section 1.3.1 above, due to the Corona crisis and which were partially offset due to the consolidation of Bogart an entire year, compared to 6 months only last year and due to the consolidation of Bare Necessities results as of October 1 <sup>st</sup> , 2020.                                                                                                                                                  |
| % of sales                                                    |          | 26.7%           | 25.4%   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Administrative and general expenses                           | 4%       | <b>77,011</b>   | 74,042  | The increase in administrative and general expenses in 2020 stemmed from the consolidation of Bogart over an entire year, compared to 6 months only last year and due to the consolidation of Bare Necessities results as of October 1 <sup>st</sup> this year. This increase in expenses was partially offset by the savings measures taken by the Company to reduce its expenses due to the Corona crisis, see section 1.3.1 above.                                                                                                                          |
| Customer credit losses                                        |          | <b>9,671</b>    | (865)   | See detailing in section 1.3.1 b.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Other expenses (income), net and equity profits in Subsidiary |          | <b>2,237</b>    | (4,689) | Other expenses included deduction of accounts receivable due to a franchise agreement in the amount of \$ 1.0 million, loss from hedging in the amount of \$ 1.9 million net of equity profits in the amount of \$ 0.4 million and equity profits in the amount of \$ 0.3 million. Other income last year included compensation for the termination of a franchise agreement in the amount of \$ 3.0 million, profits from the revaluation of currency transactions in the amount of \$ 0.7 million and part in equity shares in the amount of \$ 1.0 million. |
| <b>Operating profit before non-recurring items</b>            |          | <b>49,259</b>   | 105,966 | The decrease in the operating profit before non-recurring items was due mainly to the decrease in the gross profit due to the decrease in sales and due to customer credit loss, partially offset by a decrease in selling and marketing expenses.                                                                                                                                                                                                                                                                                                             |
| Non-recurring items, net                                      |          | <b>56,400</b>   | 2,286   | See detailing in section 2.3.3.2                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Operating profit (loss)</b>                                |          | <b>(7,141)</b>  | 103,680 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Financing expenses, net                                       | 4%       | <b>37,475</b>   | 36,065  | See detailing in section 2.3.3.3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Profit (loss) before tax                                      |          | <b>(44,616)</b> | 67,615  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Tax on income/ (tax savings)                                  |          | <b>(4,095)</b>  | 9,915   | The rate of savings in the effective tax rate in 2020 is lower than the effective tax rate last year due to tax expenditure in respect of previous years and failure to record a tax asset due to losses in the US.                                                                                                                                                                                                                                                                                                                                            |
| Net profit (loss) per period                                  |          | <b>(40,521)</b> | 57,500  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Net profit before non-recurring items, net of tax             |          | <b>3,811</b>    | 60,213  | The decrease in the net profit before non-recurring items in 2020 was due to a decrease in the operating profit, an increase in financing expenses and due to an increase in the effective tax rate as explained above, which resulted in a decrease in tax income recorded this year.                                                                                                                                                                                                                                                                         |

#### Analysis of Selling and Marketing Expenses by operating segment

Following is a table showing the distribution of selling and marketing expenses between the Delta Israel, Delta European Brands and Delta Premium Brands operating segments, characterized by a high selling and marketing expense rate, compared to other Group operating segments, in millions of dollars (some of the data in the table were rounded up):

|                                                               | <u>Fourth Quarter</u> |                     | <u>Year</u>         |                     |
|---------------------------------------------------------------|-----------------------|---------------------|---------------------|---------------------|
|                                                               | <u>2020</u>           | <u>2019</u>         | <u>2020</u>         | <u>2019</u>         |
| <b>Delta Israel</b>                                           | <b>23.5</b>           | <b>28.6</b>         | <b>85.2</b>         | <b>90.8</b>         |
| <b>% of total Delta Israel sales</b>                          | <b>33.2%</b>          | <b>37.7%</b>        | <b>39.5%</b>        | <b>42.3%</b>        |
| <b>Delta European Brands</b>                                  | <b>29.6</b>           | <b>29.2</b>         | <b>103.4</b>        | <b>115.2</b>        |
| <b>% of total Delta European Brands sales</b>                 | <b>34.4%</b>          | <b>33.8%</b>        | <b>34.7%</b>        | <b>37.3%</b>        |
| <b>Delta Premium Brands</b>                                   | <b>30.4</b>           | <b>35.2</b>         | <b>112.7</b>        | <b>131.5</b>        |
| <b>% of total Delta Premium Brands sales</b>                  | <b>47.8%</b>          | <b>42.2%</b>        | <b>59.6%</b>        | <b>47.9%</b>        |
| <b>Other operating segments</b>                               | <b>30.3</b>           | <b>24.2</b>         | <b>84.2</b>         | <b>92.2</b>         |
| <b>% of total sales of other areas of activity</b>            | <b>14.1%</b>          | <b>9.3%</b>         | <b>11.8%</b>        | <b>10.3%</b>        |
| <b>Total selling and marketing expenses</b>                   | <b><u>113.8</u></b>   | <b><u>117.2</u></b> | <b><u>385.5</u></b> | <b><u>429.7</u></b> |
| <b>% of selling and marketing expenses out of total sales</b> | <b><u>24.8%</u></b>   | <b><u>23.2%</u></b> | <b><u>26.7%</u></b> | <b><u>25.4%</u></b> |

The decrease in selling and marketing expenses in the Delta Israel operating segment in the reporting periods of 2020 stemmed from savings measures taken by the Company due to the Corona crisis, see section 1.3.1 above.

The decrease in the rate of sales and marketing expenses in the Delta Israel operating segment from sales in the reporting periods of 2020 was due to the relative increase in e-commerce sales in total sales in the operating segment, which is characterized by relatively low sales expenses.

In the Delta European Brands operating segment, selling and marketing expenses decreased in the reporting periods of 2020 compared to the corresponding reporting periods last year due to the savings measures taken by the Company due to the Corona crisis.

The increase in selling and marketing expenses from the total sales of Delta Premium Brands operating segment during the reporting periods of 2020 was mainly due to a decrease in sales, higher than the effect of the savings measures taken by the Company.

The increase in expenses in other operating segments during the fourth quarter of 2020 compared with the corresponding quarter last year was due to the consolidation of Bare Necessities. The decrease in selling and marketing expenses in other operating segments in 2020 compared to 2019 was a result of reduction in expenses due to the savings measures taken by the Company due to the Corona crisis, partially offset by the consolidation of Bare Necessities results.

### 2.3.3.1 Non-Recurring Items

Following are details of non-recurring items in 2020 and 2019 \*:

| Nature of Expense                        | Operating Segment      | Fourth Quarter |       | Year        |       |
|------------------------------------------|------------------------|----------------|-------|-------------|-------|
|                                          |                        | 2020           | 2019  | 2020        | 2019  |
|                                          |                        | \$ Millions    |       | \$ Millions |       |
| Restructuring expenses                   | Delta USA              |                |       | 1.6         |       |
| Restructuring expenses                   | Global Upper Market    |                | (0.2) | 14.9        |       |
| Restructuring expenses                   | Delta European Brands  |                |       | 20.4        |       |
| Restructuring expenses                   | Delta Premium Brands   |                |       | 1.7         |       |
| Restructuring expenses                   | Headquarters and other |                | (0.8) | 1.0         | (0.8) |
| Total restructuring expenses             |                        |                | (1.0) | 39.2        | (1.0) |
| Impairment of non-financial assets       | Delta Premium Brands   | 1.5            |       | 9.5         | 4.3   |
| Impairment of non-financial assets       | Delta European Brands  | 1.7            |       | 4.3         |       |
| Impairment of non-financial assets       | Delta USA              | 0.8            |       | 3.0         |       |
| Total impairment of non-financial assets |                        | 4.0            |       | 16.8        |       |
| Brayola acquisition expenses             | Other                  |                |       | 0.1         |       |
| Bogart acquisition expenses              | Global Upper Market    |                |       | -           | 3.3   |
| Bare Necessities acquisition expenses    | Other                  | 0.3            |       | 0.3         |       |
| Total non-recurring items                |                        | 4.3            | (1.0) | 56.4        | 2.3   |

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

### 2.3.3.2 Financing Expenses, Net

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

|                                                    | Fourth Quarter |      | Year |      |
|----------------------------------------------------|----------------|------|------|------|
|                                                    | 2020           | 2019 | 2020 | 2019 |
| Interest and commission expenses, net              | 5.4            | 6.7  | 22.2 | 23.3 |
| Exchange rate expenses (income)                    | 0.4            | 0.7  | 1.1  | 0.7  |
| Capitalization component of assets and liabilities | 1.7            | 1.3  | 4.4  | 3.7  |
| Effect of IFRS16                                   | 2.3            | 2.1  | 9.8  | 8.5  |
| Total financing expenses                           | 9.8            | 10.7 | 37.5 | 36.1 |

The decrease in financing expenses in the fourth quarter of 2020 compared to the corresponding quarter last year was mainly due to the decrease in interest expenses due to the decrease in the level of financial debt, in light of increase in cash flow stemming from current operations.

The increase in financing expenses in 2020 compared to 2019 was mainly due to the effect of IFRS16 and due to an increase in the discounting component of the future consideration in the Bogart transaction.

2.3.4 The following is a summary of the Company's consolidated business results, divided into the five accounting segments in its financial statements for the fourth quarter and for 2020 and 2019, in thousands of dollars:

| Fourth Quarter ending on December 31 <sup>st</sup>                 |                 |          |          |                               |                                                           |                |                            |              |
|--------------------------------------------------------------------|-----------------|----------|----------|-------------------------------|-----------------------------------------------------------|----------------|----------------------------|--------------|
| Unaudited                                                          |                 |          |          |                               |                                                           |                |                            |              |
|                                                                    | <u>Sales</u>    |          |          |                               | <u>Operating profit (loss) before non-recurring items</u> |                | <u>Non-recurring items</u> |              |
|                                                                    | 2020            | 2019     | % change | % change in original currency | 2020                                                      | 2019           | 2020                       | 2019         |
| <b>Delta USA</b>                                                   | <b>117,991</b>  | 128,630  | (8%)     | (8%)                          | <b>13,117</b>                                             | 10,614         | <b>779</b>                 |              |
| % of sales                                                         |                 |          |          |                               | 11%                                                       | 8%             |                            |              |
| <b>Global Upper Market</b>                                         | <b>114,056</b>  | 140,837  | (19%)    | (19%)                         | <b>8,606</b>                                              | 11,153         |                            | (187)        |
| % of sales                                                         |                 |          |          |                               | 8%                                                        | 8%             |                            |              |
| <b>Delta European Brands</b>                                       | <b>86,046</b>   | 86,144   | (0%)     | (7%)                          | <b>10,210</b>                                             | 11,262         | <b>1,686</b>               |              |
| % of sales                                                         |                 |          |          |                               | 12%                                                       | 13%            |                            |              |
| <b>Delta Premium Brands</b>                                        | <b>63,427</b>   | 83,427   | (24%)    | (26%)                         | <b>306</b>                                                | 8,924          | <b>1,566</b>               |              |
| % of sales                                                         |                 |          |          |                               | 0%                                                        | 11%            |                            |              |
| <b>Delta Israel</b>                                                | <b>71,004</b>   | 75,981   | (7%)     | (11%)                         | <b>16,305</b>                                             | 10,833         |                            |              |
| % of sales                                                         |                 |          |          |                               | 23%                                                       | 14%            |                            |              |
| <b>Other</b>                                                       | <b>24,862</b>   | -        |          |                               | <b>(189)</b>                                              |                | <b>309</b>                 |              |
| % of sales                                                         |                 |          |          |                               | (1%)                                                      |                |                            |              |
| <b>Cancellation of Inter-segment sales</b>                         | <b>(17,868)</b> | (10,255) |          |                               |                                                           |                |                            |              |
| <b>Other adjustments</b>                                           |                 |          |          |                               | <b>(621)</b>                                              | <b>(1,561)</b> |                            | <b>(800)</b> |
| <b>Total sales and operating profit before non-recurring items</b> | <b>459,679</b>  | 504,764  | (9%)     | (11%)                         | <b>47,734</b>                                             | 51,225         | <b>4,340</b>               | <b>(987)</b> |
| <b>Impairment of non-financial assets</b>                          |                 |          |          |                               | <b>4,031</b>                                              |                |                            |              |
| <b>Restructuring expenses (income), net</b>                        |                 |          |          |                               |                                                           | <b>(987)</b>   |                            |              |
| <b>Bare Necessities acquisition expenses</b>                       |                 |          |          |                               | <b>309</b>                                                |                |                            |              |
| <b>Total operating profit</b>                                      |                 |          |          |                               | <b>43,394</b>                                             | <b>52,212</b>  |                            |              |

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

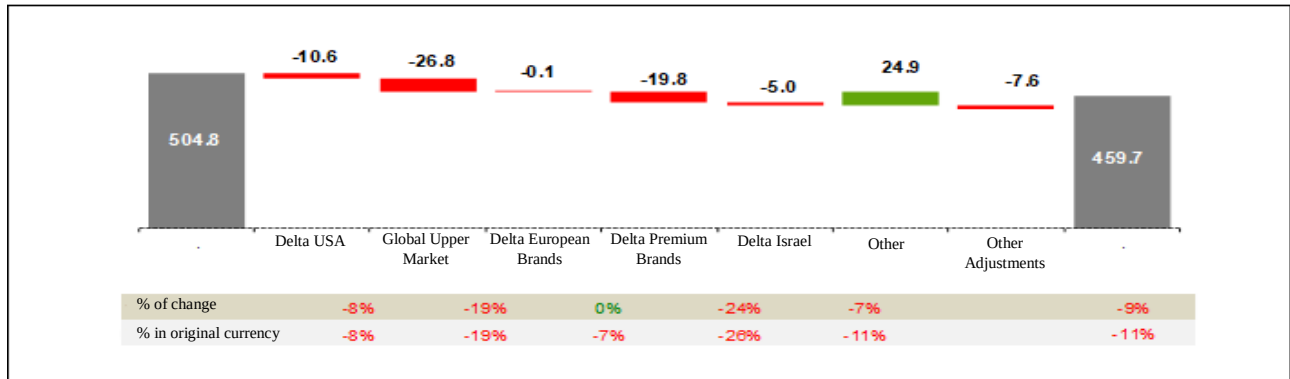
| Year ending on December 31 <sup>st</sup>                           |                  |                  |              |                                  |                                                           |                |                            |              |
|--------------------------------------------------------------------|------------------|------------------|--------------|----------------------------------|-----------------------------------------------------------|----------------|----------------------------|--------------|
| Audited                                                            |                  |                  |              |                                  |                                                           |                |                            |              |
|                                                                    | <u>Sales</u>     |                  |              |                                  | <u>Operating profit (loss) before non-recurring items</u> |                | <u>Non-recurring items</u> |              |
|                                                                    | 2020             | 2019             | % of change  | % of change in original currency | 2020                                                      | 2019           | 2020                       | 2019         |
| <b>Delta USA</b>                                                   | 343,247          | 461,608          | (26%)        | (26%)                            | 7,304                                                     | 23,166         | 4,696                      |              |
| % of sales                                                         |                  |                  |              |                                  | 2%                                                        | 5%             |                            |              |
| <b>Global Upper Market</b>                                         | 410,660          | 460,683          | (11%)        | (11%)                            | 12,790                                                    | 40,333         | 14,938                     | 3,273        |
| % of sales                                                         |                  |                  |              |                                  | 3%                                                        | 9%             |                            |              |
| <b>Delta European Brands</b>                                       | 298,179          | 308,526          | (3%)         | (6%)                             | 28,866                                                    | 25,683         | 24,273                     |              |
| % of sales                                                         |                  |                  |              |                                  | 10%                                                       | 8%             |                            |              |
| <b>Delta Premium Brands</b>                                        | 189,154          | 274,648          | (31%)        | (32%)                            | (30,857)                                                  | 5,405          | 11,137                     |              |
| % of sales                                                         |                  |                  |              |                                  | (16%)                                                     | 2%             |                            |              |
| <b>Delta Israel</b>                                                | 215,805          | 214,836          | 0%           | (4%)                             | 33,963                                                    | 15,922         |                            |              |
| % of sales                                                         |                  |                  |              |                                  | 16%                                                       | 7%             |                            |              |
| <b>Others</b>                                                      | 27,942           |                  |              |                                  | (261)                                                     |                | 435                        |              |
| % of sales                                                         |                  |                  |              |                                  | (1%)                                                      |                |                            |              |
| <b>Cancellation of Inter-segment sales</b>                         | (38,800)         | (30,137)         |              |                                  |                                                           |                |                            |              |
| <b>Other adjustments</b>                                           |                  |                  |              |                                  | (2,546)                                                   | (4,543)        | 921                        |              |
| <b>Total sales and operating profit before non-recurring items</b> | <u>1,446,187</u> | <u>1,690,164</u> | <u>(14%)</u> | <u>(15%)</u>                     | <u>49,259</u>                                             | <u>105,966</u> | <u>56,400</u>              | <u>3,273</u> |
| <b>Non-recurring items:</b>                                        |                  |                  |              |                                  |                                                           |                |                            |              |
| <b>Restructuring expenses, net</b>                                 |                  |                  |              |                                  | 39,154                                                    |                |                            |              |
| <b>Impairment of non-financial assets</b>                          |                  |                  |              |                                  | 16,811                                                    |                |                            |              |
| <b>Bogart/ Brayola/ Bare Necessities acquisition expenses</b>      |                  |                  |              |                                  | 435                                                       | 3,273          |                            |              |
| <b>Total operating profit (loss)</b>                               |                  |                  |              |                                  | <u>(7,141)</u>                                            | <u>103,680</u> |                            |              |

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

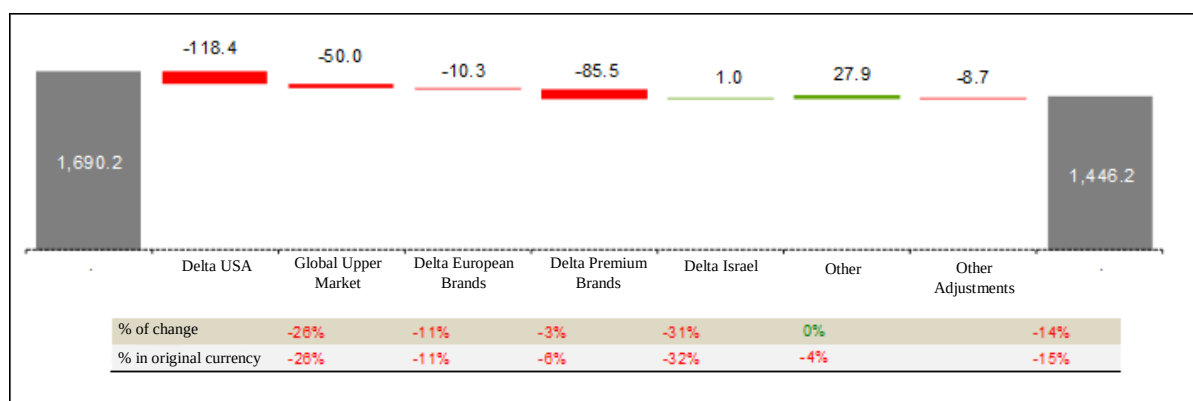
### 2.3.5 Analysis of Business Results by Operating Segment

The following table presents the change in sales in the fourth quarter and in 2020 compared to the corresponding periods last year, according to the various areas of activity, in USD millions:

#### Fourth Quarter



## Year



2.3.5.2 The following is an analysis of business results by areas of activity and before the effect of non-recurring items:

### **Delta U.S.A Operating Segment**

The decrease in sales in the fourth quarter and in 2020 compared to the corresponding periods last year was due mainly to the Corona crisis, as stated, which caused a decrease in sales in the socks category and in a decrease in sales of intimate apparel and activewear to a significant customer.

The increase in operating profit in the fourth quarter of 2020 compared to the corresponding quarter last year was mainly due to an improvement in the product mix and the customer mix and also due to the implementation of the savings measures taken by the Company following the Corona crisis.

The decrease in operating profit in 2020 compared to 2019 was mainly due to a decrease in sales due to the Corona crisis as well as expenses due to customer credit losses and reduction of receivables balances due to a franchise agreement, whose financial situation deteriorated, see section 1.3.1 above.

### **Global Upper Market Operating Segment**

The decrease in the operating segment's sales in the fourth quarter and in 2020 compared to the corresponding reporting periods last year was mainly due to the Corona crisis and a decrease in sales to a significant customer, partially offset by an increase in sales to e-commerce customers.

The decrease in operating profit in the fourth quarter compared to the corresponding quarter last year was mainly due to decrease in sales.

The decrease in operating profit in 2020 compared to 2019 was due to the decrease in sales and from the decrease in production in the factories, due to the effects of the Corona crisis, see section 1.3.1 above.

### **Delta European Brands Operating Segment**

The decrease in sales in the operating segment in euro in the reporting periods of 2020 compared to the corresponding reporting periods in 2019 was due to a decrease in sales of the Schiesser and Eminence store chains and a decrease in sales to wholesale customers, due in part to the Corona crisis, which were partially offset by the sale of masks primarily to the French market and by an increase in e-commerce sales, see

section 1.3.1 above and sales to e-commerce customers.

The decrease in operating profit in the fourth quarter of 2020 was due to a decrease in gross profit due to the decrease in sales in euros, which was partially offset by a decrease in selling, marketing, administrative and general expenses, due to the savings measures taken by the Company.

The increase in operating profit in 2020 compared to 2019, was achieved despite the decrease in sales, mainly due to a decrease in selling, marketing, administrative and general expenses due to the savings described in section 1.3.1 above.

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

|                                 | Year ending on<br>December 31 <sup>st</sup> |               |               | Year ending on<br>December 31 <sup>st</sup> |               |               |
|---------------------------------|---------------------------------------------|---------------|---------------|---------------------------------------------|---------------|---------------|
|                                 | In thousand euro                            |               |               | In thousand euro                            |               |               |
|                                 | Growth Rate<br>in Sales at<br>Same Stores   | 2020          | 2019          | Growth Rate<br>in Sales at<br>Same Stores   | 2019          | 2018          |
| Sales <sup>(1) (2)</sup>        | <u>20%</u>                                  | <u>81,796</u> | <u>68,315</u> | <u>(0.3%)</u>                               | <u>68,154</u> | <u>68,338</u> |
| Number of stores <sup>(3)</sup> |                                             | <u>112</u>    |               |                                             | <u>105</u>    |               |

This figure refers only to the period when the stores were fully operational, with reference to the guidelines that are updated from time to time, regarding the options for opening trade, in the various countries.

The rate of increase in same store sales in 2019 compared to 2018 referred to Schiesser activity only, as Eminence was consolidated during 2018.

The rate of decrease in sales in physical stores in 2020 compared to 2019 was 6% while the rate of increase in sales through the e-commerce of the operating segment, was 95%.

Sales in the e-commerce operating segment amounted to 33.5 million euros in 2020 compared to 17.1 million euros in 2019.

- 1) Same Stores Sales data also include online sales.
- 2) The sales data used for the calculation include the total means of payment received at the stores, less VAT and all discounts and offers recorded in the cash registers.
- 3) The stores that were used to calculate the sales are stores that operated continuously and regularly during said years, and that no change occurred in their area or in the nature of their activity. The website operated by the Company is included in the number of stores.

### **Delta Premium Brands Operating Segment**

The decrease in sales in the reporting periods of 2020 compared to the corresponding reporting periods last year was expressed in a decline in sales to retail and wholesale customers in the US and Europe, due to the effects of the Corona crisis, which was partially offset by an increase in e-commerce sales in Europe, see section 1.3.1 above.

The decrease in the operating profit in the fourth quarter of 2020 compared to 2019 and that transition from operating profit in 2019 to a loss in 2020, was primarily due to a decrease in the gross profit due to the decrease in sales, which was partially offset by a decrease in selling and marketing, administrative and general expenses due to the savings measures taken by the Company, see section 1.3.1 above.

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

|                                 | Growth Rate<br>in Sales at<br>Same Stores | Year ending on<br>December 31 <sup>st</sup> |                | Growth Rate<br>in Sales at<br>Same Stores | Year ending on<br>December 31 <sup>st</sup> |                |
|---------------------------------|-------------------------------------------|---------------------------------------------|----------------|-------------------------------------------|---------------------------------------------|----------------|
|                                 |                                           | In thousand dollars                         |                |                                           | In thousand dollars                         |                |
|                                 |                                           | <u>2020</u>                                 | <u>2019</u>    |                                           | <u>2019</u>                                 | <u>2018</u>    |
| Sales <sup>(1) (2)</sup>        | <u>(15%)</u>                              | <u>93,711</u>                               | <u>109,735</u> | <u>0.6%</u>                               | <u>129,963</u>                              | <u>129,194</u> |
| Number of stores <sup>(3)</sup> |                                           | 90                                          |                |                                           | 97                                          |                |

This figure refers only to the period when the stores were fully operational, with reference to the guidelines that are updated from time to time, regarding the options for opening trade, in the various countries.

The rate of decrease in sales in physical stores in 2020 compared to 2019 was 35% while the rate of increase in sales through the e-commerce of the operating segment, was 36%.

Sales in the e-commerce operating segment amounted to \$ 43.6 million in 2020 compared to \$ 32.1 million the year before.

- 1) Same Stores Sales data also include online sales.
- 2) The sales data used for the calculation include the total means of payment received at the stores, less all discounts and offers recorded in the cash registers.
- 3) The stores that were used to calculate the sales are stores that operated continuously and regularly during said years, and that no change occurred in their area or in the nature of their activity. The websites operated by the Company are included in the number of stores.

### **Delta Israel Operating Segment**

Sales in NIS in the fourth quarter of 2020 decreased by 11% and totaled NIS 234.7 million, compared with NIS 265.0 million in the corresponding quarter last year.

Sales in NIS in 2020 decreased by 4% and amounted to NIS 736.1 million compared to NIS 763.1 million last year.

The decrease in Delta Israel's sales in NIS in the reporting periods of 2020 compared to the corresponding reporting periods last year was due to a decrease in sales in the chain stores and a decrease in sales to customers in other marketing channels (private stores, retail chains and private label marketing), due to the Corona crisis, partially offset by an increase in e-commerce sales.

The increase in operating profit in the reporting periods of 2020 compared to corresponding reporting periods last year was mainly due to an increase in the gross profit due to a change in the product mix and innovation in the product lines as well as a decrease in selling, marketing, administrative and general expenses, due to the savings measures taken by the Company, following the Corona crisis, see section 1.3.1 above.

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

|                                    | Year ending on<br>December 31 <sup>st</sup> |                |                | Year ending on December 31 <sup>st</sup>  |                |                |
|------------------------------------|---------------------------------------------|----------------|----------------|-------------------------------------------|----------------|----------------|
|                                    | In thousand NIS                             |                |                | In thousand NIS                           |                |                |
|                                    | Growth Rate<br>in Sales at<br>Same Stores   | 2020           | 2019           | Growth Rate<br>in Sales at<br>Same Stores | 2019           | 2018           |
| Sales <sup>(1) (2)</sup>           | <u>24.7%</u>                                | <u>457,477</u> | <u>366,984</u> | <u>6.2%</u>                               | <u>536,710</u> | <u>505,401</u> |
| Number of<br>stores <sup>(3)</sup> |                                             | <u>194</u>     |                |                                           | <u>167</u>     |                |

This figure refers only to the period in which the stores were fully operational, with reference to the state guidelines that are updated from time to time regarding the possibilities of opening trade (street shops, open areas, malls). For example, if in April 2020 the stores were closed, then the sales data of the stores for April 2019 were excluded from the calculation.

- 1) Same Stores Sales data in "Delta" and "Fix" chains.
- 2) The sales data used for the calculation include the total means of payment received at the stores, less VAT and all discounts and offers recorded in the cash registers.
- 3) The stores that were used to calculate the sales are stores that operated continuously and regularly during said years, and that no change occurred in their area or in the nature of their activity.

### **Other**

As of this report, included under Other are the results of the activities of Bare Necessities which was acquired on October 1<sup>st</sup> this year and of Brayola which was acquired in the first quarter of this year.

### 3. **Liquidity and Financing Sources**

Condensed cash flow statements, in millions of dollars\*:

|                                                                                     | Fourth Quarter                      |               | Year                                |               |
|-------------------------------------------------------------------------------------|-------------------------------------|---------------|-------------------------------------|---------------|
|                                                                                     | Ending on December 31 <sup>st</sup> |               | Ending on December 31 <sup>st</sup> |               |
|                                                                                     | 2020                                | 2019          | 2020                                | 2019          |
| Net cash generated from operating activities                                        | 86.0                                | 112.2         | 218.4                               | 155.0         |
| Net cash used in investment activities, without acquisitions and the grant of loans | (5.6)                               | (9.8)         | (18.8)                              | (26.0)        |
| Net cash used in the acquisition of companies                                       | (12.0)                              | -             | (13.5)                              | (0.4)         |
| Net cash used for the grant of a loan and the acquisition of the Bogart Group       | (2.5)                               | 0.0           | (2.5)                               | (44.5)        |
| Net cash generated from (used in) financing activity                                | <u>(56.2)</u>                       | <u>(47.2)</u> | <u>(67.9)</u>                       | <u>(47.7)</u> |
| Increase (decrease) in cash and cash equivalents                                    | <u>9.6</u>                          | <u>55.3</u>   | <u>115.8</u>                        | <u>36.4</u>   |

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

- 3.1 Below is an adjustment between the cash flow from operating activities, reported for the period, and the cash flow from operating activities without the effect of IFRS16, in the millions of dollars:

|                                                                                                    | Fourth Quarter                      |             | Year                                |             |
|----------------------------------------------------------------------------------------------------|-------------------------------------|-------------|-------------------------------------|-------------|
|                                                                                                    | Ending on December 31 <sup>st</sup> |             | Ending on December 31 <sup>st</sup> |             |
|                                                                                                    | 2020                                | 2019        | 2020                                | 2019        |
| Net cash generated from operating activities – as reported                                         | 86.0                                | 112.2       | 218.4                               | 155.0       |
| Net of:                                                                                            |                                     |             |                                     |             |
| Repayment of liabilities in respect of leases, included in the cash flow from financing operations | (10.4)                              | (15.4)      | (56.8)                              | (57.9)      |
| Cash flow from operating activities – without the effect of IFRS16                                 | <u>75.6</u>                         | <u>96.8</u> | <u>161.6</u>                        | <u>97.1</u> |

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

The improvement in cash flows from operating activities in 2020 compared to 2019 stems from a decrease in working capital due mainly to a decrease in the balance of inventory in light of tight management and the sale of surpluses.

- 3.2 Following are some financial indicators for the fourth quarter of 2020 and the years 2020, 2019 and 2018:

|                                                                                                   | 2020  | 2019  | 2018  |
|---------------------------------------------------------------------------------------------------|-------|-------|-------|
| Current Ratio                                                                                     | 1.50  | 1.71  | 1.70  |
| Quick Ratio *                                                                                     | 0.94  | 0.90  | 0.87  |
| Customer Credit Days (on a quarterly basis)                                                       | 39    | 38    | 44    |
| Supplier Credit Days (on a quarterly basis) *                                                     | 61    | 41    | 45    |
| Inventory Days (on a quarterly basis)                                                             | 95    | 93    | 99    |
| Operating cash flow (in millions of dollars) – fourth quarter                                     | 86.0  | 112.2 | 56.5  |
| Operating cash flow (in millions of dollars) – year                                               | 218.4 | 155.0 | 22.4  |
| EBITDA (in millions of dollars) – fourth quarter                                                  | 71.9  | 76.1  | 50.2  |
| EBITDA (in millions of dollars) – year                                                            | 144.0 | 195.6 | 129.8 |
| Net financial debt (millions of dollars) **                                                       | 236.3 | 334.5 | 326.7 |
| Net financial debt coverage ratio to standardized EBITDA (on the basis of the last 12 months) *** | 2.9   | 2.5   | 2.4   |
| Equity/balance sheet total ****                                                                   | 28.2% | 31.9% | 38.8% |
| Equity (in millions of dollars)                                                                   | 476.4 | 506.9 | 467.9 |
| Net financial debt to CAP *****                                                                   | 23.8% | 33.5% | 36.5% |

- \* The increase in the quick ratio for December 2020 compared to December last year is mainly due to the improvement in operations cash flow and the increase in cash balances, see section 1.1 above.

The increase in supplier credit days for December 2020 compared to corresponding reporting periods is due to the extension of credit terms made by the Company vis-à-vis its major suppliers, due to the Corona crisis.

- \*\* Net financial debt includes loans from banks and others, debentures and interest payable less cash and cash equivalents, and the value of the financial derivative relating to the debentures issued plus (net of) deposits made in respect thereof, as detailed in the table below.

- \*\*\* For the aforementioned ratio, the effect on EBITDA resulting from the implementation of IFRS16 has been neutralized.
- \*\*\*\* The decrease in the ratio of capital to total balance sheet as of December 31<sup>st</sup>, 2020 compared to previous reporting periods is due to the comprehensive loss in 2020.
- \*\*\*\*\* CAP as defined in the deeds of trust for the Debentures – financial debt, plus equity in the balance sheet (including minority rights) plus long-term deferred taxes.

The ratio of net financial debt coverage to EBITDA and net financial debt to CAP, taking into account the issuance of the subsidiary Delta Israel Brands Ltd. which was completed in March 2021, see section 1.3.4 above, are 2.0 and 15.2%, compared with 2.9 and 23.8 %, according to the table above. The ratio of capital to the balance sheet, taking into account such an offering, is 30.2%, compared with 28.2% in the table above.

The financial debt ratio to EBITDA and the financial debt ratio to the CAP are calculated when neutralizing the effect of IFRS16, 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 debentures series includes, *inter alia*, liabilities in respect of operating leases and/or financing leases.

In light of the implementation of IFRS16, the Company included in its balance sheet as of December 31, 2020, liabilities in respect of operating leases for a total amount of approximately \$ 242.8 million, as well as assets for use rights of approximately \$ 217.8 million.

It will be clarified that the Company does not consider the aforementioned liabilities in respect of operational leases a part of the Company's financial debt. For the sake of caution, the Company clarifies that even considering these liabilities in respect of operating leases, it meets the financial criteria.

Here are the financial indicators given those liabilities in respect of operating leases – the net financial debt amounts to \$ 479.1 million (compared to \$ 236.3 million as listed in the table), the net financial debt to EBITDA ratio is 3.3 (compared to 2.9 as listed in the table) and the net financial debt to CAP ratio is 39.1% (compared to 23.8% as listed in the table).

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

It will be clarified that according to the terms of the promissory notes of some of the series of debentures, the calculation of the net financial debt as defined in the terms of the promissory notes does not include the loans for the purchase of vehicles, and that these are presented in the calculation for convenience and conservatism only as the Company's position is that they are not relevant for the purpose of calculating the total net financial debt of the Company for the purpose of those series.

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

|                                                                                         | December 31 <sup>st</sup><br>2020 | December 31 <sup>st</sup><br>2019 | December 31 <sup>st</sup><br>2018 |
|-----------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Debentures and financial debt, including accrued payable interest                       | 495.5                             | 461.4                             | 400.7                             |
| Minus cash and cash equivalents                                                         | (230.8)                           | (108.3)                           | (74.0)                            |
| Total financial debt before financial derivative                                        | 263.7                             | 353.1                             | 326.7                             |
| Financial derivative                                                                    | (33.4)                            | (18.6)                            | 0.0                               |
| Temporary deposit in banking corporation serving as security for a financial derivative | 1.8                               | 0.0                               | 0.0                               |
| Loans for the purchase of vehicles                                                      | 4.3                               | 0.0                               | 0.0                               |
| Total net financial debt                                                                | 236.3                             | 334.5                             | 326.7                             |

The total net financial debt as of December 31, 2020 was \$ 236.3 million, compared to \$ 334.5 million as of December 31, 2019, and \$ 326.7 million as of December 31, 2018.

The decrease in the net financial debt as of December 31<sup>st</sup> 2020 compared with December 31<sup>st</sup> 2019 was mainly due to cash flow from operating activities neutralizing IFRS16 in the amount of approximately \$ 161.6 million, which was partially offset by cash flow used for investing activities in the amount of \$ 34.8 million and dividend payment to shareholders in the amount of about \$ 6.5 million.

#### 4. Market Risk Exposure and Management

##### 4.1 The person responsible for market risk management at the Company

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

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

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

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

##### 4.2 Description of Market Risks

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

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

##### 4.3 Company Policy with Regard to Market Risk Management

###### Volatility of Exchange Rates of the Euro vs. the USD

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

In 2021 the Company's receipts surplus in euros is expected to amount to about \$ 98 million.

The Company has executed currency transactions for 2021 to hedge against devaluation of the euro exchange rate against the dollar, in the amount of \$ 68 million at an average rate of \$ 1.189 per 1 euro.

#### Volatility of Exchange Rates of the NIS vs. the USD

In 2020, the Company's surplus in receipts in shekels is expected to total \$ 95 million.

As part of the Company's preparations for 2021, the Company has executed currency transactions to hedge against devaluation of the NIS exchange rate against the dollar, that are open as of the date of this report, in the amount of \$ 29 million at an average rate of NIS 3.274 per \$ 1.

#### Supervision of Market Risk Management Policy and its Implementation

#### 4.4 Exposure to a change in the LIBOR interest rate

The Company has certain liabilities that bear interest based on the LIBOR interest rate, the majority of which are Series B of the debentures it issued and utilized credit facilities from banking corporations in the United States and Hong Kong.

According to the Company, from the end of 2021, the use of the LIBOR interest rate will cease worldwide and new interest rates will to be used.

At this stage, the Company is unable to assess the effect of the cessation of the use of the LIBOR interest rate and whether this effect will be material or not, since it is not yet known what the interest rate mechanism will be in the format that will replace the LIBOR interest rate as aforesaid.

## Aspects of Corporate Governance

### 5. Charitable Donations

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

The total donations the Company (including subsidiaries abroad) has donated to educational and cultural institutions and welfare organization as stated, amounted to about \$ 618,000 in 2020. Subject to the compliance of the bodies supported by the Company with the agreements with them, the Company has undertaken to give donations amounting to about \$ 530,000 for 2021.

### 6. Auditing Accountant's Fee

The Company's independent CPA is the Kesselman and Kesselman – PWC Accounting Firm.

The auditing accountant's fees for auditing services, auditing-related tax services and others at the Company and the subsidiaries amounted to \$ 1.2 million in 2020 compared to \$ 1.4 million in 2019, detailed as follows:

|                         | <u>2020</u>      | <u>2019</u>  |
|-------------------------|------------------|--------------|
|                         | Thousand dollars |              |
| Audit services          | 900              | 957          |
| Tax services and others | <u>275</u>       | <u>463</u>   |
| Total                   | <u>1,174</u>     | <u>1,420</u> |

The decrease in fees for audit services in respect of 2020 compared with 2019 was mainly due to fees in the amount of \$0.2 million for the acquisition of Bogart, which was included in the previous year.

The scope of employment and salary of the Company's accountant for 2020 was examined by the Financial Statements Examination Committee, which received from Company management details regarding the scope of work and regarding its compatibility with the Company's needs. The Committee recommended that the Company Board of Directors approve the scope of work and found that the fee is reasonable and acceptable with respect to the Company's nature and the scope of its activity, and these were approved by the Company Board of Directors.

### 7. Disclosure Regarding the Company Internal Auditor

#### Details of Internal Auditor:

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

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

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

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

#### Method of appointment:

The appointment of Mr. Moshe Cohen as Internal Auditor was approved by the Audit Committee and by the Board of Directors in January 2013. The Internal Auditor's appointment was approved after the Audit Committee checked a number of potential candidates and interviewed some of them. The Audit Committee received an opinion regarding the final candidates, who had passed the initial screening stage. The Audit Committee was favorably impressed by Mr. Cohen's education and years of experience and after a meeting held with him at the Audit Committee meeting and after receiving a (direct) positive impression from the Company management as well, Mr. Cohen was found fit to serve as the Company's Internal Auditor, noting among other things, the size of the Company, the scope and complexity of its activity, as well as the scope of activity required from the Internal Auditor and his experience.

#### Identity of the internal auditor's supervisor:

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

#### Work Plan:

The Internal Auditor's work plan is annual and is approved by the Audit Committee. The annual work plan followed by the Internal Auditor in 2020 was decided, *inter alia*, based on:

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

The annual work plan contains no restrictions on deviating therefrom. The Internal Auditor may propose replacing and/or adding topics, subject to approval by the Audit Committee. The 2020 work plan included the performance of an updated risk survey that will constitute the basis for the audit plan in the Company in the coming years.

#### Scope of employment:

In 2020, the Internal Auditor spent about 400 hours in practice on internal auditing, divided as follows:

|                            | <u>Audit in the Company<br/>itself</u> | <u>Audit in subsidiaries</u> |
|----------------------------|----------------------------------------|------------------------------|
| Activity in Israel         | 350                                    |                              |
| Activity outside of Israel |                                        | 50                           |

In addition to the audit work performed by the Internal Auditor, the Company employs an Internal Audit Manager who performs internal auditing works on a regular and full-time basis. In 2020 the Internal Audit Manager performed about 2,000 hours of internal auditing and implementation of internal controls in the Company's units, of which about 1,200 hours were for activities in Israel and the balance of about 800 hours was for activity abroad.

#### Conducting the audit:

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

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

#### Access to information:

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

#### Internal Auditor's Report:

Reports of the Internal Auditor were submitted in writing to the Chairman and members of the Audit Committee and to Company management. The Audit Committee convened for 2 meetings in the course of 2020 which involved internal audit reports: on February 4<sup>th</sup> 2020 and May 18<sup>th</sup> 2020. The audit reports referring to the above meetings were submitted on: December 29<sup>th</sup> 2019 and May 13<sup>th</sup> 2020, respectively.

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

The Board of Directors believes that the Internal Auditor's actual scope of work in 2020 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 about 70,000 NIS (about \$ 20,000).

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

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

### 8. **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, among other things, the Company's size, as well as the scope, type and complexity of its activity.

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

### 9. **Disclosure Regarding the Rate of Independent Directors**

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

## Special Disclosure for Debenture Holders

### 10. Outstanding Obligatory Notes

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

| Series                                                                          | E                                                                                                                                                                                                                                                                                                                                                                                                                | A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | B                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | F                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Issue Date and Scope of Debentures Issued on the Issue Date (in NIS)</b>     | 192,909,000 NIS par value debentures listed for trade on April 5 <sup>th</sup> 2012 pursuant to the shelf offering report published by the Company on April 4 <sup>th</sup> 2012 by virtue of the Company's shelf prospectus dated November 22 <sup>nd</sup> 2010, as revised in the prospectus revision of April 14 <sup>th</sup> 2011 and as revised in the prospectus revision of April 2 <sup>nd</sup> 2012. | 178,543,000 NIS par value debentures listed for trade on August 12 <sup>th</sup> 2013 pursuant to the shelf offering report published by the Company on August 8 <sup>th</sup> 2013 by virtue of the Company's shelf prospectus dated May 27 <sup>th</sup> 2013, as revised in the prospectus revision from August 5 <sup>th</sup> 2013 (" <b>the Shelf Prospectus</b> ").<br>21,457,000 NIS par value debentures listed for trade on October 27 <sup>th</sup> 2013 pursuant to a private offering report.<br>161,734,000 NIS par value debentures listed for trade on May 15 <sup>th</sup> 2014 pursuant to the shelf offering report published by the Company on May 13 <sup>th</sup> 2014 by virtue of the Company's shelf prospectus.<br>38,266,000 NIS par value debentures listed for trade on June 2 <sup>nd</sup> 2014 pursuant to the shelf offering report published by the Company on June 1 <sup>st</sup> 2014 by virtue of the Company's shelf prospectus.<br>245,000,000 NIS par value debentures listed for trade on December 24 <sup>th</sup> 2019 pursuant to the shelf offering report published by the Company on December 22 <sup>nd</sup> 2019 by virtue of the Company's shelf prospectus. | 168,423,000 NIS par value debentures listed for trade on September 22 <sup>nd</sup> 2014 pursuant to the shelf offering report published by the Company on September 17 <sup>th</sup> 2014 by virtue of the Company's shelf prospectus.<br>31,577,000 NIS par value debentures listed for trade on November 20 <sup>th</sup> 2014 pursuant to a private offering report.<br>159,577,000 NIS par value debentures listed for trade on May 24 <sup>th</sup> 2015 pursuant to a shelf offering report published by the Company on May 21 <sup>st</sup> 2015. | 208,877,000 NIS par value debentures listed for trade on March 30 <sup>th</sup> 2017 pursuant to the shelf offering report published by the Company on March 27 <sup>th</sup> 2017 by virtue of the Company's shelf prospectus dated January 18 <sup>th</sup> 2017.<br>253,470,000 NIS par value debentures listed for trade on March 13 <sup>th</sup> 2019 pursuant to the shelf offering report published by the Company on March 3 <sup>rd</sup> 2019. |
| <b>Scope of debentures par value as of December 31<sup>st</sup> 2020 in NIS</b> | 24,113,625                                                                                                                                                                                                                                                                                                                                                                                                       | 446,349,420                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 359,577,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 329,367,924                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Start Date of Principal Repayment and the Manner of its Repayment</b>        | Starting December 31 <sup>st</sup> 2014, in annual installments on December 31 <sup>st</sup> of each year through December 31 <sup>st</sup> 2021                                                                                                                                                                                                                                                                 | Starting August 31 <sup>st</sup> 2015, in annual installments on August 31 <sup>st</sup> of each year through August 31 <sup>st</sup> 2028 (inclusive)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | In a single payment on October 1 <sup>st</sup> 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Starting December 31 <sup>st</sup> 2018, in annual installments on December 31 <sup>st</sup> of each year through December 31 <sup>st</sup> 2026 (inclusive)                                                                                                                                                                                                                                                                                              |

| Series                                                                                                                  | E                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | B                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | F                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Interest accrued as of December 31<sup>st</sup> 2020</b>                                                             | -                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | About NIS 7.5 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | About NIS 2.2 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | -                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Value as included in the December 31<sup>st</sup> 2020 Financial Statements</b>                                      | About NIS 24 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | About NIS 475 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | About NIS 355 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | About NIS 290 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Market value on stock exchange on December 31<sup>st</sup> 2020</b>                                                  | About NIS 26 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | About NIS 505 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | About NIS 365 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | About NIS 293 million                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Interest type</b>                                                                                                    | Fixed – 7.6%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Fixed – 5.0%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Variable – 2.1% above Telbor, 3 months                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Fixed – 3.85%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Interest payment dates</b>                                                                                           | Semi-annual installments on June 30 <sup>th</sup> and on December 31 <sup>st</sup> of each of the years from 2012 through 2021, starting December 31 <sup>st</sup> 2012 and ending December 31 <sup>st</sup> 2021                                                                                                                                                                                                                                                                                                                                                                                                 | Semi-annual installments on February 28 <sup>th</sup> and on August 31 <sup>st</sup> of each of the years from 2014 through 2028                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Semi-annual installments on April 1 <sup>st</sup> and on October 1 <sup>st</sup> of each of the years from 2015 through 2024                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Semi-annual installments on June 30 <sup>th</sup> and on December 31 <sup>st</sup> of each of the years from 2019 through 2026, starting December 31 <sup>st</sup> 2017 and ending December 31 <sup>st</sup> 2026                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Linkage type</b>                                                                                                     | Unlinked                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Unlinked                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Unlinked                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Linked to the USD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Conversion rights</b>                                                                                                | Non-convertible debentures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Non-convertible debentures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Non-convertible debentures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Non-convertible debentures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Right to early redemption or forced conversion</b>                                                                   | Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall not allow early redemption of debentures due to said de-listing.<br>The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the debentures (Series E) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 7 to Addendum 1 to the deed of trust of the debentures (Series E). | Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall perform early redemption of debentures due to said de-listing.<br>The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the debentures (Series A) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the deed of trust and Section 7 to Addendum 1 to the deed of trust of the debentures (Series A). | Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall perform early redemption of debentures due to said de-listing.<br>The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the debentures (Series B) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the combined wording of the deed of trust with Addendum 2. | Should the stock exchange decide to de-list the debentures from trading due to a decline in the value of the debenture series below the threshold determined by the stock exchange, the Company shall perform early redemption of debentures due to said de-listing.<br>The Company shall be entitled (but not required) at its sole discretion to carry out early redemption, in full or in part, of the debentures (Series F) at a price, according to the mechanism, according to the timetables and under the other terms set in Section 8.2 of the deed of trust of the debentures (Series F). |
| <b>Liability payment guarantee and other securities</b>                                                                 | Not guaranteed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Not guaranteed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Not guaranteed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Not guaranteed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Rating company</b>                                                                                                   | Midroog Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Midroog Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Midroog Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Midroog Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Rating upon issue of the series</b>                                                                                  | A3 with a positive outlook                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | A2 with a stable outlook                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | A1 with a stable outlook                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | A1 with a stable outlook                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Rating as of April 7<sup>th</sup>, 2020 [see report from April 7<sup>th</sup>, 2020 (reference: 2020-01-033082)]</b> | A1 with a negative outlook                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | A1 with a negative outlook                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | A1 with a negative outlook                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | A1 with a negative outlook                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

| Series                                                          | E                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | B                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | F                                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Additional ratings</b>                                       | <ul style="list-style-type: none"> <li>a. On March 11<sup>th</sup> 2019: A1 with a stable outlook</li> <li>b. On March 12<sup>th</sup> 2018: A1 with a stable outlook</li> <li>c. On March 12<sup>th</sup> 2017: A1 with a stable outlook</li> <li>d. On July 10<sup>th</sup> 2016: A1 with a stable outlook</li> <li>e. On March 31<sup>st</sup> 2016: A1 with a stable outlook</li> <li>f. On May 18<sup>th</sup> 2015: A1 with a stable outlook</li> <li>g. On September 2<sup>nd</sup> 2014: A1 with a stable outlook</li> <li>h. On March 30<sup>th</sup> 2014: A1 with a stable outlook</li> <li>i. On December 24<sup>th</sup> 2012: A2 with a stable outlook</li> <li>j. On May 7<sup>th</sup> 2012: A3 with a positive outlook</li> </ul> | <ul style="list-style-type: none"> <li>a. On March 11<sup>th</sup> 2019: A1 with a stable outlook</li> <li>b. On March 12<sup>th</sup> 2018: A1 with a stable outlook</li> <li>c. On March 12<sup>th</sup> 2017: A1 with a stable outlook</li> <li>d. On July 10<sup>th</sup> 2016: A1 with a stable outlook</li> <li>e. On March 31<sup>st</sup> 2016: A1 with a stable outlook</li> <li>f. On May 18<sup>th</sup> 2015: A1 with a stable outlook</li> <li>g. On September 2<sup>nd</sup> 2014: A1 with a stable outlook</li> <li>h. On March 30<sup>th</sup> 2014: A1 with a stable outlook</li> </ul> | <ul style="list-style-type: none"> <li>a. On March 11<sup>th</sup> 2019: A1 with a stable outlook</li> <li>b. On March 12<sup>th</sup> 2018: A1 with a stable outlook</li> <li>c. On March 12<sup>th</sup> 2017: A1 with a stable outlook</li> <li>d. On July 10<sup>th</sup> 2016: A1 with a stable outlook</li> <li>e. On March 31<sup>st</sup> 2016: A1 with a stable outlook</li> <li>f. On May 18<sup>th</sup> 2015: A1 with a stable outlook</li> <li>g. On September 2<sup>nd</sup> 2014: A1 with a stable outlook</li> </ul> | <ul style="list-style-type: none"> <li>a. On March 11<sup>th</sup> 2019: A1 with a stable outlook</li> <li>b. On March 12<sup>th</sup> 2018: A1 with a stable outlook</li> <li>c. On March 12<sup>th</sup> 2017: A1 with a stable outlook</li> </ul> |
| <b>Details and Contact Information of the Trustee</b>           | 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: <a href="mailto:Avnon@hermetic.co.il">Avnon@hermetic.co.il</a>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 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: <a href="mailto:Avnon@hermetic.co.il">Avnon@hermetic.co.il</a>                                                                                                                                                                                                                                                                                                                                                                                  | 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: <a href="mailto:Avnon@hermetic.co.il">Avnon@hermetic.co.il</a>                                                                                                                                                                                                                                                                                                              | 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: <a href="mailto:Avnon@hermetic.co.il">Avnon@hermetic.co.il</a>                              |
| <b>Materiality (over 5% of the Company's total liabilities)</b> | No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Yes                                                                                                                                                                                                                                                  |

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

The Board of Directors and management express their deep appreciation of Delta employees and managers.  
Signed: March 9<sup>th</sup> 2021.

---

Noam Lautman  
Chairman of the Board of Directors

---

Isaac Dabah  
CEO and Director

**Delta Galil Industries Ltd.**  
**Chapter C**

**Annual Report 2020**

**Delta Galil Industries Ltd.**  
**2020 Financial Report**  
**Table of Contents**

|                                                                                 | <b>Page</b> |
|---------------------------------------------------------------------------------|-------------|
| Auditors' Report – Internal Control over Financial Reporting                    | 2           |
| Auditors' Report                                                                | 3           |
| Consolidated Financial Statements - in USD                                      |             |
| Consolidated Balance Sheets                                                     | 5           |
| Consolidated Statements of Profit or Loss and Other Comprehensive Income        | 6           |
| Consolidated Statement of Changes in Equity                                     | 7           |
| Consolidated Statements of Cash Flows                                           | 8-9         |
| Notes to the Financial Statements                                               |             |
| Note 1 – Overview                                                               | 10          |
| Note 2 - Principal accounting policies                                          | 13-30       |
| Note 3 - Material accounting estimates and judgments                            | 31-32       |
| Note 4 - Financial instruments and the management of financial risks            | 32-37       |
| Note 5 - Segmental reporting                                                    | 38-43       |
| Note 6 - Business combinations                                                  | 43-45       |
| Note 7 - Fixed assets                                                           | 46-49       |
| Note 8 - Intangible assets                                                      | 50-55       |
| Note 9 - Assets and liabilities in respect of leases                            | 56-57       |
| Note 10 - Investments treated at equity and other long-term receivables         | 57          |
| Note 11 - Debentures                                                            | 58-62       |
| Note 12 - Derivative financial instruments                                      | 63-64       |
| Note 13 - Other non-current liabilities                                         | 65          |
| Note 14 - Equity                                                                | 65-73       |
| Note 15 - Taxes on income                                                       | 74-79       |
| Note 16 - Earnings per share                                                    | 80          |
| Note 17 - Commitments                                                           | 80-82       |
| Note 18 - Transactions and balances with interested parties and related parties | 82-86       |
| Note 19 - Additional information regarding the financial statements             | 86-93       |
| Note 20 - Details of investee companies                                         | 64-96       |
| Note 21 - Event after the Balance Sheet date                                    | 96          |



## **Report of the Auditing Accountant**

To the Shareholders of

**Delta Galil Industries Ltd.**

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

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

**(Periodic and Immediate Reports), 1970**

We have audited the components of internal control over financial reporting of Delta Galil Industries Ltd. and subsidiaries (hereinafter jointly - "the Company") as at December 31, 2020. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and the assessment of the effectiveness of the components of the internal control over financial reporting included in the accompanying periodic report for the said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting, based on our audit.

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

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

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

In our opinion, the Company has effectively maintained, in all material aspects, the audited control components as at December 31<sup>st</sup> 2020.

We also audited, in accordance with generally accepted auditing standards in Israel, The Company's consolidated financial statements as at December 31<sup>st</sup> 2020 and 2019 and for each of the three years in the period ended December 31<sup>st</sup> 2020, and our report, dated March 9<sup>th</sup> 2021, included an unqualified report on those financial statements based on our audit and the reports of the other auditors.

Tel-Aviv

Kesselman & Kesselman

March 9<sup>th</sup> 2021

Certified Public Accountants

A Member Firm of PricewaterhouseCoopers International Limited

**Auditors' Report**  
To the Shareholders of  
**Delta Galil Industries Ltd.**

We have audited the accompanying consolidated statements of financial position of Delta Galil Industries Ltd. (hereinafter – the Company) as at December 31, 2020 and 2019 and the consolidated statements of profit or loss, the comprehensive income, changes in equity and cash flows for each of the three years for the period ended December 31, 2020. These financial statements are the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of companies which have been consolidated, whose assets included in the consolidation comprise approximately 7.5% and 8% of total consolidated assets as at December 31, 2020 and 2019, respectively, and whose revenues included in the consolidation comprise approximately 10.1%, 6.9% and 0% of total consolidated revenues for the years ended December 31, 2020, 2019 and 2018, respectively. The financial statements of these companies were audited by other auditors, whose reports have been furnished to us, and our opinion, to the extent that it relates to the amounts included for these companies, is based on the reports of the other auditors.

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

In our opinion, based on our audit and on the reports of the other auditors, the said financial statements present fairly, in all material respects, the financial position of the Company and its consolidated companies as at December 31, 2020 and 2019 and the results of their operations, the changes in their equity and their cash flows for each of the three years for the period ended December 31, 2020, in conformity with International Financial Reporting Standards (IFRS), and the provisions of the Securities Regulations (Annual Financial Statements) – 2010.

We also audited, in accordance with Auditing Standard 911 (Israel) of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", components of internal control over financial reporting of the Company as at December 31, 2020, and our report dated March 9<sup>th</sup> 2021, included an unqualified report on the effective existence of those components.

Tel-Aviv  
March 9<sup>th</sup> 2021

Kesselman & Kesselman  
Certified Public Accountants  
A Member Firm of PricewaterhouseCoopers International Limited

# Delta Galil Industries Ltd.

## Consolidated Balance Sheets

|                                                                                        |         | As at December 31 |                  |
|----------------------------------------------------------------------------------------|---------|-------------------|------------------|
|                                                                                        | Note    | 2020              | 2019             |
|                                                                                        |         | US\$ thousands    |                  |
| <b>Assets:</b>                                                                         |         |                   |                  |
| <b>Current assets:</b>                                                                 |         |                   |                  |
| Cash and cash equivalents                                                              | 2M, 19A | 230,843           | 108,294          |
| Restricted cash                                                                        |         | 898               | 933              |
| Other receivables:                                                                     | 19B     |                   |                  |
| Trade receivables                                                                      |         | 200,201           | 212,311          |
| Income tax receivable                                                                  |         | 18,305            | 2,867            |
| Other receivables                                                                      |         | 38,255            | 35,200           |
| Derivative financial instrument                                                        | 12      | 2,020             | 971              |
| Inventory                                                                              | 19C     | 291,703           | 328,108          |
| Total current assets                                                                   |         | 782,225           | 688,684          |
| <b>Non-current assets:</b>                                                             |         |                   |                  |
| Investments treated according to the book value method and other long-term receivables | 10      | 14,668            | 14,367           |
| Investment property                                                                    |         | 3,389             | 3,228            |
| Fixed assets, less accumulated depreciation                                            | 7       | 209,465           | 213,210          |
| Goodwill                                                                               | 8       | 150,657           | 148,001          |
| Intangible assets, less accumulated amortization                                       | 8       | 266,967           | 273,318          |
| Assets with respect to rights of use                                                   | 9       | 217,777           | 207,651          |
| Deferred tax assets                                                                    | 15D     | 15,590            | 19,678           |
| Derivative financial assets                                                            | 12      | 31,593            | 19,677           |
| Total non-current assets                                                               |         | 910,106           | 899,130          |
| <b>Total assets</b>                                                                    |         | <b>1,692,331</b>  | <b>1,587,814</b> |

\_\_\_\_\_  
**Noam Lautman**  
**Chairman of the Board of Directors**

\_\_\_\_\_  
**Isaac Dabah**  
**Chief Executive Officer**

\_\_\_\_\_  
**Asaf Alperovitz**  
**Chief Financial officer**

**Date of the approval of the financial statements by the Company's Board of Directors: March 9, 2021**

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

# Delta Galil Industries Ltd.

## Consolidated Balance Sheets

|                                                                                               |      | As at December 31 |           |
|-----------------------------------------------------------------------------------------------|------|-------------------|-----------|
|                                                                                               | Note | 2020              | 2019      |
|                                                                                               |      | US\$ thousands    |           |
| <b>Liabilities and equity</b>                                                                 |      |                   |           |
| <b>Current liabilities:</b>                                                                   |      |                   |           |
| Short-term credit from banking corporations                                                   | 19D  | 11,013            | 1,868     |
| Current maturity of long-term loan from a banking corporation                                 | 19E  | 20,295            | 10,588    |
| Current maturities of debentures                                                              | 11   | 39,029            | 36,803    |
| Derivative financial instrument                                                               | 12   | 170               | 2,070     |
| Current maturities of liabilities in respect of leases                                        | 9    | 60,363            | 53,401    |
| Payables:                                                                                     |      |                   |           |
| Trade payables                                                                                |      | 186,903           | 140,475   |
| Income tax payable                                                                            |      | 26,294            | 16,392    |
| Provisions for restructuring plan                                                             | 19G  | 26,825            | 1,435     |
| Other payables                                                                                | 19F  | 150,737           | 138,802   |
| Total current liabilities                                                                     |      | 521,629           | 401,833   |
| <b>Non-current liabilities:</b>                                                               |      |                   |           |
| Loan from a banking corporation                                                               | 19E  | 104,096           | 68,337    |
| Liabilities in respect of the termination of employee-employer relationships less plan assets |      | 9,499             | 10,155    |
| Liabilities in respect of leases                                                              | 9    | 182,408           | 172,903   |
| Other non-current liabilities                                                                 | 13   | 43,030            | 47,899    |
| Debentures                                                                                    | 11   | 316,764           | 340,376   |
| Provision for deferred taxes                                                                  | 15D  | 38,513            | 39,368    |
| Total non-current liabilities                                                                 |      | 694,310           | 679,038   |
| <b>Total liabilities</b>                                                                      |      | 1,215,939         | 1,080,871 |
| <b>Equity:</b>                                                                                |      |                   |           |
| Equity attributed to shareholders in the parent company:                                      | 14   |                   |           |
| Share capital                                                                                 |      | 23,714            | 23,714    |
| Share premium                                                                                 |      | 130,260           | 130,237   |
| Other capital reserves                                                                        |      | 6,604             | (7,962)   |
| Retained earnings                                                                             |      | 332,268           | 376,763   |
| Treasury shares                                                                               |      | (16,067)          | (16,093)  |
|                                                                                               |      | 476,779           | 506,659   |
| Non-controlling interests                                                                     |      | (387)             | 284       |
| <b>Total equity</b>                                                                           |      | 476,392           | 506,943   |
| <b>Total liabilities and equity</b>                                                           |      | 1,692,331         | 1,587,814 |

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

# Delta Galil Industries Ltd.

## Consolidated Statements of Profit or Loss and Other Comprehensive Income

|                                                                                                | Note  | For the year ended December 31 |               |               |
|------------------------------------------------------------------------------------------------|-------|--------------------------------|---------------|---------------|
|                                                                                                |       | 2020                           | 2019          | 2018          |
|                                                                                                |       | US\$ thousands                 |               |               |
| <b>Revenues</b>                                                                                | 5C-D  | <b>1,446,187</b>               | 1,690,164     | 1,498,421     |
| Cost of sales                                                                                  | 19I   | <b>922,502</b>                 | 1,086,005     | 939,606       |
| <b>Gross profit</b>                                                                            |       | <b>523,685</b>                 | 604,159       | 558,815       |
| Selling and marketing expenses                                                                 | 19J   | <b>385,507</b>                 | 429,705       | 406,132       |
| Administrative and general expenses                                                            | 19J   | <b>77,446</b>                  | 77,315        | 66,448        |
| Customer credit losses                                                                         |       | <b>9,671</b>                   | (865)         | 2,998         |
| Other (income) expenses, net                                                                   | 19L   | <b>2,634</b>                   | (3,739)       | (2,468)       |
| Share of profits of investee companies that are treated at equity method                       | 10    | <b>(397)</b>                   | (950)         | (392)         |
| Restructuring (income) expenses                                                                | 19G   | <b>39,154</b>                  | (987)         | 5,422         |
| Impairment of non-financial assets                                                             |       | <b>16,811</b>                  | -             | -             |
| <b>Operating (loss) profit</b>                                                                 |       | <b>(7,141)</b>                 | 103,680       | 80,675        |
| Financing expenses, net                                                                        | 19M   | <b>37,475</b>                  | 36,065        | 21,352        |
| <b>Profit (loss) before taxes</b>                                                              |       | <b>(44,616)</b>                | 67,615        | 59,323        |
| Taxes on income (tax savings)                                                                  | 15    | <b>(4,095)</b>                 | 9,915         | 11,146        |
| <b>Net (loss) profit for the year</b>                                                          |       | <b>(40,521)</b>                | <b>57,700</b> | <b>48,177</b> |
| <b>Other comprehensive income:</b>                                                             |       |                                |               |               |
| <b>Items that will never be reclassified to profit or loss:</b>                                |       |                                |               |               |
| Re-measurement of liabilities in respect of the termination of employee-employer relationships |       | <b>727</b>                     | (1,624)       | (349)         |
| Impact of taxes on income (tax savings)                                                        |       | <b>(157)</b>                   | 451           | 68            |
|                                                                                                |       | <b>570</b>                     | (1,173)       | (281)         |
| <b>Items that may be reclassified to profit or loss:</b>                                       |       |                                |               |               |
| Hedging of cash flows                                                                          | 12    | <b>(4,551)</b>                 | 2,378         | (6,001)       |
| Translation differences on financial statements prepared in foreign currency                   |       | <b>17,852</b>                  | 710           | (13,711)      |
| Impact of taxes on income (expense)                                                            |       | <b>1,047</b>                   | (547)         | 1,375         |
|                                                                                                |       | <b>14,348</b>                  | 2,541         | (18,377)      |
| <b>Total comprehensive (loss) income for the year</b>                                          |       | <b>(25,603)</b>                | <b>59,068</b> | <b>29,599</b> |
| <b>Attribution of the net (loss) income for the year:</b>                                      |       |                                |               |               |
| To shareholders in the parent company                                                          |       | <b>(39,850)</b>                | 57,898        | 48,539        |
| To non-controlling interests                                                                   |       | <b>(671)</b>                   | (198)         | (362)         |
| <b>Total net (loss) income for the year</b>                                                    |       | <b>(40,521)</b>                | <b>57,700</b> | <b>48,177</b> |
| <b>Attribution of the total comprehensive (loss) income for the year:</b>                      |       |                                |               |               |
| To shareholders in the parent company                                                          |       | <b>(24,932)</b>                | 59,266        | 29,921        |
| To non-controlling interests                                                                   |       | <b>(671)</b>                   | (198)         | (362)         |
| <b>Total net (loss) income for the year</b>                                                    |       | <b>(25,603)</b>                | <b>59,068</b> | <b>29,559</b> |
| <b>Earnings (loss) per share for the shareholders in the parent company (in Dollars)</b>       |       |                                |               |               |
| Basic                                                                                          | 2V, 1 | <b>(1.56)</b>                  | 2.27          | 1.91          |
| Diluted                                                                                        |       | <b>(1.56)</b>                  | 2.26          | 1.90          |

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

**Delta Galil Industries Ltd.**  
Consolidated Statements of Changes in Equity

|                                                                                         | Attributed to shareholders in the company |               |                |                                         |                                            |                                      |                                                                                                                  |                   |                 |                |                           |                |
|-----------------------------------------------------------------------------------------|-------------------------------------------|---------------|----------------|-----------------------------------------|--------------------------------------------|--------------------------------------|------------------------------------------------------------------------------------------------------------------|-------------------|-----------------|----------------|---------------------------|----------------|
|                                                                                         | Regular share capital                     |               |                | Controlling shareholder capital reserve | Capital reserve on translation differences | Capital reserve on cash flow hedging | Components of the re-measurement of liabilities in respect of the termination of employee-employer relationships | Retained earnings | Treasury shares | Total          | Non-controlling interests | Total          |
|                                                                                         | Number of shares                          | Amount        | Share premium  |                                         |                                            |                                      |                                                                                                                  |                   |                 |                |                           |                |
|                                                                                         | Thousands                                 |               |                |                                         |                                            |                                      | US\$ thousands                                                                                                   |                   |                 |                |                           |                |
| <b>Balance as at January 1, 2018 (audited)</b>                                          | 26,902                                    | 23,708        | 130,791        | -                                       | (464)                                      | 8,298                                | (3,086)                                                                                                          | 307,874           | (16,914)        | 450,207        | 1,116                     | 451,323        |
| <b>Movements in 2018</b>                                                                |                                           |               |                |                                         |                                            |                                      |                                                                                                                  |                   |                 |                |                           |                |
| Comprehensive income (loss)                                                             | -                                         | -             | -              | -                                       | (13,711)                                   | (4,626)                              | (281)                                                                                                            | 48,539            | -               | 29,921         | (362)                     | 29,559         |
| Consideration from the exercise of options                                              | 18                                        | 6             | (124)          | -                                       | -                                          | -                                    | -                                                                                                                | -                 | 391             | 273            | -                         | 273            |
| Distribution of a dividend                                                              | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | (14,070)          | -               | (14,070)       | -                         | (14,070)       |
| Benefit component of option and restricted share units granted                          | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | 946               | -               | 946            | -                         | 946            |
| <b>Balance as at December 31, 2018 (audited)</b>                                        | <u>26,920</u>                             | <u>23,714</u> | <u>130,667</u> | <u>0</u>                                | <u>(14,175)</u>                            | <u>3,672</u>                         | <u>(3,367)</u>                                                                                                   | <u>343,289</u>    | <u>(16,523)</u> | <u>467,277</u> | <u>574</u>                | <u>467,851</u> |
| <b>Balance as at January 1, 2019 (audited)</b>                                          | 26,920                                    | 23,714        | 130,667        | -                                       | (14,175)                                   | 3,672                                | (3,367)                                                                                                          | 343,289           | (16,523)        | 467,277        | 574                       | 467,851        |
| Effect of the application for the first time of Lease Accounting Standard (see Note 2X) | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | (10,000)          | -               | (10,000)       | -                         | (10,000)       |
| <b>Balance as at January 1, 2019 (restated)</b>                                         | 26,920                                    | 23,714        | 130,667        | -                                       | (14,175)                                   | 3,672                                | (3,367)                                                                                                          | 333,289           | (16,523)        | 457,277        | 574                       | 457,851        |
| <b>Movements in 2019</b>                                                                |                                           |               |                |                                         |                                            |                                      |                                                                                                                  |                   |                 |                |                           |                |
| Comprehensive income (loss)                                                             | -                                         | -             | -              | -                                       | 710                                        | 1,831                                | (1,173)                                                                                                          | 57,898            | -               | 59,266         | (198)                     | 59,068         |
| Consideration from the exercise of options                                              | 3                                         | -             | (430)          | -                                       | -                                          | -                                    | -                                                                                                                | -                 | 430             | -              | -                         | -              |
| Establishment of subsidiary                                                             | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | -                 | -               | -              | 254                       | 254            |
| Distribution of a dividend                                                              | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | (11,084)          | -               | (11,084)       | -                         | (11,084)       |
| Dividend to non-controlling interests                                                   | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | -                 | -               | -              | (346)                     | (346)          |
| Benefit component of option and restricted share units granted                          | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | 1,200             | -               | 1,200          | -                         | 1,200          |
| <b>Balance as at December 31, 2019 (audited)</b>                                        | <u>26,923</u>                             | <u>23,714</u> | <u>130,237</u> | <u>-</u>                                | <u>(13,465)</u>                            | <u>5,503</u>                         | <u>(4,540)</u>                                                                                                   | <u>381,303</u>    | <u>(16,093)</u> | <u>506,659</u> | <u>284</u>                | <u>506,943</u> |
| <b>Balance as at January 1, 2020 (audited)</b>                                          | 26,923                                    | 23,714        | 130,237        | -                                       | (13,465)                                   | 5,503                                | (4,540)                                                                                                          | 381,303           | (16,093)        | 506,659        | 284                       | 506,943        |
| <b>Movements in 2020</b>                                                                |                                           |               |                |                                         |                                            |                                      |                                                                                                                  |                   |                 |                |                           |                |
| Comprehensive income (loss)                                                             | -                                         | -             | -              | -                                       | 17,852                                     | (3,504)                              | 570                                                                                                              | (39,850)          | -               | (24,932)       | (671)                     | (25,603)       |
| Consideration from the exercise of options                                              | -                                         | -             | 23             | -                                       | -                                          | -                                    | -                                                                                                                | -                 | 26              | 49             | -                         | 49             |
| Reduction of controlling shareholder's salary                                           | -                                         | -             | -              | 218                                     | -                                          | -                                    | -                                                                                                                | -                 | -               | 218            | -                         | 218            |
| Distribution of a dividend                                                              | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | (6,506)           | -               | (6,506)        | -                         | (6,506)        |
| Benefit component of option and restricted share units granted                          | -                                         | -             | -              | -                                       | -                                          | -                                    | -                                                                                                                | 1,291             | -               | 1,291          | -                         | 1,291          |
| <b>Balance as at December 31, 2020 (audited)</b>                                        | <u>26,923</u>                             | <u>23,714</u> | <u>130,260</u> | <u>218</u>                              | <u>4,387</u>                               | <u>1,999</u>                         | <u>(3,970)</u>                                                                                                   | <u>336,238</u>    | <u>(16,067)</u> | <u>476,779</u> | <u>(387)</u>              | <u>476,392</u> |

**Delta Galil Industries Ltd.**

## Notes to the Financial Statements

(Continued) – 1

**Delta Galil Industries Ltd.**

## Consolidated Statements of Cash Flows

|                                                                                                   | For the year ended December 31 |                |                 |
|---------------------------------------------------------------------------------------------------|--------------------------------|----------------|-----------------|
|                                                                                                   | 2020                           | 2019           | 2018            |
|                                                                                                   | US\$ thousands                 |                |                 |
| <b>Cash flows from operating activities:</b>                                                      |                                |                |                 |
| Net income (loss) for the year                                                                    | (40,521)                       | 57,700         | 48,177          |
| Reconciliations required to present cash flows generated by operating activities:                 | 282,916                        | 127,228        | (4,730)         |
| Interest paid in cash                                                                             | (23,185)                       | (22,161)       | (16,798)        |
| Interest received in cash                                                                         | 1,062                          | 440            | 398             |
| Taxes on income paid in cash, net                                                                 | (1,867)                        | (8,159)        | (4,678)         |
| Net cash generated from operating activities                                                      | 218,405                        | 155,048        | 22,369          |
| <b>Cash flows from investment activities:</b>                                                     |                                |                |                 |
| Purchase of fixed assets and intangible assets                                                    | (21,448)                       | (30,069)       | (41,854)        |
| Payments under the acquisition of subsidiaries, less cash in the acquired companies               | (13,469)                       | (26,811)       | (136,341)       |
| Release (deposit) of restricted cash                                                              | -                              | 2,561          | (433)           |
| Payment of conditional consideration on the purchase of activity                                  | -                              | -              | (2,250)         |
| Receipt of deposit for cash flow hedge transaction                                                | 1,770                          | -              | -               |
| Granting of long-term loans                                                                       | -                              | (18,102)       | (13,800)        |
| Granting of loan to business partner                                                              | (2,500)                        | -              | -               |
| Consideration from the sale of fixed assets                                                       | 568                            | 479            | 1,789           |
| Others                                                                                            | 305                            | 979            | (2,687)         |
| Net cash used for investment activities                                                           | (34,774)                       | (70,963)       | (195,576)       |
| <b>Cash flows from financing activities:</b>                                                      |                                |                |                 |
| Dividend paid to non-controlling interests in a consolidated company                              | -                              | (346)          | (180)           |
| Payment of long-term supplier credit in connection with the purchase of fixed assets              | (3,787)                        | (3,503)        | (3,649)         |
| Repayment of liabilities in respect of leases                                                     | (56,858)                       | (57,912)       | -               |
| Repayment of the principal of debentures                                                          | (37,568)                       | (29,748)       | (20,920)        |
| Receipt from a financial institution                                                              | -                              | -              | (6,413)         |
| Dividend paid                                                                                     | (6,506)                        | (11,084)       | (14,070)        |
| Receipt (repayment) of a long-term loan from banking corporations, net                            | 34,686                         | (8,944)        | 79,466          |
| Short-term credit from banking corporations, net                                                  | 11,013                         | (82,907)       | 73,415          |
| Consideration from the issuance of debentures, net of issuance expenses                           | -                              | 150,137        | -               |
| Repayment of long-term loans in the course of the agreement for the acquisition of the subsidiary | (8,855)                        | (3,350)        | -               |
| Consideration received on the exercise of options for employees                                   | -                              | -              | 273             |
| Net cash generated (used) from financing activities                                               | (67,875)                       | (47,657)       | 107,922         |
| <b>Increase (decrease) in cash and cash equivalents</b>                                           | <b>115,756</b>                 | <b>36,428</b>  | <b>(65,285)</b> |
| <b>Exchange losses, revaluation of cash and cash equivalents, and others, net</b>                 | <b>8,661</b>                   | <b>(536)</b>   | <b>(1,651)</b>  |
| <b>Balance of cash and cash equivalents at the beginning of the period</b>                        | <b>106,426</b>                 | <b>70,534</b>  | <b>137,470</b>  |
| <b>Balance of cash and cash equivalents at the end of the period</b>                              | <b>230,843</b>                 | <b>106,426</b> | <b>70,534</b>   |

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

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

(Continued) – 2

### **Delta Galil Industries Ltd.**

#### Consolidated Cash Flow Report

|                                                                                                       | For the year ended December 31 |                |                 |
|-------------------------------------------------------------------------------------------------------|--------------------------------|----------------|-----------------|
|                                                                                                       | 2020                           | 2019           | 2018            |
|                                                                                                       | US\$ thousands                 |                |                 |
| <b>Adjustments required to reflect cash flows</b>                                                     |                                |                |                 |
| <b>From current operations:</b>                                                                       |                                |                |                 |
| Revenues and expenses not involving cash flow:                                                        |                                |                |                 |
| Depreciation                                                                                          | 36,353                         | 30,631         | 26,818          |
| Amortization                                                                                          | 62,063                         | 59,193         | 5,498           |
| Impairment of non-financial assets                                                                    | 16,811                         | -              | 2,947           |
| Erosion of cash, net                                                                                  | 1,082                          | (219)          | 324             |
| Interest paid in cash                                                                                 | 23,185                         | 22,161         | 16,798          |
| Interest received in cash                                                                             | (1,062)                        | (440)          | (398)           |
| Taxes on income paid in cash, net                                                                     | 1,867                          | 8,159          | 4,678           |
| Deferred taxes on income, net                                                                         | 522                            | 58             | (463)           |
| Interest expenses recognized in respect of lease agreements                                           | 9,836                          | 8,474          | -               |
| Severance pay liability, net                                                                          | (579)                          | (250)          | (121)           |
| Restructuring expenses (income)                                                                       | 25,390                         | (987)          | -               |
| Decrease in liabilities for leases as a result of rent relief                                         | (6,026)                        | -              | -               |
| Capital Loss (gain) from the sale of fixed assets                                                     | (263)                          | (86)           | 99              |
| Benefit component of options and restricted share units granted                                       | 1,291                          | 1,200          | 946             |
| Provisions for credit losses and update of other receivables                                          | 12,586                         | (865)          | -               |
| Share in profits of investee company treated using the equity method                                  | (397)                          | (950)          | (392)           |
| Others                                                                                                | 2,651                          | 397            | 2,629           |
|                                                                                                       | <u>185,310</u>                 | <u>126,476</u> | <u>59,363</u>   |
| <b>Changes in operating assets and liabilities:</b>                                                   |                                |                |                 |
| Decrease (increase) in trade receivables                                                              | 6,408                          | 31,923         | (59,454)        |
| Decrease (increase) in other receivables                                                              | (18,882)                       | (5,875)        | 396             |
| Increase (decrease) in trade payables                                                                 | 39,024                         | (40,726)       | 18,330          |
| Increase (decrease) in other payables                                                                 | 7,405                          | 2,972          | (7,566)         |
| Increase (decrease) in inventory                                                                      | 63,651                         | 12,458         | (15,799)        |
|                                                                                                       | <u>97,606</u>                  | <u>752</u>     | <u>(64,093)</u> |
|                                                                                                       | <u>282,916</u>                 | <u>127,228</u> | <u>(4,730)</u>  |
| <b><u>Additional information on investment and financing activities not involving cash flows:</u></b> |                                |                |                 |
| Trade and other payables for the purchase of fixed assets and other assets other than for cash        | 5,229                          | 1,842          | 7,196           |
| Receivables for the sale of fixed assets and assets designated for sale                               | 251                            | -              | 172             |
| Liability for minimal payments for royalties                                                          | 8,300                          | 12,657         | 14,026          |
| Conditional consideration from the acquisition of a company                                           | -                              | 11,037         | -               |
| Payable for the acquisition of a company                                                              | -                              | -              | 603             |
| Additional liability in respect of leases                                                             | 58,662                         | 25,254         | -               |

The attached notes constitute an integral part of these 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 subsidiary companies (hereinafter – "The Group"), is engaged in the design, development, production, marketing and sale of intimate apparel, socks, children's wear, leisure wear and active wear, as well as in the development, design, marketing, distribution and sale of branded products in the jeans and over wear clothing and ancillary products for women, in five business segments- Delta USA, Global Upper Market, Delta European Brands, Delta Premium Brands and Delta Israel. Information regarding the operating segments is presented in Note 5.

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

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

- b. Effect of the Corona virus spread (Covid-19)

In December 2019, or thereabouts, a pandemic caused by the Covid-19 virus (hereinafter "**the Virus**" or "**Corona Virus**") broke out in the city of Wuhan in China. The Virus began to spread around the world, especially beginning in February 2020, when in March 2020 the World Health Organization announced a "pandemic" (global epidemic) following the spread of the Virus.

This pandemic, which began in China, affected the Company's production activities in the Group's factories - some fully owned and some in collaboration with others, as well as the activities of some of the Company's suppliers and subcontractors who returned to work after an extended holiday.

As of March 2020, the impact of the pandemic has expanded to most countries around the world. In order to prevent the spread of the Virus, various countries around the world have taken various measures, including the closure of shopping centers (including street stores, stores located in malls, department stores), manufacturing plants, workplaces, and global traffic restrictions that have significantly affected the selling markets in which the Company operates have been imposed - in the United States, Europe and Israel.

Impact on sales in the various channels: company stores, wholesale customers, online.

In accordance with the aforementioned measures, starting in mid-March 2020, "Delta" and "Fix" stores in the Delta Israel operating segment, Schiesser and Eminence stores in the Delta European Brands operating segment and "7 for all mankind" and "Splendid" stores in the Delta Premium Brands operating segments were temporarily closed. As of the end of April, the stores have opened gradually and in varying degrees according to the various guidelines between the countries.

In addition, some of the Company's customers have announced the postponement of orders and in some cases even their cancellation in light of the decline they are experiencing in short-term demand. In addition, some of the Company's customers unilaterally announced the extension of credit terms for a period of approximately 60 days beyond the normal credit terms.

As of the date of this report, most of the customers who announced the extension of the credit terms as stated above, reinstated the credit terms to the level before the crisis.

The Company's e-commerce sites operate and have operated during the entire pandemic period in full and in accordance with the instructions of the authorities in the various countries around the world, regarding the manner of delivering orders to customers. The significant increase recorded in this activity partially compensated for the harm to the Company's sales in the other sales channels.

The Company stores

The spread of the Corona Virus, and in particular the closure of the Group's stores, significantly affected the Group's revenues during 2020.

In Delta Israel, sales in stores decreased in the months in which closures were imposed and increased upon their canceling due to high demand and also due to a decrease in passenger travel abroad.

In the Delta Premium Brands operating segments, there was a decrease in sales in stores, mainly during periods when they were closed.

In the Delta European Brands operating segments, there was a decrease in sales during periods when closures were imposed, in the various countries.

# **Delta Galil Industries Ltd.**

## **Notes to the Financial Statements**

### **Note 1 – Overview (continued)**

#### The Company's e-commerce sites

Sales on the Company's e-commerce sites in all of its operating segments - Delta Israel, Delta Premium Brands and Delta European Brands - increased throughout the year and especially in the months when restrictions and/or closures were imposed on the physical store chains.

#### Measures to reduce expenses

Due to the effects of the Virus, the Company took action and took significant steps to reduce its expenses in the various operating segments. In its retail operating segments, both in Israel and abroad, the Company has worked mainly to reduce wage expenses by sending employees on unpaid leave as well as to reduce rent costs in coordination with the landlords.

The Company worked with the landlords to reduce the rental costs of the stores. The Company continues to negotiate with the landlords regarding the rent relief for the period of the suspension of the stores' operations. As of the date of approval of the financial statements, no additional reliefs were received beyond the reliefs recorded in the financial statement as of December 31, 2020. The total relief amounts in the rents attributed to the Corona crisis given to the Company during the reporting period amount to a total of approximately \$ 6 million and most of them resulted from the Company's operations in Israel. These benefits were reflected in the Company's profit or loss statements (as negative variable lease payments), as part of selling and marketing expenses, reflecting the changes in rental payments resulting from such reliefs. These amounts were recognized against a decrease in the balance of liabilities in respect of leases.

The effect on the report on cash flows is in the amount of the decrease in cash outflows saved due to the reliefs in the year ending on December 31, 2020, in the amount of approximately \$ 6 million.

In addition, the Company took measures to reduce its expenses in all operating segments, including reducing the activity of the Company's headquarters in Israel and its subsidiaries, sending employees on unpaid leave, graded lowering of salaries - on the base salary without reducing social security provisions - by 10% to 20% for managers and employees and by 50% to the Company's CEO, for the period between April and December 2020. The Company informed its employees that it would re-examine from time to time the need for a salary reduction and its ability to cancel the salary reduction, depending on its situation and the state of the economy. On September 30<sup>th</sup>, 2020, the Company announced that the Company's Compensation Committee and the Board of Directors approved the cancellation of the salary reduction for officers as of October 1<sup>st</sup>, 2020, i.e., starting from October 2020, their salary will be the same as before the reduction. The cancellation of this reduction was made following the cancellation of the salary reduction made to the employees and managers of the Company starting from the October salary by the Company's management. In addition, the Company's directors initiated the reduction of the directors' salary paid to them by a rate of 25%, for the months of April to July 2020. At the Board of Directors meeting on August 18<sup>th</sup>, 2020, the directors announced, of their own initiative, the extension of the period for the reduction of their salaries, until the end of December 2020. The Company also contacted its service providers to extend payment terms and receive a 10% - 20% discount on payments due from April to the end of the first quarter of 2021.

#### Impact on production activity

In the Global Upper Market Segment, the Company worked to temporarily or partially shut down its production plants, depending on the restrictions due to the effect of the Virus and in accordance with the production volumes adapted to the updated demands from customers. Thus, for example, the Bogart plant in Myanmar was shut down from the last week of September 2020 for a period of about 3 weeks and returned to full operation on October 12<sup>th</sup>, 2020.

The restructuring plan approved by the Company's Board of Directors (see Note 19G) includes steps to close a factory in China and reduce production in factories in Egypt and Eastern Europe in order to lower production costs and improve the level of competitiveness.

From the beginning of the spread of the Corona Virus, the Company has worked to protect the health and safety of employees on the one hand, while maintaining the continuity of the Company's activities to the extent possible. The Company operates in accordance with the guidelines in order to maintain a protected work environment for employees in its various factories and sites.

It should be noted that a number of production lines in some of the Company's factories in France, Eastern Europe and China have been converted to the production of masks for the security forces as well as the private market, in order to assist in supplying demand in those countries.

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### **Note 1 – Overview (continued)**

#### Liquidity and sources of funding

As of December 31<sup>st</sup>, 2020, the Company has cash and cash equivalents in the amount of approximately \$ 231.7 million, approved and guaranteed credit facilities that have not yet been utilized, amounting to \$ 180 million and unsecured credit facilities amounting to \$ 68 million, of which \$ 11 million has been utilized.

All of these indicate the high level of liquidity and the financial strength of the Company and its ability to meet the expected challenges.

In addition, during the second and third quarters of the year, the Group received loans from banking corporations in Israel, Germany, France and Switzerland. For more details see Note 19E.

#### Reduction in accounts receivables balances and other receivables

In recent months, as a result of the Corona crisis, the financial situation of a number of the Company's customers in the US and Europe has deteriorated and some have even gone bankrupt. As a result of the aforementioned development, the Company examined the outstanding debt of all customers and made a provision for impairment of \$ 9.7 million, attributed to the effects of the Corona pandemic, which is included in customer credit losses item.

In addition, in the first half of the year, the Company updated the receivables balances in respect of a franchise agreement in the amount of approximately \$ 3.0 million, which is included in the cost of sales item and other expenses (income) item, net in the condensed statement of comprehensive income. For details and elaboration see Note 19.

#### Examination of impairment of non-financial assets

As a result of the Corona crisis and its effect on the Company's results, the Company examined the value of the intangible assets, fixed assets and the value of the assets in respect of rights of use included in the Company's balance sheet and attributed to the various cash-generating units. For the purpose of the aforesaid examination and with regard to the valuation of some of the main intangible assets the Company was assisted by an external appraiser.

As a result of the aforesaid examination, the Company reduced in 2020 the value of some of the intangible assets, assets in respect of rights of use and fixed assets in the amount of \$ 16.8 million.

These assets have been substantially reduced in Delta Premium Brands, Delta USA and Delta European Brands operating segments.

For information regarding impairments recognized as a result of the Corona Virus crisis during the first quarter of 2020 and as of December 31, 2020, see Notes 7-9.

#### Restructuring plan

For details on the restructuring plan in 2020 see Note 19G.

#### c. Splitting the Delta Israel operating segment and the issue of a subsidiary

On September 30<sup>th</sup>, 2020, the Company announced that Delta Galil Israel Brands Ltd., a wholly owned subsidiary of the Company (hereinafter the "Subsidiary"), submitted an application to the Securities Authority for permission to publish a prospectus together with a draft prospectus for supplementation and a shelf prospectus. The Company further announced that on the same day, before submitting the permit application and the draft prospectus, it had entered into a conditional split agreement (the "Split Agreement") with the Subsidiary, according to which - shortly before the completion of the public offering according to the draft prospectus, the Company will transfer to the Subsidiary the Company's "Delta Israel" operating segment (excluding non-material activities), in exchange for shares issued to it by the Subsidiary.

On February 25<sup>th</sup>, 2021, the Company announced that the Subsidiary has published a prospectus for supplementation of a public offering that also constitutes a shelf prospectus.

On March 4<sup>th</sup>, 2021, the Subsidiary issued a prospectus for supplementation. On the same day, the Subsidiary reported the results of the offering. In accordance with the results of the offering, the Subsidiary issued 20% of its shares for a (gross) consideration of approximately NIS 262.5 million.

On March 5<sup>th</sup>, 2021, the Split Agreement and transfer of the aforesaid operating segment was completed, retroactively as of September 30<sup>th</sup>, 2020. The Company and the Subsidiary intend to take steps for the splitting of the activity to be done tax-free, in accordance with the relevant legal provisions.

On March 9<sup>th</sup>, 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 – Principal accounting policies**

#### **a. Basis of preparation of the financial statements**

The Group's financial statements as at December 31, 2020 and as at December 31, 2019, and for each of the three years in the period ended December 31, 2019, comply with the International Financial Reporting Standards, which are published by the International Accounting Standards Board (hereinafter – The IFRS Standards), and they include additional disclosures, which are required under the Securities Regulations (Annual Financial Statements) – 2010.

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

- 1) The principal accounting policies, which are described below, have been implemented consistently for all of the periods that are presented, unless it is otherwise stated.
- 2) The consolidated financial statements have been prepared under the historical cost convention, subject to the adjustment of derivatives, financial assets and assets comprising deposits for severance pay, which are presented at fair value.
- 3) The preparation of financial statements, in accordance with the IFRS standards, requires the use of certain significant accounting estimates. Furthermore, it requires the Group's management to exercise judgment in the process of the implementation of the Group's accounting policy. Disclosure of the fields in which a considerable degree of judgment or complexity is involved, or fields in which the assumptions and the estimates have a significant impact on the consolidated financial statements, is provided in Note 3. The actual results may be significantly different from the estimates and the assumptions that have been used by the Group's management.
- 4) The Group's operating cycle period is 12 months.
- 5) The Group analyzes the expenses acknowledged in the Statement of profit or loss according to classification method based on the expenses' activity characteristic.

#### **b. Consolidated financial statements:**

- 1) **Subsidiary and business combinations**

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

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

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

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

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal Accounting Policies (continued)**

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

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

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

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

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

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

#### **2) Affiliated companies**

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

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

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

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

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

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

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal Accounting Policies (continued)**

**c. Segmental reporting**

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

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

1) The functional currency and the presentation currency

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

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

|                                      | Rate of change in the<br>exchange rate of the<br>Dollar against the NIS | Rate of change in the<br>exchange rate of the<br>Euro against the<br>Dollar |
|--------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------|
|                                      | %                                                                       | %                                                                           |
| For the year ended December 31, 2020 | (7.0)                                                                   | 9.4                                                                         |
| For the year ended December 31, 2019 | (7.8)                                                                   | (2.0)                                                                       |
| For the year ended December 31, 2018 | 8.1                                                                     | (4.4)                                                                       |

The exchange rate of the Dollar against the NIS as at December 31, 2020 is 1 Dollar is NIS 3.215

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

The exchange rate of the Euro against the Dollar as at December 31, 2020 is 1 Euro is 1.227 Dollars

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

2) Transactions and balances

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

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

3) Translation of the financial statements of Group companies

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

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal Accounting Policies (continued)**

- a) Assets and liabilities in each statement of financial position are translated in accordance with the closing rate at the time of that statement of financial position;
- b) Revenues and expenses in each statement of profit and loss are translated in accordance with the average exchange rates for the period (unless that average does not provide a reasonable approximation of the cumulative impact of the exchange rates at the times of the transactions. In such a case, the revenues and expenses are translated in accordance with the exchange rates at the times of the transactions);
- c) All exchange rate differences created are recognized under other comprehensive income.

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

#### **e. Fixed assets**

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

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

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

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

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

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

#### **f. investment property**

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

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

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

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal Accounting Policies (continued)**

**g. Intangible assets**

1) Goodwill

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

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

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

2) Contractual customer contacts

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

3) Trademarks

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

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

4) Brands

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

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

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

5) Computer software

Licenses for the use of computer software are presented on the basis of the accumulated costs in respect of the purchase of the computer software and bringing it to a state in which it can be used. These costs are amortized over the estimated useful lifetime of the software (4 years). Costs that are connected to the maintenance of the computer software are recognized as an expense as incurred. Costs that are directly attributable to the development of identified and unique software products, which are under the Group's control, and where it is highly likely that economic benefit will be produced that exceeds the direct costs that are connected to employees, which have been accumulated as an expense from the development of the software and an appropriate portion of the relevant indirect expenses are capitalized to intangible assets.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal Accounting Policies (continued)**

##### **h. Impairment in value of non-monetary assets**

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

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

##### **i. Financial instruments – debt instruments**

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

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

###### **a. Classification**

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

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

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

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

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

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

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

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

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal Accounting Policies (continued)**

##### **c. Impairment of financial assets**

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

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

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

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

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

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

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

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

The Company designated certain derivative instruments for cash flow hedging:

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

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

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

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

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal accounting policies (Continued)**

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

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

#### **k. Inventory**

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

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

Generally, write-downs in the value of inventory are recorded in the various fields of activity, as is explained below:

Delta's operations in the United States includes inventory of finished goods only. The mark down of this inventory is executed in accordance with its age, where the rate of the write down is determined with a distinction being made between brand inventory and private label inventory, which is produced for the customers' private label.

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

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

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

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

#### **l. Customers**

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

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

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal accounting policies (Continued)**

##### **m. Cash and cash equivalents**

Cash and cash equivalents include cash in hand and short-term bank deposits, whose deposit periods do not exceed three months.

##### **n. Treasury shares**

The cost of purchasing company's shares, which are held by it (treasury shares) is deducted from the equity attributed to the shareholders in the parent company until the shares are cancelled or re-issued, under the moving weighted average method.

##### **o. Debentures**

Debentures are initially recognized at fair value, less issuance costs. In subsequent periods, the debentures are presented at amortized cost with the difference between the sum of the loan initially recognized and the redemption value recognized in the Report on Comprehensive Earnings across the debenture period using the effective interest method.

##### **p. Current and deferred taxes**

Tax expenses for the reported years include current and deferred taxes. Taxes on income are charged to profit or loss, with the exception of taxes arising from business combination and taxes pertaining to items charged to other comprehensive earnings (loss). In these cases, the tax influence is also charged to other comprehensive earnings (loss), or directly to equity.

Current taxes are tax sums expected to be payable for taxable income, calculated according to tax rates and tax statutes legislated or effectively legislated as of the balance sheet date, in countries in which the Company and its subsidiaries are active, including tax payments referring to previous years.

From time to time, Company management studies tax aspects applicable to its taxable income, in accordance with relevant tax laws, and creates provisions as needed.

Deferred taxes are calculated in full, using the liability method for all temporary differences between the sums of assets and liabilities as reported in the Consolidated Financial Statements, and sums taken into account for tax purposes, with the exception of temporary differences created upon first-time recognition of goodwill, and temporary differences created upon initial recognition of the asset or liability with no impact on profit or loss on that date – whether for accounting purposes or that reported for tax purposes (unless the temporary difference arises from an initial recognition of a business combination transaction).

Recognition of deferred tax assets is conducted for all temporary differences that are deductible for tax purposes, within the sum of the differentials that may be expected to be used in the future in return for taxable revenues. Deferred tax assets are reviewed at each reporting date and are impaired if it is no longer probable that the related tax benefit will be realized.

Deferred tax balances are calculated using tax rates expected to apply upon realization of the deferred tax asset, or settlement of the deferred tax liability, in accordance with tax rates and tax laws that have been enacted, or effectively enacted, in the countries in which those companies are active, as of the statement of financial position date.

In calculating deferred taxes, taxes that would have been created in the event of realization of investments in subsidiaries and companies handled using the book value method are not taken into account, as it is Company policy to hold these investments and not realize them.

The Company may be liable for additional taxes in the event of inter-company dividend distribution. This added tax has not been accounted for in light of Company policy not to have dividends involving additional tax distributed in the foreseeable future.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal accounting policies (Continued)**

##### **q. Employee benefits**

The Group operates a number of post-employment employee benefit plans, which include defined benefit plans and defined deposit plans.

##### **1) Retirement/Pension Compensation Liability:**

A defined deposit plan is an employee post-employment benefits plan within the framework of which companies in the Group make fixed deposits in a separate and independent entity in such manner that the Group has not obligation, legal or implied, to make additional deposits, in a situation in which the fund's assets are not sufficient to pay all employees the benefits for work services in the current period and in previous periods.

A defined benefit plan is a post-employment employee benefit plan that is not a defined deposit plan.

The Group members operate a number of pension plans. The plans are financed by payments made to insurance companies or pension funds held in trust.

According to their terms, the pension plans in question meet the definition of a defined benefit plan as above.

In accordance with labor laws and labor agreements in Israel, and in accordance with Company practices, the Company is required to pay severance pay to employees dismissed or departing work under certain circumstances. . . The Company's commitment to pay severance pay for some of the employees is treated as a defined benefit plan and in respect of the rest of the employees it is treated as a defined deposit plan.

In accordance with the Group companies' commitment to employees for whom there is a plan that constitutes a defined benefit plan, the amounts of the benefit that an employee who is entitled to severance pay will receive at the time of their departure is based on the number of years of service and their last salary.

The total retirement compensation liability presented in the balance sheet is the current value of the defined benefit liabilities as of the balance sheet date less the fair value of the plan assets. The defined benefit liability is measured on a yearly basis by an actuary, using the projected unit credit method.

The current value of the liability is determined by discounting expected future cash flows (after taking expected pay increase rates into account), on the basis of interest rates on government debentures or corporate debentures in accordance with the tradability of the debentures in countries in which the Group companies reside, denominated in the currency in which the benefits will be paid, the validity of which until redemption is near the period of the liabilities referring to retirement compensation.

In accordance with International Accounting Standard 19 "Employee benefits" (hereinafter – IAS 19), the discount rate used to calculate actuary obligation shall be determined using market yields as of the balance sheet date of high-quality corporate debentures. At the same time, IAS 19 notes that in countries lacking a deep market for these debentures, market yields as of the balance sheet date of government debentures must be used.

On November 25, 2014, the Securities Authority published a team position according to which Israel has a deep market in high-quality CPI-linked corporate debentures, whose currency is the NIS. Therefore, in accordance with staff's opinion, when measuring commitments for employees defined as defined benefit plans, a transition must be made from use of a yield rate on government debentures to use of a yield rate on high-quality corporate debentures. In accordance with the staff's position, the manner of proper implementation for the transition in question is on a prospective basis, meaning as a change in estimate.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal accounting policies (Continued)**

As a result, the interest rate used by the Company to capitalize expected future cash flows for the purpose of calculating obligations for defined benefit plans in the Financial Statements was established based on the interest rates of high-rated Corporate NIS debentures. The influence of the change in the discount rate on the commitments in question was charted to other comprehensive earnings under “Re-measurements of net severance-pay liabilities”.

The Group companies charge re-measurement of the net liability in respect of a defined benefit under other comprehensive earnings, in the period they were created. Such re-measurements are created as a result of changes in actuary assumptions, from differences between assumptions made in the past and results in practice and from differences between yields on the plan assets and sums included in the net interest on the net defined benefit liabilities (asset).

Costs for past services are charged to the statement of Operations on a regular basis.

Compensations reserves are measured at fair value. The reserves in question due not constitute “plan assets” as defined in IAS 19, and therefore were not offset from the balance of the severance pay liability for the purpose of presentation in the balance sheet.

As noted above, the Group companies purchase insurance policies and make deposits in pension and compensation funds to finance its defined deposit plan liability. Upon making the deposit, they are not obligated to make additional payment. The deposits are recognized as an expense due to employee benefits concurrent with receiving service from employees, for which they are entitled to the deposits. Advanced Deposits are recognized as an asset, in the event that the Group is entitled to a cash refund or to a reduction in future payments.

2) **Vacation and recuperation pay**

According labor laws in Israel and in some of the other countries in which the Group is active, each employee is entitled to vacation days and recuperation days, both calculated on a yearly basis. This right is established throughout the employee’s employment at the Company. The Group recognizes the liability and expense for vacation and recuperation pay based on the benefit created for each employee on a non-capitalized basis.

3) **Executive Compensation**

The Company recognizes its liability and expense for executive compensation based on various compensation components that vary according to the rank of the executive and may change from year to year based on the decisions of Company management. The Company recognized the provisions in when a contractual obligation exists or when practice in the past created an implies obligation.

**r. Share based payments**

The Company's Board of Directors approved plans for the issue of options and/or restricted share units to the Group's employees from time to time, see Note 14 below. Some of the options and/or the restricted share units that are granted stipulated on achieving operational goals.

The fair value of options and/or restricted share units issued is charged as a salary expense concurrent with an increase in undesignated retained earnings, with reference to:

- Taking into account performance conditions that are market conditions (for example, the share price of the entity);
- Regardless of the effect of terms of service and non-market vesting conditions (for example, meeting profitability and sales targets and continuing to work for the Company for a certain period); and
- Taking into account the effect of any conditions that are not vesting conditions (for example, requiring employees to save).

Vesting conditions that are not market conditions are included among the assumptions used to estimate the number of options and/or restricted share units for shares that are expected to vest. The total expense is recognized during the vesting period, which is the period during which all the defined conditions for the vesting of the share-based payment arrangement are to be met.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal accounting policies (Continued)**

At each statement of financial position date, the Company updates its estimates regarding the number of options and/or restricted share units for shares expected to vest, based on non-market vesting conditions, and recognizes the effect of the change compared to the original estimates, if any, in the profit or loss statement and correspondingly in the equity.

When the options to purchase the shares are exercised, the resulting exercise bonus is charged to stock capital (according to their notational value) and stock premium.

#### **s. Provisions**

Provisions for re-structuring costs are recognized in the financial statements where the Company has a legal or implicit liability, as a result of past events; the Company is expected to bear the cash flows in order to redeem the liabilities and the sum can reliably estimate. Provisions for re-structuring expenses include employee compensation payments when the Company approves a formal and detailed restructuring plan, and when the restructuring begins in practice, or when it is announced (see Note 19G). The provisions do not include future operational costs.

The provisions are measured according to the current value of management's best estimates regarding the cash flows expected to be required to clear existing commitment as of the balance sheet date.

#### **t. Recognition of revenues**

The Company has revenues from the sale of products to customers and from royalties.

##### **1) Measurement of revenues**

As of January 1, 2018 (the initial implementation date of IFRS 15), the Company's revenues are measured according to the amount of consideration that the Company expects to be entitled to in return for the transfer of goods that were promised to the customer, net of amounts collected for third parties, such as certain sales taxes. Revenues are presented net of VAT and after cancellation of revenues between the Group companies.

If the consideration promised to the customer includes a variable amount (for example, as a result of discounts or a right of return), the Company estimates the amount of the consideration to which it will be entitled in return for the transfer of the goods promised to the customer in the transaction and includes in the transaction price the entire amount of the variable consideration, or part thereof, only when it is highly probable that a significant cancellation of the recognized cumulative revenues will not occur when the uncertainty associated with the variable consideration becomes apparent thereafter. At the end of each reporting period, the Company updates the estimated transaction price in order to properly represent the circumstances at the end of the reporting period and the changes in circumstances during the reporting period.

This amount varies and is recognized as part of the customer item in the Company's balance sheet.

The Company does not adjust the consideration guaranteed in respect of the effects of a significant financing component if the Company expects, at the date of the contract, that the period between the date on which the Company transfers the goods promised to the customer and the date on which the customer pays will be one year or a period shorter than one year.

##### **2) Date of recognition of income**

The Company recognizes revenue when the customer obtains control of the goods in accordance with the sale agreement. For each performance obligation, the Company determines, at the date of entering into a contract, whether it fulfills the performance obligation over time or at a point in time.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal accounting policies (Continued)**

A performance obligation is maintained over time, if one of the following criteria is met: (a) the customer receives and consumes at the same time the benefits provided by the Company's performance; (b) the Company's performance creates or improves an asset controlled by the customer while creating or improving it; or (c) the Company's performance does not create an asset with an alternative use to the Company, and the Company has an enforceable right to pay for performance completed up to that date.

To the extent that a performance obligation is not fulfilled over time, it is fulfilled at a point in time.

#### **3) Types of Company Revenues:**

##### **a) Revenues from the sale of wholesale goods**

The Company manufactures and sells a variety of products for the wholesale market. The sale of goods is recognized upon delivery by the Company of the goods to the wholesaler, while the wholesaler has full discretion regarding the selling channel and the selling price of the products, and there is no unfulfilled obligation that could affect the acceptance of the goods by the wholesaler. Delivery of the goods does not occur until the products have been sent to the specified location, the aging and loss risks have been transferred to the wholesaler, and the wholesaler has received the products in accordance with the sales contract, the acceptance terms have expired or the Company has objective evidence that all acceptance criteria have been met.

The Company's products are sometimes sold at volume discounts. Customers reserve the right to return defective products in the wholesale market. Sales are recognized on the basis of the price specified in the sales contracts, less estimates of quantity discounts and returns as at the date of sale. Past accumulated experience is used to make estimates and provisions for assumptions and returns. The quantity discounts estimate is based on the expected acquisitions for the year. Sales do not include a financing component, since they are carried out with a credit period of less than one year.

##### **b) Revenues from the sale of goods in retail**

The Company operates retail chain stores. The sale of goods is recognized when the Company sells a product to the customer. Retail sales are usually made in cash or through credit cards.

The Company's policy is to sell its products to retail customers with the right to return in accordance with the law. Past experience accumulated is used to make estimates and provisions for returns on the date of sale. As for the accounting treatment of the right of return, see section A above.

The Company operates a customer loyalty program in which retail customers are entitled to accumulate points in respect of their purchases, which entitle them to a discount on future purchases. A liability in respect of a contract is recognized for the points awarded at the time of sale to the customer, and is charged against recognition of revenue at the actual utilization or expiry of the points 12 months after the initial sale, the earlier of the two.

##### **c) Revenue from online activities**

Revenue from sales provided via the Internet is recognized when the customer obtains control over the products.

Payments in respect of the transactions are made by credit card.

##### **d) Revenues from royalties**

revenue from sales-based royalties is recognized only upon the later of the following events occurs: (a) the sale occurs; and (b) the performance obligation to which some or all of the sales-based or use-based royalties have been allocated, has been met.

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### Note 2 – Principal accounting policies (Continued)

#### u. Leases

On January 1, 2019, International Financial Reporting Standard 16 "Leases" (IFRS 16) came into force. In accordance with the transition provisions of the Standard, the Group has selected the retrospective application when the cumulative impact of the application for the first time of the Standard is charged to the surplus as of January 1, 2019, without any restatement of comparative information. Accordingly, the note below presents accounting policies in relation to leases up to December 31, 2018 (application of accounting rules within IAS 17), valid for 2018, and such policy from January 1, 2019 (implementation of accounting rules under IFRS 16), valid for 2019 and 2020. Regarding the cumulative effect recognized at the date of the first application of IFRS 16, see Note 2X1(a) to the Group's annual financial statements for 2019.

- 1) The Group's policy in relation to leases in which the Company is the lessee applied from 1 January 2019, in accordance with IFRS 16:

The Group leases buildings, machinery and equipment and vehicles. Lease agreements are for a period of between 6 months and 25 years, but may include extension options.

The Group assesses, at the time of entering into the contract, whether the contract is a lease or whether it includes a lease. A contract is a lease or includes a lease if the contract transfers the right to control the use of an identified property for a period of time for consideration. The Group reassesses whether a contract is a lease or whether it includes a lease only if the terms of the contract have changed.

At the time of recognition for the first time, the Group recognizes a liability for a lease at the present value of future lease payments, which include, *inter alia*, the exercise price of extension options that are likely to be exercised.

At the same time, the Company recognizes the right to use at the amount of the lease liability, adjusted for any lease payments made on or before the start date less any lease incentives received and plus any initial direct costs incurred by the Group.

Variable lease payments linked to the consumer price index are measured for the first time by using the existing index at the beginning of the lease, and are included in the calculation of the liability in respect of a lease. When there is a change in the cash flows of the lease as a result of a change in the index, the Group re-measures the liability in respect of a lease based on the updated contractual flows, in coordination with the right of use asset.

Variable lease payments that do not depend on the index or exchange rate are not included in the calculation of the liability in respect of a lease, and are recognized in profit or loss in the period in which the event or condition that triggered these payments occurred.

Since the interest rate inherent in the lease cannot be easily determined, the Group's incremental borrowing rate is used. This interest rate is the rate that the Group would have been required to pay in order to borrow for a similar period and with a similar collateral the amounts needed to obtain an asset with a value similar to a right of use asset in a similar economic environment.

The lease term is the period during which the lease cannot be revoked, including periods covered by an option to extend the lease if the Group is reasonably likely to exercise this option, and periods covered by an option to cancel the lease if the Group is unlikely to exercise that option.

After the date of commencement of the lease, the Group measures the asset the right to use the cost, less accumulated depreciation and accumulated impairment losses, adjusted for any re-measurement of the liability in respect of the lease. Depreciation on a right of use asset is calculated according to the straight-line method, over an estimate of the useful life of the leased property or the lease period, whichever is shorter.

|                         | %            |
|-------------------------|--------------|
| Buildings               | 2 – 7 years  |
| Equipment and machinery | 7 – 25 years |
| Motor vehicles          | 6 – 25 years |

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### **Note 2 – Principal accounting policies (Continued)**

Interest on the lease liability is recognized in profit or loss in any period during the lease term, in an amount that generates a fixed periodic interest rate on the remaining balance of the liability in respect of the lease.

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.

- 2) The Group's policy regarding leases in which the Company is the lessee until December 31, 2018, in accordance with IAS 17:

Each lease payment is attributed between a repayment of a liability and a financing expense. The related rental liabilities, less the financing component, are classified under loans and other non-current liabilities, except amounts that are expected to apply in the period up to 12 months after the financial statement date, which are classified as current liabilities. Financing costs are allocated to each of the periods during the lease period in such a way that the periodic interest rate for the remaining outstanding liability in each period is constant.

Said property is amortized over the period of its useful life and the lease term, the shorter of the two; On the other hand, in such cases where there is reasonable certainty that the Company will acquire ownership at the end of the lease term, the said property is amortized over the projected period of use which is also the useful life of the property.

In connection with the Company's policy regarding leases in which the Company is the lessee as of January 1, 2019, pursuant to IFRS16, see Note 2U (1) below.

#### **v. Earnings per share**

Calculation of basic profit per share is based on the net profit (loss) distributable to regular shareholders, divided by the weighted average of the number of regular shares in circulation during the period, less Company shares held by it. When calculating the diluted profit or loss per share the weighted average of the number of shares issued is also added to the average of regular shares used in the basic calculation, assuming that all diluting potential shares are converted to shares. The potential shares are taken into account as stated only when their influence is diluting (reducing the profit or increasing the loss per share).

#### **w. Dividend Distribution**

Dividend distributed to the Company's owners and minority rights holders is recognized as liability in the Group's balance sheet in the period the dividends were approved for distribution by the Company's Board of Directors.

#### **x. New International Financial Reporting Standards, Revisions to Standards and New Interpretations**

- 1) **Standards and amendments to the existing Standards coming into effect and binding for reporting periods starting January 1, 2020:**

- a) International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (hereinafter - the Amendment to IAS 8) and International Accounting Standard 1 "Presentation of Financial Statements" (hereinafter - the Amendment to IAS 1)

The Amendment to IAS 8, the Amendment to IAS 1 and the subsequent amendments to other international financial reporting standards:

- Use a consistent definition of materiality across the various standards and the conceptual framework;
- Clarify the explanation of the definition of materiality; and
- Integrate some of the guidelines in IAS 1 regarding non-material information.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal accounting policies (Continued)**

The amended definition is as follows:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The said amendments will be applied prospectively with respect to annual periods beginning on or after January 1, 2020. In accordance with the provisions of the amendments, their early application is possible. The first implementation of the amendments has a material effect on the Company's financial statements.

**b. Amendments to International Financial Reporting Standard 9 "Financial Instruments" (hereinafter - IFRS 9) and to International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (hereinafter - IFRS 7)**

The amendments provide temporary relief from the implementation of specific requirements concerning hedge accounting, in the context of benchmark interest rate replacement reform (hereinafter - the IBOR reform), so that entities can continue to implement hedge accounting under the assumption that benchmark rates have not changed as a result of IBOR reform.

The relief provided by the amendments relevant to the Company relates to a highly probable requirement for hedging cash flows and a prospective assessment of the economic relationship between the hedged item and the hedging instrument in accordance with IFRS 9. However, ineffectiveness will continue to be reflected in profit or loss.

The application of the reliefs will be discontinued prospectively at the earliest of:

- When the uncertainty about the timing and amount of the cash flows based on the benchmark interest rate becomes clear.
- Termination of hedging relationships or reclassification of all amounts from the capital fund for cash flow hedging.

The Company chose to adopt the amendments to IFRS 9 and IFRS 7 published in September 2019 in accordance with the transitional provisions of the amendments, the amendments were retrospectively applied to hedging relationships that existed at the beginning of the reporting period or designated thereafter, and to the amount accrued in the capital fund for the beginning of the reporting period for cash flow hedging.

The Company has interest rate risks arising from Series B shekel bonds, the interest rate for which is based on the Telbor interest rate (see Note 11). This bond is treated at a reduced cost in the NIS currency.

The Company's risk management policy is to hedge the changes in cash flows in respect of currency other than the operations currency debt using financial derivatives for cash flows swap contracts. Accordingly, the Company entered into a swap contract for a period of 10 years from the issue date, in October 2014 (hereinafter - the hedging instrument), for which it pays variable interest in dollars based on LIBOR interest and receives variable interest in shekels.

As part of the implementation of the reliefs, the Company assumed that the LIBOR rate would not change as a result of the IBOR reform for the assessment of whether future cash flows are highly probable and for a prospective assessment of the economic relationship between the hedging instrument and the hedged item.

As a result of the impact of the amendments, the Company will be able to continue to implement hedge accounting as stated above.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal Accounting Policies (continued)**

The book value of the derivatives as at December 31, 2020 is \$ 33,404 thousand and is shown as a financial derivative balance in the statement the Company's financial position at that date.

The book value of the hedged items exposed to the effect of Libor interest as of December 31, 2020 is \$ 135.4 million and relates mainly to Series B of debentures issued by the Company.

2. **Standards, amendments and interpretations of existing standards which are not yet in effect and which the Company has chosen for early implementation thereof:**

Amendment to the International Financial Reporting Standard 16 Leases (hereinafter - the Amendment to IFRS16):

The Amendment to IFRS 16 provides relief to tenants in considering changes to lease agreements. In accordance with the provisions of the amendment, in the event of waivers of lease payments that meet certain conditions set forth below, a lessee is not required to examine for each contract separately whether the waiver is in accordance with the original lease terms, but may choose to treat a waiver of the lease from an accounting standpoint as part of the original contract (as variable lease payments).

The relief exists only for waivers that are directly related to the COVID-19 effect, provided that the following three conditions are met:

1. The total lease payments after the waiver are the same or lower than the payments in the original contract;
2. Any reduction in lease payments affects only payments whose original due date was due to apply by September 30, 2021; and
3. There is no material change in other terms of the lease agreement.

The Company has chosen to apply the Amendments to IFRS 16 regarding all rent waivers that meet the conditions for relief in early application starting from the annual period beginning on January 1, 2020. For the impact of the initial implementation on the Company's financial statements for the year ended December 31, 2020, see Note 9.

3. **Standards, amendments and interpretations of existing standards which are not yet in effect and which the Company has not chosen for early implementation thereof:**

- a. **International Financial Reporting Standard 9 "Financial Instruments" (hereinafter - IFRS 9), International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" (hereinafter - IAS 39) and International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (hereinafter - IFRS 7)**

The amendments provide temporary relief from the implementation of specific hedge accounting requirements in the context of the benchmark interest rate replacement reform (hereinafter - the LIBOR reform), so that entities can continue to implement hedge accounting assuming that benchmark rates have not changed as a result of the LIBOR reform. The relief relates to a highly probable requirement for hedging cash flows, to the prospective assessment of the economic relationship between the hedged item and the hedging instrument under IFRS 9 (or the highly effective requirement under IAS 39), to the retrospective effectiveness test (under IAS 39), and to the designation of an item component as a hedged item. However, ineffectiveness will continue to be reflected in profit or loss on an ongoing basis. Also, the amendments obligate certain disclosure requirements.

The Company implemented said amendments retrospectively. The initial implementation of the amendments did not have a material impact on the Company's financial statements.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 2 – Principal Accounting Policies (continued)**

**b. Amendment to IAS 1 "Presentation of Financial Statements" (hereinafter - the Amendment to IAS 1)**

The amendment to IAS1 clarifies the guidelines regarding the classification of liabilities as current or non-current in the statement of financial position. The amendment clarifies, *inter alia*, that:

- A liability will be classified as a non-current liability if the entity has a substantive right to defer settlement of the liability for at least 12 months after the end of the reporting period. The amendment also clarifies that the entity's intention regarding the exercise of the right is irrelevant for the purpose of classifying the liability, and eliminates the reference to the existence of an unconditional right.
- A substantive right exists only if the entity meets the relevant conditions at the balance sheet date.
- The "settlement" of the liability includes settlement by way of cash payment, other financial resources or equity instruments of the entity. However, a conversion right in respect of a convertible instrument that has been classified into equity does not affect the classification of the liability in respect of the instrument.

The amendment to IAS1 will be applied retrospectively for annual periods beginning on or after January 1, 2022. In accordance with the amendment provisions, its early implementation is possible. The Group is examining the impact of the amendment to IAS 1 on its financial statements. Or, alternatively, the initial implementation of the amendment to IAS1 is not expected to have a material impact on the Group's financial/ consolidated financial statements.

**c. International Financial Reporting Standard 9 "Financial Instruments" (hereinafter - IFRS 9), International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" (hereinafter - IAS 39), International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (hereinafter - IFRS 7), International Financial Reporting Standard 4 "Insurance Contracts" (hereinafter - IFRS 4) and International Financial Reporting Standard 16 "Leases" (hereinafter - IFRS 16) (hereinafter - the Amendments to the Standards)**

The Amendments to the Standards are part of Phase 2 of the IASB Project, which provides relief in the context of the benchmark interest rate replacement reform (hereinafter - the IBOR Reform), and aims to address issues that are expected to arise with the actual benchmark interest rate replacement.

The Amendments to the Standards provide a practical exemption for financial assets and liabilities measured at amortized cost, which allows for a change in the basis for calculating contractual cash flows by updating the effective interest rate so that entities will not be required to apply wrote-off accounting. A similar exemption is granted for liabilities in respect of leases recognized by a lessee in application of IFRS 16.

For hedge accounting, the Amendments to the Standards clarify the date on which an entity should discontinue and implement the reliefs granted under Phase 1 of the project for a non-contractual risk component, and provide five different reliefs in implementing specific provisions of IAS 39 and IFRS 9 for hedging ratios that were directly affected by the IBOR Reform.

The Amendments to the Standards also provide new disclosure requirements in connection with the IBOR Reform.

The amendments are valid for annual periods beginning on or after January 1, 2021. According to the provisions of the amendments, their early application is possible. The amendment will be applied retrospectively (except for specific exceptions specified in the amendment), imputing the cumulative impact of the initial implementation on the opening balance of the surplus (or other component in capital, as applicable), at the beginning of the annual reporting period. The initial implementation of the Amendments to the Standards is not expected to have a material effect on the Group's consolidated financial statements.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 3 – Material accounting estimates and judgments**

Part of the financial reporting process, Company's management is required to make certain assumptions and estimates which may affect the value of its assets, liabilities, revenues, expenses and some of the disclosures provided in the Group's consolidated financial statements. By their nature, these estimates may be subjective and complex and may therefore differ from actual results.

The accounting estimates and assumptions used in preparing the financial statements are reviewed and are based on past experience and other factors, including future events which are reasonably likely to occur in view of current circumstances.

Below is a description of critical accounting estimates used in preparing the Financial Statements, the formulation of which required the Company to make assumptions with regard to circumstances and events involving significant uncertainty. In exercising its judgment for the purpose of making accounting estimates, the Company takes into account, respectively, the relevant facts, past experience, the impact of external factors and assumptions reasonable under the circumstances.

##### **a. Significant accounting estimates and assumptions**

###### **1) Inventory**

The Company prepares monthly estimates for the purpose of amortization of slow or dead inventory, based on past experience, remaining inventory balances from previous seasons and sales forecasts. See Note 2K.

###### **2) Goodwill**

At least once a year, or on the occurrence of events, the Company checks the need for the recognition of impairment in the value of the goodwill, in accordance with the management's forecasts in respect of the discounted amount of the expected cash flows of the cash-generating unit to which the goodwill is attributed. See Note 8B.

###### **3) Fixed assets**

Depreciation expenses due to fixed assets are calculated using the straight-line method on the basis of the estimated period of time in which the asset will serve the Company.

In addition, the Company tests the need for additional write-downs at any time at which signs exist indicating the possibility of impairment in value.

###### **4) Brands**

The balance of the brands includes the brand name "Schiesser", purchased in 2012, "P.J. Salvage", purchased in 2015, "7 for all mankind", "Splendid" and "Ella Moss", purchased in 2016, "Eminence", "Athena" and "Liable", purchased in 2018, "Brayola" and "Bare Necessities" purchased in 2020. The book value of the brands is presented at fair value upon their date of purchase and was calculated as part of purchasing cost made by external assessors.

In addition, the balance of brands also includes the brand name "Fix", purchased in 2014, and which is presented at historical cost.

In addition, the remaining brands includes the brand name "Karen Neuberger" which was acquired in 2011 and presented until December 31, 2020 at its historic cost. See also Note 8D regarding the examination of the impairment of the brand.

All brands have an undefined life span and which are not amortized routinely,

At least once a year and on the occurrence of events, the Company reviews the need for an impairment provision. See Note 8D.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 3 – Material 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, Group's management is required to apply considerable judgment in order to determine the overall provision for taxes on income. The Group records a provision in its accounting records based in its estimates regarding the possible likelihood of additional tax payments for these transactions.

Where the final tax indebtedness, which is determined by the tax authorities is different from the tax indebtedness that was recorded in the financial statements in previous periods, the difference will be reflected in profit and loss in the period in which the final assessment is determined by the tax authorities.

Furthermore, the Group records deferred tax assets and deferred tax liabilities on the basis of the differences between carrying amounts of assets and liabilities and their sums taken into account for tax purposes. The Group regularly reviews the recoverability of deferred tax included in its accounts, on the basis of historical taxable revenues, projected taxable revenues, the timing of the expected reversal of temporary differences and implementation of the tax planning Strategy. If the Company is unable to derive sufficient future taxable revenues or in the event of a significant change in effective tax rates in the period during which the temporary differences become taxable or deductible, the Group may be required to reverse part of its deferred tax asset or to increase its deferred tax liabilities, which may increase its effective tax rate and adversely affect its operating results.

##### **b. Considerations that have a material impact on the implementation of the entity's accounting policies**

Determining the lease term and the discount rate in respect thereof

As of January 1, 2019, the Group implements IFRS16 for the accounting treatment of leases. In this context, management considers facts and circumstances that create an economic incentive for the exercise of extension options or the non-exercise of cancellation options. Extension options, or periods after the exercise of cancellation options, are included in the lease period only to the extent that it is reasonably likely that the lease will be extended (or canceled).

The Company is examining, based on past experience for its business plans, whether the extension options existing in the lease agreements it has entered into are expected to be exercised or not.

The Company's management re-evaluates whether the extension option is likely to be exercised, or the cancellation option is likely not to be exercised, upon the occurrence of a significant event or change in circumstances that is under the control of the Company, and also influences the decision whether the Company is reasonably likely to exercise an option that was not previously included in determining the lease term, or not exercise an option previously included in determining the lease term.

#### **Note 4 – Financial instruments and the management of financial risks**

##### **a. Financial risk factors**

The Group's activities are exposed to various financial risks: market risks (including exchange rate risk and interest rate risk on cash flows), credit risks and liquidity risks. The Group's risks management plan focuses on the uncertainty of financial markets and seeks ways to minimize potential adverse effect on the Group financial performance. From time to time, the Company uses derivative financial instruments in order to hedge specific exposures to risks.

The Group manages financial risks based on a policy approved by the Board of Directors and the senior management. This policy relates to the management of exchange rate risk, credit risks and cash management.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 4 – Financial instruments and the management of financial risks (continued)**

1) Market risk

a) Exchange rate risks

The Group operates globally and is exposed to fluctuations in various exchange rates, primarily of the Euro and NIS against the Dollar. Exchange rate risks derive from commercial transactions, assets or liabilities or net investments in foreign operations, which are denoted in a currency other than the entity's functional currency.

The Group sometimes invests in foreign currency derivatives – forward contracts – in order to protect itself from the risk in which cash flows deriving from surplus receipts in Euros and NIS will be impacted by changes in exchange rates. Furthermore, the Group sometimes invests in foreign currency derivatives (the Euro vs. Czech Koruna), forward contracts or options in order to protect itself against cash flow risk deriving from production costs in the Company's plant in the Czech Republic, which is impacted by changes in exchange rates. The duration of these contracts is usually shorter than one year. These transactions are primarily intended to protect against changes in the exchange rates in question.

See Note 12A on the subject of the hedging of cash flows from the issuance of NIS debentures.

Regarding transactions to hedge the cash flows deriving from the purchase of inventory, see Note 12B.

Exchange rate risk exists when future commercial transactions or assets and liabilities are recognized in the financial statements are measured and denoted in a currency other than the entity's functional currency.

As of December 31, 2020, if the Group's functional currency had weaken/ strengthen by 5% or 10% opposite the NIS with all other variables to remain constant, the total profit for the year would be US\$ 5,013 thousand or US\$ 10,020 thousand lower/ higher, respectively (as of December 31 2019 – US\$ 2,877 thousand and US\$ 5,754 thousand, respectively), primarily as a result of losses/ profits from changes in the exchange rates in respect of the translation of the net monetary balances that are presented in the Company's statement of financial position, which are denominated in NIS.

As of December 31, 2020, if the Group's functional currency were to weaken/ strengthen by 5% or 10% opposite the Euros, and were all of the other variables to remain constant, the comprehensive income for the year would be US\$ 3,600 thousand or US\$ 7,199 thousand lower/ higher, respectively (as of December 31 2019 – US\$ 6,493 thousand and US\$ 12,985 thousand, respectively), primarily as a result of profits/ losses from changes in the exchange rates in respect of the translation of the net monetary balances that are presented in the Company's statement of financial position, which are denominated in Euros.

The exposures detailed above do not include the effect of forward cash flow hedging transactions.

b) Risk due to changes in the interest rate

Risks related to interest rates derive from changes to interest rates which may have a negative impact on the Company's net profit or cash flow. The changes in interest rates lead to changes in the Company's revenues and interest expenses due to interest-bearing assets and liabilities.

The Company has no material variable interest-bearing assets or liabilities with the exception of Series B debentures (see below), and therefore the Company revenues and operational cash flows are not directly affected by changes in market interest rates.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 4 –Financial instruments and the management of financial risks (continued)**

##### 2) Credit risks

Credit risks are managed at the Group level. Credit risks derive primarily from cash and cash equivalents, bank deposits and credit exposure to customers. The Company assesses risks associated with the quality of the customer credit by weighing the customer's financial standing, past experience and other factors. Sales to Company's customers are generally carried out under credit terms of up to 90 days. Sales to retail customers are made in cash or credit cards, through the major credit card companies.

Most of the Group's cash and cash equivalent balances as of December 31, 2020 are deposited with the banking corporations: Bank Igud, Bank Leumi, Commerz Bank, UBS HSBC NATIXIS, HypoVereinsbank and a number of other banks, mainly in Europe.

In the Company's assessment the credit risk in relation to these balances in banks is low.

##### 3) Liquidity risks

Prudent liquidity of risk management requires the maintenance of sufficient available cash and available credit frameworks to finance activity in light of the dynamic nature of its business activity, the Company maintains financial flexibility by taking care to maintain available credit frameworks (see Note 19D).

The following table analyses the Company's financial liabilities according to redemption dates, based on the balance for the period as of the projected repayment date. The sums presented in the table represent non-capitalized cash flows.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 4 –Financial instruments and the management of financial risks (Continued)**

|                                                | <b>Less than one<br/>year</b> | <b>Between one<br/>year and two<br/>years</b> | <b>Between two<br/>years and five<br/>years</b> | <b>More than five<br/>years</b> | <b>Total</b>     |
|------------------------------------------------|-------------------------------|-----------------------------------------------|-------------------------------------------------|---------------------------------|------------------|
|                                                | <b>US\$ thousands</b>         |                                               |                                                 |                                 |                  |
| <b>Balance as at December 31, 2020:</b>        |                               |                                               |                                                 |                                 |                  |
| Debentures including interest                  | 50,862                        | 42,579                                        | 212,011                                         | 68,409                          | 373,861          |
| Loan from a banking corporation                | 20,295                        | 29,015                                        | 75,081                                          | -                               | 124,391          |
| Financial Derivative                           | (625)                         | (1,996)                                       | (23,571)                                        | (7,252)                         | (33,444)         |
| Credit from banking corporations               | 11,013                        | -                                             | -                                               | -                               | 11,013           |
| Trade payables                                 | 186,903                       | -                                             | -                                               | -                               | 186,903          |
| Liabilities in respect of leases               | 60,363                        | 47,890                                        | 87,588                                          | 72,755                          | 268,596          |
| Trade and other payables and other liabilities | 201,356                       | 23,644                                        | 31,223                                          | 3,221                           | 259,444          |
|                                                | <u>530,167</u>                | <u>141,132</u>                                | <u>382,332</u>                                  | <u>137,133</u>                  | <u>1,190,764</u> |
| <b>Balance as at December 31, 2019:</b>        |                               |                                               |                                                 |                                 |                  |
| Debentures including interest                  | 54,506                        | 52,633                                        | 224,388                                         | 103,924                         | 435,451          |
| Loan from a banking corporation                | 10,588                        | 9,366                                         | 58,971                                          | -                               | 78,925           |
| Financial Derivative                           | 1,099                         | 22                                            | (14,937)                                        | (4,762)                         | (18,578)         |
| Credit from banking corporations               | 1,868                         | -                                             | -                                               | -                               | 1,868            |
| Trade payables                                 | 140,475                       | -                                             | -                                               | -                               | 140,475          |
| Liabilities in respect of leases               | 53,401                        | 50,489                                        | 93,197                                          | 78,373                          | 275,460          |
| Trade and other payables and other liabilities | 157,070                       | 28,880                                        | 36,216                                          | 1,098                           | 223,264          |
|                                                | <u>419,007</u>                | <u>141,390</u>                                | <u>397,835</u>                                  | <u>178,633</u>                  | <u>1,136,865</u> |

Group management periodically review the ratio between future cash flows derived from the maturities of its liabilities and future cash flows derived from maturities of its financial assets. Where necessary, the Group modifies its liability mix and their maturities. In the Group's management's assessment, the Group's liquidity risk is low.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 4 – Financial instruments and the management of financial risks (Continued)**

##### **b. The management of capital risks**

The Group's capital risk management targets are to preserve the Group's ability to continue functioning as a going concern in order to provide shareholders with returns on their investments, benefits to other interested parties, and to maintain an optimal capital structure to reduce the cost of equity.

From time to time, as needed, the Group considers the need to raise outside capital.

##### Leverage:

The following is a calculation of the net financial debt to overall equity (CAP) as of December 31, 2020 and 2019:

|                                              | <b>As of December, 31</b> |             |
|----------------------------------------------|---------------------------|-------------|
|                                              | <b>2020</b>               | <b>2019</b> |
|                                              | <b>US\$ thousands</b>     |             |
| Financial debt, net <sup>(1)</sup>           | 479,122                   | 560,816     |
| Total equity (CAP) <sup>(2)</sup>            | 1,224,869                 | 1,215,421   |
| Leverage ratio – net financial debt to CAP * | 39.1%                     | 46.1%       |

- (1) Financial debt, net includes short-term and long-term credit from banks, debentures, interest payable, other loans, a derivative financial instrument and a deposit that has been deposited as collateral for the derivative and finance leasing, less cash and cash equivalents.
- (2) The total overall equity (CAP) relates to the gross financial debt with the addition of a financial derivative and less a deposit that has been deposited as collateral for the derivative, as aforesaid, equity and the reserve for deferred taxes.
- \* Leverage ratio – net financial debt to CAP excluding the effect of the implementation of IFRS16 is 23.8%.

##### **c. Fair value Assessments**

The following is an analysis of the financial instruments that are measured at fair value, in accordance with the evaluation method. The various levels have been defined as follows:

1. Quoted prices (unadjusted) in active markets in which identical assets or liabilities are traded. (level 1)
2. Data other than quoted prices included in level 1, which may be directly (i.e., as prices) or indirectly (i.e., price derivatives) for the asset or the liability.
3. Data regarding the asset or liability not based on observable market information (unobservable input (level 3))

Forward contracts in which the Company invests to hedge its cash flow are included in Level 2 (see Note 12).

A derivative financial instrument, in respect of swap transactions for hedging payments of the debentures is included in Level 2 (see Note 12).

# Delta Galil Industries Ltd.

## Notes to the Financial Statements

### Note 4 – Financial instruments and the management of financial risks (Continued)

#### d. Changes in financial liabilities, the cash flows from which are classified as cash flows from financing activity:

|                                                                                                         | Short-term<br>credit and<br>loans | Long-term<br>loans from<br>banking<br>corporations | Long-term<br>loans and<br>financial<br>liabilities | Debentures     | Derivative<br>financial<br>instrument | Liabilities in<br>respect of<br>leases | Total          |
|---------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------------------------|----------------------------------------------------|----------------|---------------------------------------|----------------------------------------|----------------|
| <b>Balance as at December 31, 2019:</b>                                                                 | 79,987                            | 78,149                                             | 10,284                                             | 242,489        | 49                                    | -                                      | 410,958        |
| <b>Changes in the course of 2019:</b>                                                                   |                                   |                                                    |                                                    |                |                                       |                                        |                |
| Implementation of IFRS16                                                                                | -                                 | -                                                  | -                                                  | -              | -                                     | 231,517                                | 231,517        |
| Consolidation                                                                                           | 1,540                             | 11,505                                             | -                                                  | -              | -                                     | 16,799                                 | 29,844         |
| Cash flows received                                                                                     | -                                 | -                                                  | -                                                  | 150,137        | -                                     | -                                      | 150,137        |
| Cash flows paid                                                                                         | (81,039)                          | (8,944)                                            | (3,503)                                            | (29,748)       | -                                     | (57,912)                               | (181,146)      |
| Other liabilities added in respect of fixed property providers                                          | -                                 | -                                                  | 1,842                                              | -              | -                                     | -                                      | 1,842          |
| Repayment of long-term loans in the course of an acquisition agreement                                  | -                                 | -                                                  | (3,350)                                            | -              | -                                     | -                                      | (3,350)        |
| Amounts reflected in profit or loss                                                                     | -                                 | -                                                  | -                                                  | 14,300         | (16,618)                              | 35,071                                 | 32,753         |
| Amounts reflected in other comprehensive income: Differences on the translation of financial statements | 1,380                             | (1,785)                                            | -                                                  | -              | (2,009)                               | 829                                    | (1,585)        |
| <b>Balance as at December 31, 2019:</b>                                                                 | <u>1,868</u>                      | <u>78,925</u>                                      | <u>5,273</u>                                       | <u>377,178</u> | <u>(18,578)</u>                       | <u>226,304</u>                         | <u>670,970</u> |
| <b>Changes in the course of 2020:</b>                                                                   |                                   |                                                    |                                                    |                |                                       |                                        |                |
| Consolidation                                                                                           | -                                 | -                                                  | -                                                  | -              | -                                     | 2,208                                  | 2,208          |
| Cash flows received                                                                                     | -                                 | 44,464                                             | -                                                  | -              | -                                     | -                                      | 44,464         |
| Cash flows paid                                                                                         | 9,145                             | (9,778)                                            | (3,787)                                            | (37,568)       | -                                     | (62,884)                               | (104,872)      |
| Other liabilities added in respect of fixed property providers                                          | -                                 | -                                                  | 14,045                                             | -              | -                                     | -                                      | 14,045         |
| Repayment of long-term loans in the course of an acquisition agreement                                  | -                                 | -                                                  | (8,855)                                            | -              | -                                     | -                                      | (8,855)        |
| Amounts reflected in profit or loss                                                                     | -                                 | -                                                  | -                                                  | 16,183         | (17,226)                              | 68,498                                 | 67,455         |
| Amounts reflected in other comprehensive income: Differences on the translation of financial statements | -                                 | 10,780                                             | -                                                  | -              | 2,361                                 | 8,645                                  | 21,786         |
| <b>Balance as at December 31, 2020:</b>                                                                 | <u>11,013</u>                     | <u>124,391</u>                                     | <u>6,676</u>                                       | <u>355,793</u> | <u>(33,443)</u>                       | <u>242,771</u>                         | <u>707,201</u> |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 5 –Segmental reporting**

##### **a. Operating segments:**

###### **1) Overview**

Group management has determined the operational segments on the basis of the reports examined by the Company's CEO and Board of Directors on a regular basis. The CEO and Board of Directors were identified together as the strategic steering committee, which makes the Company's strategic decisions (CODM).

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

- (a) Delta USA – this segment deals in designing, developing and marketing of undergarments, socks and sportswear mainly for private labels in the women, men and children categories, sold to the large retail chains in the USA, as well as under labels for which it has received a concession labels in its possession.
- (b) Global Upper Market - this segment deals in designing, developing, manufacturing and marketing undergarments for men and women, socks and sportswear manufactures at the Company plants. Most of the operating segment's sales are to private labels in the upper market segment in the United States and in Europe. As of July 2019, this operating segment also includes the activity of the Bogart Group, see Note 6C.
- (c) Delta European Brands – this segment is engaged in the design, production, development and marketing of labeled undergarments for men and women and labeled children's clothing, primarily under the "Schiesser", "Eminence", "Athena" and "Liable" brands. The operating segment's activity is carried out primarily through wholesale activity to retail marketing chains, through the chain of stores and via the internet.
- (d) Delta Premium Brands – this segment is engaged in the design, production, development and marketing of premium products under the "7 for all mankind", "Splendid" and "Ella Moss" brands, through the Company's chain of stores in the United States and in Europe, via the internet and also through wholesale activity to retail marketing chains.

In 2018, the "Ella moss" activity was changed to the franchise model.

- (e) Delta Israel – this segment is engaged in design, development and marketing of branded undergarments for men and women, children's clothing and activewear and sports footwear, mainly under the "Delta", "Fix" and "Puma" brands for various customers in Israel, by means of and the Company's chain of stores in Israel, via the internet website and also through wholesale activity to retail marketing chains.

This operating segment, except for Puma activity, was split to the subsidiary Delta Israel Brands Ltd. on March 5, 2021, see Note 1C.

###### **2) Information on segmental sales, profit (loss) and assets of the reportable segments:**

- (a) The measurement of segmental sales, profit (loss) and segmental assets:

The measurement of segmental sales, profit (loss) and segmental assets is based on the same accounting principles that have been implemented in the consolidated financial statements.

The segmental profits (losses) reflect the profits (losses) from the segment's operations and they do not include financing expenses, net and taxes on income, since those items are not attributed to the segments and are not analyzed by the CODM in a segmental break down.

Sales prices between segments are based on negotiations between the segments, when possible, on market prices.

- (b) Segment assets include primarily fixed assets, intangible assets, investments in companies handled using the equity method, inventory, trade and other receivables. Assets not attributed to segments include primarily cash and cash equivalents, deferred taxes, financial derivative and assets held for sale.

In addition, the CODM does not examine liabilities as part of the segmental data.

# Delta Galil Industries Ltd.

## Notes to the Financial Statements

### Note 5 – Segmental reporting\_ (Continued)

#### b. Data on segmental activity:

|                                                                  | Delta USA            | Global Upper<br>Market (*) | Delta<br>European<br>Brands | Delta<br>Premium<br>Brands | Delta Israel   | Others (*)    | Adjustments<br>(**) | Inter-company<br>eliminations | Total            |
|------------------------------------------------------------------|----------------------|----------------------------|-----------------------------|----------------------------|----------------|---------------|---------------------|-------------------------------|------------------|
|                                                                  | Thousands of Dollars |                            |                             |                            |                |               |                     |                               |                  |
| <b>For the year ended December 31, 2020</b>                      |                      |                            |                             |                            |                |               |                     |                               |                  |
| Sales to external customers                                      | 341,707              | 375,134                    | 298,179                     | 187,420                    | 215,805        | 27,942        | -                   | -                             | 1,446,187        |
| Inter segment                                                    | 1,540                | 35,526                     | -                           | 1,734                      | -              | -             | -                   | (38,000)                      | -                |
| Total sales, net                                                 | <u>343,247</u>       | <u>410,660</u>             | <u>298,179</u>              | <u>189,154</u>             | <u>215,805</u> | <u>27,942</u> | <u>-</u>            | <u>(38,000)</u>               | <u>1,446,187</u> |
| Segmental profits (losses), before non-recurring items           | <u>7,304</u>         | <u>12,790</u>              | <u>28,866</u>               | <u>(30,857)</u>            | <u>33,963</u>  | <u>(261)</u>  | <u>(2,546)</u>      | <u>-</u>                      | <u>49,259</u>    |
| Impairment of non-financial assets                               | <u>3,088</u>         | <u>-</u>                   | <u>4,307</u>                | <u>9,416</u>               | <u>-</u>       | <u>-</u>      | <u>-</u>            | <u>-</u>                      | <u>16,811</u>    |
| Re-organization expenses                                         | <u>1,608</u>         | <u>14,938</u>              | <u>19,966</u>               | <u>1,721</u>               | <u>-</u>       | <u>-</u>      | <u>921</u>          | <u>-</u>                      | <u>39,154</u>    |
| Companies acquisition expenses                                   | <u>-</u>             | <u>-</u>                   | <u>-</u>                    | <u>-</u>                   | <u>-</u>       | <u>435</u>    | <u>-</u>            | <u>-</u>                      | <u>435</u>       |
| Segmental profits (losses)                                       | <u>2,608</u>         | <u>(2,148)</u>             | <u>4,593</u>                | <u>(41,994)</u>            | <u>33,963</u>  | <u>(696)</u>  | <u>(3,467)</u>      | <u>-</u>                      | <u>(7,141)</u>   |
| Financing expenses, net                                          |                      |                            |                             |                            |                |               |                     |                               | <u>37,475</u>    |
| Profit before taxes on income                                    |                      |                            |                             |                            |                |               |                     |                               | <u>(44,616)</u>  |
| Assets at the end of the year (***)                              | <u>276,299</u>       | <u>392,476</u>             | <u>428,643</u>              | <u>257,766</u>             | <u>156,671</u> | <u>29,867</u> | <u>150,608</u>      | <u>-</u>                      | <u>1,692,331</u> |
| Depreciation and amortization                                    | <u>7,475</u>         | <u>20,200</u>              | <u>19,734</u>               | <u>29,674</u>              | <u>18,222</u>  | <u>-</u>      | <u>3,110</u>        | <u>-</u>                      | <u>98,416</u>    |
| Capital gain (loss)                                              | <u>8</u>             | <u>168</u>                 | <u>(5)</u>                  | <u>-</u>                   | <u>28</u>      | <u>-</u>      | <u>115</u>          | <u>-</u>                      | <u>314</u>       |
| Capital investments in fixed assets and intangible assets (****) | <u>1,944</u>         | <u>12,388</u>              | <u>1,415</u>                | <u>3,142</u>               | <u>2,336</u>   | <u>448</u>    | <u>3,563</u>        | <u>-</u>                      | <u>25,235</u>    |

(\*\*) Including Brayola's activity, as of the first quarter of 2020, and Bare Necessities' activity, as of the fourth quarter of 2020.

(\*\*) The data on adjustments include expenses that are not attributed to operating segments and elimination of unrealized inter-company profits.

(\*\*\*) The data on adjustments include primarily fixed assets, cash balances and deferred taxes.

(\*\*\*\*) These data do not include minimum amounts in respect of concession agreements that the Company is a party to, the purchases of brands and the effect of the implementation of IFRS16.

# Delta Galil Industries Ltd.

## Notes to the Financial Statements

### Note 5 – Segmental reporting (Continued)

#### b. Data on segmental activity (Continued):

|                                                                  | Delta USA            | Global Upper<br>Market (*) | Delta<br>European<br>Brands (**) | Delta<br>Premium<br>Brands | Delta Israel | Adjustments<br>(***) | Inter-<br>company<br>eliminations | Total     |
|------------------------------------------------------------------|----------------------|----------------------------|----------------------------------|----------------------------|--------------|----------------------|-----------------------------------|-----------|
|                                                                  | Thousands of Dollars |                            |                                  |                            |              |                      |                                   |           |
| <b>For the year ended December 31, 2019</b>                      |                      |                            |                                  |                            |              |                      |                                   |           |
| Sales to external customers                                      | 460,073              | 434,987                    | 308,526                          | 271,742                    | 214,836      | -                    | -                                 | 1,690,164 |
| Inter segment                                                    | 1,535                | 25,696                     | -                                | 2,906                      | -            | -                    | (30,137)                          | -         |
| Total sales, net                                                 | 461,608              | 460,683                    | 308,526                          | 274,648                    | 214,836      | -                    | (30,137)                          | 1,690,164 |
| Segmental profits (losses), before non-recurring items           | 23,166               | 40,333                     | 25,683                           | 5,405                      | 15,922       | (4,543)              | -                                 | 105,966   |
| Re-organization expenses (elimination of expenses), net          | -                    | (187)                      | -                                | -                          | -            | (800)                | -                                 | (987)     |
| Acquisition of activity expenses                                 | -                    | 3,273                      | -                                | -                          | -            | -                    | -                                 | 3,273     |
| Segmental profits (losses)                                       | 23,166               | 37,247                     | 25,683                           | 5,405                      | 15,922       | (3,833)              | 90                                | 103,680   |
| Financing expenses, net                                          |                      |                            |                                  |                            |              |                      |                                   | 36,065    |
| Profit before taxes on income                                    |                      |                            |                                  |                            |              |                      |                                   | 67,615    |
| Assets at the end of the year (***)                              | 318,521              | 395,549                    | 389,967                          | 249,170                    | 144,723      | 89,884               | -                                 | 1,587,814 |
| Depreciation and amortization                                    | 6,668                | 17,213                     | 20,292                           | 26,940                     | 15,736       | 2,975                | -                                 | 89,824    |
| Capital gain (loss)                                              | -                    | 47                         | 48                               | -                          | (10)         | 1                    | -                                 | 86        |
| Capital investments in fixed assets and intangible assets (****) | 1,329                | 11,341                     | 5,186                            | 9,787                      | 3,262        | 2,667                | -                                 | 33,572    |

(\*) As of the third quarter of 2019, this segment includes Bogart's activity.

(\*\*) The data on adjustments include expenses that are not attributed to operating segments and elimination of unrealized inter-company profits.

(\*\*\*) Data on adjustments include primarily fixed assets, cash balances and deferred taxes.

(\*\*\*\*) These data do not include minimum amounts in respect of concession agreements that the Company is a party to and purchases of brands.

# Delta Galil Industries Ltd.

## Notes to the Financial Statements

### Note 5 – Segmental reporting (Continued)

#### b. Data on segmental activity (Continued):

|                                                                   | Delta USA            | Global Upper<br>Market (*) | Delta<br>European<br>Brands (**) | Delta<br>Premium<br>Brands | Delta Israel | Adjustments<br>(***) | Inter-<br>company<br>eliminations | Total     |
|-------------------------------------------------------------------|----------------------|----------------------------|----------------------------------|----------------------------|--------------|----------------------|-----------------------------------|-----------|
|                                                                   | Thousands of Dollars |                            |                                  |                            |              |                      |                                   |           |
| <b>For the year ended December 31, 2018</b>                       |                      |                            |                                  |                            |              |                      |                                   |           |
| Sales to external customers                                       | 467,255              | 285,224                    | 273,491                          | 278,491                    | 194,198      | -                    | -                                 | 1,498,421 |
| Inter segment                                                     | 2,066                | 23,141                     | -                                | 3,440                      | -            | 3                    | (28,650)                          | -         |
| Total sales, net                                                  | 469,321              | 308,365                    | 273,253                          | 281,931                    | 194,198      | 3                    | (28,650)                          | 1,498,421 |
| Segmental profits (losses), before non-recurring items            | 32,988               | 21,023                     | 21,073                           | 16,952                     | 10,962       | (4,665)              | (328)                             | 98,005    |
| Re-organization expenses, net                                     | (144)                | 4,563                      | -                                | (297)                      | -            | 1,300                | -                                 | 5,422     |
| Activity acquisition expenses                                     | -                    | -                          | 4,283                            | -                          | -            | -                    | -                                 | 4,283     |
| Adjustments due to allocation of acquisition costs                | -                    | -                          | 7,625                            | -                          | -            | -                    | -                                 | 7,625     |
| Segmental profits (losses)                                        | 33,132               | 16,460                     | 9,165                            | 17,249                     | 10,962       | (5,965)              | (328)                             | 80,675    |
| Financing expenses                                                |                      |                            |                                  |                            |              |                      |                                   | 21,352    |
| Profit before taxes on income                                     |                      |                            |                                  |                            |              |                      |                                   | 59,323    |
| Assets at the end of the year (****)                              | 297,882              | 206,348                    | 366,115                          | 197,060                    | 105,034      | 33,490               | -                                 | 1,205,929 |
| Depreciation and amortization                                     | 3,942                | 8,853                      | 9,313                            | 2,933                      | 4,423        | 2,852                | -                                 | 32,316    |
| Capital gain (loss)                                               | -                    | (126)                      | 34                               | -                          | (3)          | (4)                  | -                                 | (99)      |
| Capital investments in fixed assets and intangible assets (*****) | 1,797                | 20,669                     | 7,789                            | 7,747                      | 5,568        | 1,933                | -                                 | 45,503    |

(\*) In 2008, this segment includes Bogart's activity.

(\*\*) As of the third quarter of 2018, this segment includes Schiesser and Eminence. Until that date, this segment included the results of Schiesser's activity only.

(\*\*\*) The data on adjustments include expenses that are not attributed to operating segments.

(\*\*\*\*) The data on adjustments include primarily fixed assets, cash balances and deferred taxes.

(\*\*\*\*\*) These data do not include minimum amounts in respect of concession agreements that the Company is a party to and purchases of brands.

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### Note 5 –Segmental reporting (Continued)

**c. Additional information on a geographical basis:**

- 1) Sales on a geographical basis (based on the customers' locations):

|                             | For the year ended December 31 |                  |                  |
|-----------------------------|--------------------------------|------------------|------------------|
|                             | 2020                           | 2019             | 2018             |
|                             | Thousands of Dollars           |                  |                  |
| United States               | 671,280                        | 846,061          | 794,316          |
| Europe (except for Germany) | 281,198                        | 312,093          | 251,804          |
| Germany                     | 187,186                        | 198,194          | 194,378          |
| Israel                      | 217,231                        | 215,708          | 194,239          |
| Others                      | 89,292                         | 118,108          | 63,684           |
| Total sales                 | <u>1,446,187</u>               | <u>1,690,164</u> | <u>1,498,421</u> |

- 2) Balances of non-current assets (\*), on a geographical basis, are detailed below:

|                             | For the year ended December 31 |                |                |
|-----------------------------|--------------------------------|----------------|----------------|
|                             | 2020                           | 2019           | 2018           |
|                             | Thousands of Dollars           |                |                |
| United States               | 176,646                        | 182,966        | 115,609        |
| Switzerland                 | 100,272                        | 112,649        | 99,146         |
| Israel                      | 172,056                        | 136,522        | 79,635         |
| Germany                     | 87,980                         | 88,739         | 40,995         |
| France                      | 116,231                        | 111,795        | 111,921        |
| Vietnam                     | 38,140                         | 39,234         | 39,595         |
| Egypt                       | 26,515                         | 24,577         | 22,257         |
| Czech Republic and Slovakia | 15,849                         | 15,587         | 16,317         |
| Turkey                      | 8,879                          | 11,509         | 11,148         |
| Italy                       | 14,701                         | 13,476         | 15,645         |
| Bulgaria and Hungary        | 6,051                          | 5,250          | 5,756          |
| Far East                    | 129,265                        | 132,037        | 2,718          |
| Others (primarily Europe)   | 1,941                          | 5,113          | 661            |
| Total non-current assets    | <u>894,516</u>                 | <u>879,453</u> | <u>561,403</u> |

(\*) Except for deferred taxes.

**d. Sales Information by product categories:**

|                                                             | For the year ended December 31 |                  |                  |
|-------------------------------------------------------------|--------------------------------|------------------|------------------|
|                                                             | 2020                           | 2019             | 2018             |
|                                                             | Thousands of Dollars           |                  |                  |
| Ladies intimate apparel, activewear, nightwear and clothing | 647,007                        | 681,239          | 543,551          |
| Men's underwear and activewear                              | 287,954                        | 345,005          | 307,105          |
| Socks                                                       | 171,757                        | 222,295          | 201,829          |
| Children's wear                                             | 152,049                        | 166,977          | 164,005          |
| Branded denim and outerwear                                 | 187,420                        | 274,648          | 281,931          |
| Total sales *                                               | <u>1,446,187</u>               | <u>1,690,164</u> | <u>1,498,421</u> |

(\*) Includes Internet sales in the amount of approximately \$ 152.5, \$ 66.3 and \$ 53.2 million for the years 2020, 2019 and 2018, respectively.

**e. Sales to a main customer:**

|                                               | For the year ended December 31 |          |              |
|-----------------------------------------------|--------------------------------|----------|--------------|
|                                               | 2020                           | 2019     | 2018         |
|                                               | US\$ millions                  |          |              |
| Customer A – Belongs to the Delta USA segment | <u>-</u>                       | <u>-</u> | <u>143.0</u> |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 5 –Segmental reporting (Continued)**

\* In 2019-2020 the Company did not have a customer to whom 10% or more of its total sales were made.

#### **Note 6 – Business combinations**

- a. On October 1<sup>st</sup>, 2020, the Company acquired Bare Necessities, a leading U.S. e-commerce company that markets branded intimate apparel and offers over 160 leading brands and 6,400 styles in the intimate apparel and swimwear categories for women, shapewear, sleepwear and socks. The acquisition cost totaled \$ 12 million.

The Company entered into an agreement with an external appraiser for the purpose of allocating the acquisition cost. As part of the purchase cost allocation, the assets and liabilities were measured and presented at fair value, including goodwill and customer relationships that were included in the intangible assets.

The following is a breakdown of amounts recognized as of the date of acquisition in respect of identifiable assets acquired and liabilities assumed:

|                                     | Thousand dollars |
|-------------------------------------|------------------|
| Inventory                           | 16,198           |
| Customers                           | 313              |
| Other receivables                   | 791              |
| Fixed assets                        | 1,799            |
| Right of use asset                  | 2,061            |
| Brand name                          | 1,643            |
| Other intangible assets             | 131              |
| Deferred taxes                      | (416)            |
| Suppliers                           | (2,511)          |
| Payables and credit balances        | (7,031)          |
| Liabilities for leases              | (2,208)          |
| <b>Total assets identified, net</b> | <b>10,770</b>    |
| Goodwill                            | 1,230            |

The following are data regarding the Group's sales and net profit, under the assumption that the acquisition of the Company was made on January 1, 2020:

1. The Group's sales in 2020 totaled \$ 1,516.7 million compared to \$ 1,446.2 million as reported.
2. The loss in 2020 would have amounted to approximately \$ 43.2 million compared to \$ 40.5 million as reported.

It should be noted that Bare Necessities results are not included in the first nine months of 2020 and do not include one-time adjustments in connection with its acquisition.

The Company included in the fourth quarter results in 2020, expenses in respect of the acquisition transaction of the company in the amount of \$ 0.3 million; These expenses are included in administrative and general expenses.

- b. In February 2020, the Company acquired Brayola, a company that has developed a technological platform for purchasing bras online. The total purchase amounted to about \$ 1.5 million.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 6 – Business combinations (continued)**

- c. On July 2, 2019, the Company completed the acquisition of the Bogart Group from the selling shareholder, following the fulfilment of the preconditions required to complete the transaction.

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

The Company consolidated the results of the Bogart Group in its financial statements as of July 2019 and presents them as part of the Global Division Upper Market operating segment, see Note 5.

In the course of 2019, the Company provided loans to the members of the Bogart Group totaling approximately \$ 18 million in addition to previous loans granted up to December 31, 2018. In addition, the Company repaid Bogart's loans to banks as provided under the acquisition agreement in the amount of \$ 28 million and transferred \$ 15 million to repay Bogart's debts to its suppliers and employees, so that as of December 31, 2019, the Company transferred approximately \$ 75 million.

The Company entered into an agreement with an external appraiser for the purpose of allocating the acquisition cost. As part of the acquisition cost allocation, assets and liabilities were measured and presented at fair value, including goodwill and customer relationships that were included within the intangible assets.

The table below shows the consideration for the acquisition of the Bogart Group, the amounts recognized for the acquired assets and the liabilities incurred at the acquisition date, at their fair value:

The consideration:

|                            | Thousand dollars |
|----------------------------|------------------|
| Cash paid                  | 27,881           |
| Conditional consideration  | 11,037           |
| <b>Total consideration</b> | <b>38,918</b>    |

The following are amounts as of the date of acquisition recognized for identifiable assets acquired and liabilities incurred:

|                                                                        | Thousand dollars |
|------------------------------------------------------------------------|------------------|
| Cash                                                                   | 1,511            |
| Inventory                                                              | 29,891           |
| Customers                                                              | 13,526           |
| Other receivables                                                      | 5,428            |
| Fixed assets                                                           | 27,454           |
| Right of use asset                                                     | 17,351           |
| Customer relations                                                     | 52,500           |
| Other intangible assets                                                | 158              |
| Deferred taxes                                                         | (8,363)          |
| Suppliers                                                              | (29,601)         |
| Payables and credit balances                                           | (40,271)         |
| Current maturities of long-term loans and short-term credit from banks | (4,568)          |
| Liabilities for leases                                                 | (16,799)         |
| Accounts payable and long-term liabilities                             | (47,161)         |
| <b>Total assets identified, net</b>                                    | <b>1,056</b>     |
| Goodwill                                                               | 37,862           |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 6 – Business combinations (continued)**

The acquisition agreement included a liability in respect of a contingent consideration for the previous company owners, which depends on achieving profitability goals in 2023-2024.

The following are figures for sales and net profit of the Group, assuming that the Company's acquisition transaction took place on January 1, 2019:

1. Group sales in 2019 would have totaled \$ 1,775.2 million compared to \$ 1,690.2 million as reported.
2. Net income in 2019 would have totaled \$ 45.4 million, compared with \$ 57.7 million as reported.

It should be noted that Bogart results in the first half of 2019 and does not include one-time adjustments as a result of its acquisition.

The Company included in the 2019 results expenses for the Company's acquisition of \$ 3.3 million; These expenses are included in general and administrative expenses.

# Delta Galil Industries Ltd.

## Notes to the Financial Statements

### Note 7 – Fixed assets

#### a. Composition of the cost, accumulated depreciation and amortization of fixed assets, by the main groupings, in 2020:

|                                                                   | Cost                                      |                           |                           |                                |                                                        |                                              |                                |
|-------------------------------------------------------------------|-------------------------------------------|---------------------------|---------------------------|--------------------------------|--------------------------------------------------------|----------------------------------------------|--------------------------------|
|                                                                   | Balance at the beginning of the year      | Additions During the year | Disposals during the year | Consolidation/ Deconsolidation | Writing-off fully reduced assets and not in use assets | Capital reserve from translation differences | Balance at the end of the year |
|                                                                   | Thousands of Dollars                      |                           |                           |                                |                                                        |                                              |                                |
| Land and buildings                                                | 83,581                                    | 1,226                     | (1)                       | -                              | -                                                      | 2,035                                        | 86,841                         |
| Machinery and Equipment                                           | 136,163                                   | 10,886                    | (1,190)                   | 52                             | (1,270)                                                | 1,404                                        | 146,045                        |
| Office furniture and equipment, vehicles & leasehold improvements | 172,543                                   | 17,790                    | (4,247)                   | 1,349                          | (3,601)                                                | 7,937                                        | 191,771                        |
|                                                                   | 392,287                                   | 29,902                    | (5,438)                   | 1,401                          | (4,871)                                                | 11,376                                       | 424,657                        |
|                                                                   | Accumulated depreciation and Amortization |                           |                           |                                |                                                        |                                              |                                |
|                                                                   | Balance at the beginning of the year      | Additions During the year | Disposals during the year | Consolidation/ Deconsolidation | Writing-off fully reduced assets and not in use assets | Capital reserve from translation differences | Balance at the end of the year |
|                                                                   | Thousands of Dollars                      |                           |                           |                                |                                                        |                                              |                                |
| Land and buildings                                                | 17,110                                    | 3,407                     | (1)                       | -                              | -                                                      | 1,022                                        | 21,538                         |
| Machinery and Equipment                                           | 68,153                                    | 12,151                    | (749)                     | -                              | (1,270)                                                | 955                                          | 79,240                         |
| Office furniture and equipment, vehicles & leasehold improvements | 93,814                                    | 23,886                    | (4,150)                   | (209)                          | (3,601)                                                | 4,671                                        | 114,414                        |
|                                                                   | 179,077                                   | 39,444                    | (4,900)                   | (209)                          | (4,871)                                                | 6,651                                        | 215,192                        |
|                                                                   | Depreciated Balance                       |                           |                           |                                |                                                        |                                              |                                |
|                                                                   | As at December 31                         |                           |                           |                                |                                                        |                                              |                                |
|                                                                   | 2020                                      | 2018                      |                           |                                |                                                        |                                              |                                |
|                                                                   | Thousands of Dollars                      |                           |                           |                                |                                                        |                                              |                                |
| Land and buildings                                                | 65,303                                    | 66,471                    |                           |                                |                                                        |                                              |                                |
| Machinery and Equipment                                           | 66,805                                    | 68,010                    |                           |                                |                                                        |                                              |                                |
| Office furniture and equipment, vehicles & leasehold improvements | 77,357                                    | 78,729                    |                           |                                |                                                        |                                              |                                |
|                                                                   | 209,465                                   | 213,210                   |                           |                                |                                                        |                                              |                                |

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### **Note 7 – Fixed assets (Continued)**

#### **b. Composition of the cost, accumulated depreciation and amortization of fixed assets, by the main groupings, in 2019:**

|                                                                   | Cost                                      |                           |                           |               |                                                        |                                              |
|-------------------------------------------------------------------|-------------------------------------------|---------------------------|---------------------------|---------------|--------------------------------------------------------|----------------------------------------------|
|                                                                   | Balance at the beginning of the year      | Additions During the year | Disposals During the year | Consolidation | Writing-off fully reduced assets and assets not in use | Capital reserve from translation differences |
|                                                                   | Thousands of Dollars                      |                           |                           |               |                                                        |                                              |
| Land and buildings                                                | 78,576                                    | 1,065                     | (6)                       | 4,389         | -                                                      | (443)                                        |
| Machinery and Equipment                                           | 112,870                                   | 8,133                     | (925)                     | 17,717        | -                                                      | (1,632)                                      |
| Office furniture and equipment, vehicles & leasehold improvements | 155,442                                   | 17,249                    | (1,761)                   | 5,348         | (2,656)                                                | (1,079)                                      |
|                                                                   | <u>346,888</u>                            | <u>26,447</u>             | <u>(2,692)</u>            | <u>27,454</u> | <u>(2,656)</u>                                         | <u>(3,154)</u>                               |
|                                                                   |                                           |                           |                           |               |                                                        |                                              |
|                                                                   | Accumulated depreciation and Amortization |                           |                           |               |                                                        |                                              |
|                                                                   | Balance at the beginning of the year      | Additions During the year | Disposals During the year | Consolidation | Writing-off fully reduced assets and assets not in use | Capital reserve from translation differences |
|                                                                   | Thousands of Dollars                      |                           |                           |               |                                                        |                                              |
| Land and buildings                                                | 14,572                                    | 2,744                     | -                         | -             | -                                                      | (206)                                        |
| Machinery and Equipment                                           | 59,301                                    | 9,730                     | (666)                     | -             | -                                                      | (212)                                        |
| Office furniture and equipment, vehicles & leasehold improvements | 81,277                                    | 17,713                    | (1,636)                   | -             | (2,656)                                                | (884)                                        |
|                                                                   | <u>155,150</u>                            | <u>30,187</u>             | <u>(2,302)</u>            | <u>-</u>      | <u>(2,656)</u>                                         | <u>(1,302)</u>                               |
|                                                                   |                                           |                           |                           |               |                                                        |                                              |
| Depreciated Balance                                               |                                           |                           |                           |               |                                                        |                                              |
| As at December 31                                                 |                                           |                           |                           |               |                                                        |                                              |
| 2019                                                              | 2018                                      |                           |                           |               |                                                        |                                              |
| Thousands of Dollars                                              |                                           |                           |                           |               |                                                        |                                              |
| Land and buildings                                                | 66,471                                    | 64,004                    |                           |               |                                                        |                                              |
| Machinery and Equipment                                           | 68,010                                    | 53,569                    |                           |               |                                                        |                                              |
| Office furniture and equipment, vehicles & leasehold improvements | 78,729                                    | 74,165                    |                           |               |                                                        |                                              |
|                                                                   | <u>213,210</u>                            | <u>191,738</u>            |                           |               |                                                        |                                              |

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### **Note 7 – Fixed assets (Continued)**

#### **c. Composition of the cost, accumulated depreciation and amortization of fixed assets, by the main groupings, in 2018:**

|                                                                   | Cost                                      |                           |                           |                      |                                                        |                                              |
|-------------------------------------------------------------------|-------------------------------------------|---------------------------|---------------------------|----------------------|--------------------------------------------------------|----------------------------------------------|
|                                                                   | Balance at the beginning of the year      | Additions During the year | Disposals During the year | Consolidation        | Writing-off fully reduced assets and assets not in use | Capital reserve from translation differences |
|                                                                   |                                           |                           |                           | Thousands of Dollars |                                                        |                                              |
| Land and buildings                                                | 58,056                                    | 2,222                     | (276)                     | 19,588               | -                                                      | (1,014)                                      |
| Machinery and Equipment                                           | 101,619                                   | 17,611                    | (6,164)                   | 622                  | (151)                                                  | (667)                                        |
| Office furniture and equipment, vehicles & leasehold improvements | 157,183                                   | 21,083                    | (5,738)                   | 581                  | (1,127)                                                | (16,540)                                     |
|                                                                   | <u>316,858</u>                            | <u>40,916</u>             | <u>(12,178)</u>           | <u>20,791</u>        | <u>(1,278)</u>                                         | <u>(18,221)</u>                              |
|                                                                   |                                           |                           |                           |                      |                                                        |                                              |
|                                                                   | Accumulated depreciation and Amortization |                           |                           |                      |                                                        |                                              |
|                                                                   | Balance at the beginning of the year      | Additions During the year | Disposals During the year | Consolidation        | Writing-off fully reduced assets and assets not in use | Capital reserve from translation differences |
|                                                                   |                                           |                           |                           | Thousands of Dollars |                                                        |                                              |
| Land and buildings                                                | 13,094                                    | 2,224                     | (276)                     | -                    | -                                                      | (470)                                        |
| Machinery and Equipment                                           | 57,719                                    | 7,490                     | (5,338)                   | -                    | (151)                                                  | (419)                                        |
| Office furniture and equipment, vehicles & leasehold improvements | 86,027                                    | 16,968                    | (5,865)                   | -                    | (1,127)                                                | (14,726)                                     |
|                                                                   | <u>156,840</u>                            | <u>26,682</u>             | <u>(11,479)</u>           | <u>-</u>             | <u>(1,278)</u>                                         | <u>(15,615)</u>                              |
|                                                                   |                                           |                           |                           |                      |                                                        |                                              |
| Depreciated Balance                                               |                                           |                           |                           |                      |                                                        |                                              |
| As at December 31                                                 |                                           |                           |                           |                      |                                                        |                                              |
| 2018                                                              | 2017                                      |                           |                           |                      |                                                        |                                              |
| Thousands of Dollars                                              |                                           |                           |                           |                      |                                                        |                                              |
| Land and buildings                                                | 64,004                                    | 44,962                    |                           |                      |                                                        |                                              |
| Machinery and Equipment                                           | 53,569                                    | 43,900                    |                           |                      |                                                        |                                              |
| Office furniture and equipment, vehicles & leasehold improvements | 74,165                                    | 71,156                    |                           |                      |                                                        |                                              |
|                                                                   | <u>191,738</u>                            | <u>160,018</u>            |                           |                      |                                                        |                                              |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 7 – Fixed assets** (Continued)

**b. Land and buildings**

The Group owns land and buildings used for its operations, which are located in Israel, the United States, Vietnam, Bulgaria, Egypt, Thailand, Germany, France, the Czech Republic and Slovakia.

**c. Encumbrances on assets**

The Company's liabilities to banks are fully secured by an unlimited floating lien on all of the Company's assets and rights and on assets of some of its subsidiaries.

**d. For classification of depreciation expenses in report on profit or loss, See Note 19I, J and K.**

# Delta Galil Industries Ltd.

## Notes to the Financial Statements

### Note 8 – Intangible assets

#### a. Composition of the intangible asset and the accumulated amortization thereon, by the main groupings:

|                                            | <u>Goodwill (B)</u>         | <u>Customer Relations (*)</u> | <u>Trademarks (C) (*)</u> | <u>Patent</u> | <u>Brand name (D)</u> | <u>Computer software (**)</u> | <u>Total</u>   |
|--------------------------------------------|-----------------------------|-------------------------------|---------------------------|---------------|-----------------------|-------------------------------|----------------|
|                                            | <b>Thousands of Dollars</b> |                               |                           |               |                       |                               |                |
| <b>In 2018</b>                             |                             |                               |                           |               |                       |                               |                |
| Capital reserve on translation differences | (709)                       | (517)                         | (124)                     | -             | (1,618)               | 473                           | (2,495)        |
| Additions                                  | -                           | -                             | 12,988                    | -             | 196                   | 8,087                         | 21,271         |
| Consolidation                              | 41,563                      | 29,770                        | 3,385                     | -             | 34,849                | 437                           | 110,004        |
| Amortization                               | -                           | (2,423)                       | (19,882)                  | (33)          | -                     | (2,687)                       | (25,025)       |
|                                            | <u>110,955</u>              | <u>48,048</u>                 | <u>37,371</u>             | <u>429</u>    | <u>122,573</u>        | <u>13,248</u>                 | <u>332,624</u> |
| <b>In 2019</b>                             |                             |                               |                           |               |                       |                               |                |
| Capital reserve on translation differences | (816)                       | (976)                         | (25)                      | -             | (1,128)               | 166                           | (2,375)        |
| Additions                                  | -                           | -                             | 12,657                    | -             | -                     | 4,963                         | 17,620         |
| Consolidation                              | 37,862                      | 52,500                        | 18                        | -             | -                     | 140                           | 90,520         |
| Reclassification                           | -                           | -                             | (369)                     | -             | -                     | 369                           | -              |
| Amortization                               | -                           | (4,411)                       | (7,732)                   | (36)          | -                     | (4,487)                       | (16,642)       |
|                                            | <u>148,001</u>              | <u>95,161</u>                 | <u>41,920</u>             | <u>393</u>    | <u>121,445</u>        | <u>14,399</u>                 | <u>421,319</u> |
| <b>In 2020</b>                             |                             |                               |                           |               |                       |                               |                |
| Capital reserve on translation differences | 3,505                       | 2,624                         | 253                       | -             | 5,156                 | 777                           | 12,315         |
| Additions                                  | -                           | -                             | 8,300                     | -             | 154                   | 3,478                         | 11,932         |
| Consolidation                              | 1,230                       | -                             | -                         | -             | 2,695                 | 799                           | 4,724          |
| Amortization                               | -                           | (7,250)                       | (15,132)                  | -             | -                     | (5,109)                       | (27,491)       |
| Impairment of non-financial assets         | (2,079)                     | -                             | -                         | (393)         | (2,703)               | -                             | (5,175)        |
|                                            | <u>150,657</u>              | <u>90,535</u>                 | <u>35,341</u>             | <u>-</u>      | <u>126,747</u>        | <u>14,344</u>                 | <u>417,624</u> |
| <b>Balance as of December 31 2020</b>      |                             |                               |                           |               |                       |                               |                |
| Cost                                       | 160,282                     | 117,927                       | 153,347                   | 650           | 131,207               | 41,157                        | 604,570        |
| Accumulated amortization                   | (9,625)                     | (27,392)                      | (118,006)                 | (650)         | (4,460)               | (26,813)                      | (186,946)      |
| Balance as of December 31 2020             | <u>150,657</u>              | <u>90,535</u>                 | <u>35,341</u>             | <u>-</u>      | <u>126,747</u>        | <u>14,344</u>                 | <u>417,624</u> |

(\*) The amortization of customer contacts and trademarks are presented under selling and marketing expenses.

(\*\*) The amortization of computer software is presented under cost of sales, selling and marketing expenses and administrative and general expenses according to the type of software.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 8 – Intangible assets (Continued)**

##### **b. Goodwill**

The balance of goodwill is attributed to the Delta USA, Global Division Upper Market (in respect of Bogart) and Delta European Brands operating segments. Furthermore, the balance of Bare Necessities goodwill was attributed to others.

The Group reviews the need for goodwill balance impairment once a year or when signs exist that may indicate the need to impair.

Following the spread of the Corona Virus, the Company examined the value of goodwill balances as of March 31, 2020 and December 31, 2020.

The recoverable amount of a cash-generating unit is determined based on the value calculations used. The cash flow forecast is based on the approved budget for the coming year, that is approved by management, and additional assumptions regarding the growth rate of sales and expenses in the following four years. In cash flows exceeding five years, extrapolation is carried out using the expected growth rates listed below.

The Company uses the above assumptions to analyze the value of goodwill of cash generating units in the various segments:

- 1) Long-term gross representative profit rate. The gross profit rate is based on past experience and Group forecasts of market developments.
- 2) The growth rate is calculated in accordance with the nominal long-term growth forecast of total GDP and the rate of population growth in each of the various operating segments, in accordance with IMF data.
- 3) Capitalization rate applied to the cash flow forecast. Discount rate set according to segmental risks.

##### **Goodwill impairment Test - Delta USA**

The Company reviewed the need for goodwill balance impairment as of December 31, 2020, March 31, 2020 and December 31, 2019.

The basic assumptions used in calculating of the value in use are as follows:

|                       | <b>December<br/>31, 2020</b> | <b>March 31,<br/>2020</b> | <b>December<br/>31, 2019</b> |
|-----------------------|------------------------------|---------------------------|------------------------------|
| Gross profit rate     | 22.4%                        | 23%                       | 23.2%                        |
| Nominal growth rate   | 2%                           | 3%                        | 2%                           |
| Pre-tax discount rate | 14.0%                        | 12.5%                     | 11.5%                        |

As a result of these reviews, no need arose for such impairment.

##### **Goodwill impairment Test – Eminence – Delta European Brands**

In July 2018, the Company completed the acquisition of the Eminence Group, which operates primarily in France and Italy. The results of the Eminence Group are included under Delta European Brands.

The Company entered into an agreement with an external appraiser for the purpose of allocating the acquisition cost. As part of the allocation of the acquisition cost, the assets and liabilities were measured at fair value, including goodwill.

The Company reviewed the need for goodwill balance impairment as of December 31, 2020, March 31, 2020 and December 31, 2019.

As a result of the goodwill balance impairment test as of March 31, 2020, the Company deducted \$ 2.1 million from goodwill and included it in the "Impairment of Non-Financial Assets" item. As a result of the impairment in goodwill as of December 31, 2020, no further impairment was necessary.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 8 –Intangible assets (Continued)**

The basic assumptions used in calculating of the value in use are as follows:

|                       | <b>December<br/>31, 2020</b> | <b>March 31,<br/>2020</b> | <b>December<br/>31, 2019</b> |
|-----------------------|------------------------------|---------------------------|------------------------------|
| Gross profit rate     | 47%                          | 51.4%                     | 51%                          |
| Nominal growth rate   | 3%                           | 3%                        | 2.0%                         |
| Pre-tax discount rate | 10%                          | 9.5%                      | 8.5%                         |

#### **Bogart goodwill impairment test - Global Division Upper Market Segment**

In July 2019, the Company completed the acquisition of the Bogart Group operating in the Far East and which is mainly known to customers in the US and Europe, see Note 6C. The results of the Bogart Group are included under the activity of Global Division of the Upper Market Segment.

The Company entered into an agreement with an external appraiser for the purpose of allocating the acquisition cost. As part of the acquisition cost allocation, assets and liabilities were measured and presented at fair value, including goodwill.

The main assumptions used in calculating value in use are as follows:

|                         | <b>December<br/>31, 2020</b> | <b>March 31,<br/>2020</b> | <b>December<br/>31, 2019</b> |
|-------------------------|------------------------------|---------------------------|------------------------------|
| Gross profit rate       | 26.3%                        | 26.2%                     | 21.6%                        |
| Nominal growth rate     | 3%                           | 3%                        | 3%                           |
| Discount rate after tax | 17.5%                        | 16.5%                     | 17.5%                        |

The Company reviewed the need for goodwill balance impairment as of December 31, 2020, March 31, 2020 and December 31, 2019.

As a result of these reviews, no need arose for such impairment.

In addition, for all Delta USA, Eminence and Bogart goodwill balances, impairment sensitivity tests were performed for December 31, 2020, by changing the pre-tax discount rate 0.5% and the remaining other parameters unchanged.

According to the results of the sensitivity tests above, goodwill impairment for Eminence in the amount of \$ 1.25 million was required in the event of the change.

Impairment sensitivity tests were performed as of December 31, 2020 with a change in the growth rate of 0.5% and the remaining other parameters unchanged. The results of these sensitivity tests do not indicate any required impairment.

#### **c. The right to use trademarks**

The Company has entered into agreements which afford it the right to market products under brand names owned by other parties, usually for periods of 3 to 4 years. Royalties for these agreements are calculated as a percentage of sales. Royalty rates range from 5% and 14% of sales, pursuant to these agreements, the Company is liable for minimum royalty payments, as set forth in these agreements, and the discounted sums of which are included recorded in the financial statements under "other non-current liabilities".

#### **d. Brands**

The Group reviews the need for recognizing of the impairment of its brands once a year or when signs exist that may indicate the need to impair. As described in Note 1, as a result of the Corona crisis and its impact on the Company's results, the Company performed an impairment test on some of the intangible assets attributed to the various cash-generating units as of March 31, 2020 in addition to the annual test performed on December 31, 2020.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 8 – Intangible assets (Continued)**

- 1) The balance of the brands as of December 31, 2020 includes the brand names: "Schiesser", "P.J. Salvage", "Karen Neuburger", "Fix", "7 For All Mankind", "Splendid", "Ella Moss", "Eminence", "Athena", "Liable", "Brayola" and "Bare necessities".

- 2) "Schiesser" Brand impairment Test

The Company considers "Schiesser" brand to have unlimited shelf life and therefore it is not amortized in the books. In making this determination, the Company relied on the following assumptions:

- a. The brand exists since 1875 and is a famous and stable in Germany and in the Benelux countries (Western Europe).
- b. The brand's primary activity has been profitable for many years.
- c. Purchase of the brand by the Company assures continued expansion in Germany and in the Benelux countries.

The valuation performed in 2020 is in accordance with the revenue approach and is based on the "relief from royalty method". The main assumptions used in calculating the value are as follows:

- a. The royalties' rate for 2019 and 2020 is 3.0%, and is calculated according to a weighted between an average royalty's rate in franchise agreements in the garment industry and a royalty rate calculated as part of a representative operating profit.

|                                                                                                            | <b>Average<br/>rate</b> | <b>Weighted<br/>rate</b> |
|------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------|
| Average royalties' rate in concession agreements in the garment industry                                   | 5.5%                    | 25%                      |
| Royalties rate as share of profit representative operating Profit (*)<br>(average of between 25% and 33%). | 2.2%                    | 75%                      |

(\*) A representative operating margin of 7.5%.

- b. Growth rate in 2019 and 2020 is 2% (The growth rate applied in the valuation based on past experience and on Company's market development forecast).
- c. Post-tax discount rate in 2020 is 13% and in 2019 was 8.5% (the discount rate is determined according to the segment risks).

- 3) "7 for all mankind" Impairment Test

The Company considered the "7 for all mankind" brand to have an unlimited shelf life and therefore it is not amortized in its books. In making this determination, the Company relied on the following assumptions:

- a. The brand has existed for over 15 years and is a leading brand in the high-end denim category.
- b. The brand is a global brand and is familiar in United States and in European and Asian countries.
- c. The Company estimates that its purchase of the brand and the investment in it will lead to its global growth.

The valuation performed in 2020 is in accordance with the revenue approach and is based on the "relief from royalty method". The main assumptions used in calculating the value are as follows:

The main assumptions used in calculating the brand value in 2019 and 2020 are as follows:

- a. Royalties are: 3.5% in retail activity and 7.7% in wholesale activity.
- b. Growth rate: 2%.
- c. Post-tax discount rate in 2020 is 16% and in 2019 was 8.5%.

The results of the sensitivity tests detailed above, do not indicate that the required impairment exists.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 8 – Intangible assets (Continued)**

4) "Splendid" Impairment Test

The main assumptions used in calculating the brand value in 2020 are as follows:

- d. Royalties are: 1.5% in retail activity and 3.2% in wholesale activity.
- e. Growth rate: 2%.
- f. Post-tax discount rate is 19%.

The results of the sensitivity test do not indicate required impairment of the "Splendid" brand.

5) "P.J. Salvage" Impairment Test:

The Company conducted an impairment test for the "P.J. Salvage" brand in accordance with the revenue approach and based on the "Relief from royalty method".

The main assumptions used in calculating the value of the brand in 2020 are:

- a. Royalties rate: 8%
- b. Growth rate: 2%
- c. Post-tax discount rate: 14.5%

The results of the sensitivity test do not indicate required impairment of the "P.J. Salvage" brand.

6) "Karen Neuburge" Impairment Test:

The Company conducted an impairment test for the "Karen Neuburger" brand in accordance with the revenue approach and based on the "Relief from royalty method".

The main assumptions used in calculating the value of the brand in 2020 are:

- d. Royalties rate: 3.5%
- e. Growth rate: 2%
- f. Post-tax discount rate: 14.5%

As a result of the goodwill balance impairment test the need to deduct \$ 0.8 million was required, that was included it in the "Impairment of Non-Financial Assets" item in the profit and loss report.

7) Eminence, Liable, Athena Impairment Test:

The Company views the lifespan of the Eminence, Athena, and Liable brands as unrestricted, and therefore are not impaired in its books. For purposes of this determination, the Company bases on the following assumptions:

a.

|                       | <b><u>Eminence</u></b> | <b><u>Athena</u></b> | <b><u>Liabe</u></b> |
|-----------------------|------------------------|----------------------|---------------------|
| Year of establishment | 1944                   | 1962                 | 1851                |
| Primary country       | France                 | France               | Italy               |

- b. The brands' primary activity is profitable over many years and they are market leaders in the key countries they operate in.
- c. The acquisition of the brands by the Company ensures their continued expansion in the relevant countries.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 8 –Intangible assets (Continued)**

The valuation is in accordance with the revenue approach and is based on the "Relief from royalty method". The main assumptions used in calculating the value of the brand in 2019 and 2020 are as follows.

| <b>December 31, 2020:</b> | <b><u>Eminence</u></b> | <b><u>Athena</u></b> | <b><u>Liabe</u></b> |
|---------------------------|------------------------|----------------------|---------------------|
| Royalties rate            | 7%                     | 5%                   | 7%                  |
| Capitalization rate *     | 11.5%                  | 11.5%                | 11.5%               |
| Growth rate**             | 1%                     | 1%                   | 1%                  |

| <b>December 31, 2019:</b> | <b><u>Eminence</u></b> | <b><u>Athena</u></b> | <b><u>Liabe</u></b> |
|---------------------------|------------------------|----------------------|---------------------|
| Royalties rate            | 7%                     | 5%                   | 7%                  |
| Capitalization rate *     | 10.5%                  | 10.5%                | 10.5%               |
| Growth rate**             | 1%                     | 1%                   | 1%                  |

\* The capitalization rate is determined in accordance with the Company's risks.

\*\* The growth rate was based on past experience and the Company's forecasts for market development.

Also, for all brand balances, impairment sensitivity tests were performed for December 31, 2020 with a change in the growth rate of 0.5% and the remaining other parameters unchanged.

According to the results of the sensitivity tests above, additional goodwill impairment for "Karen Neuburger" in the amount of \$ 100 thousand was required in the event of the change

Impairment sensitivity tests for December 31, 2020 were performed with a 0.5% change in the growth rate and the remaining other parameters unchanged.

According to the results of the sensitivity tests above, additional goodwill impairment for "Karen Neuburger" in the amount of \$ 60 thousand was required in the event of the change

The Company has a number of additional brand names for which it conducted an impairment test as of December 31, 2020. As a result of this tests, no need for a provision for impairment was indicated, after impairment on the amount of \$ 2.3 million was recognized after an impairment test as of March 31, 2020. This impairment was included in the "Impairment of Non-Financial Assets" item in the profit and loss report.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 9 – Assets and liabilities in respect of leases:**

As stated in Note 2U(1), as of January 1, 2019, the Company applies International Financial Reporting Standard 16 "Leases" (IFRS16). This note refers to the leases in which the Company is the lessee.

##### **a. Assets in respect of right of use:**

|                                                                                      | <b>Buildings</b>        | <b>Other</b>  | <b>Total</b>   |
|--------------------------------------------------------------------------------------|-------------------------|---------------|----------------|
|                                                                                      | <b>Thousand dollars</b> |               |                |
| Cost:                                                                                |                         |               |                |
| <b>Balance as of January 1, 2019 (as a result of the initial adoption of IFRS16)</b> | 377,256                 | 6,783         | 384,039        |
| Changes over 2019:                                                                   |                         |               |                |
| Additions                                                                            | 24,390                  | 4,356         | 28,746         |
| Consolidation                                                                        | 17,351                  | -             | 17,351         |
| Subtractions                                                                         | (6,576)                 | (737)         | (7,313)        |
| Other changes                                                                        | 3,825                   | (78)          | (3,743)        |
| <b>Balance as of December 31, 2019</b>                                               | <u>416,246</u>          | <u>10,324</u> | <u>426,570</u> |
| Changes over 2019:                                                                   |                         |               |                |
| Additions                                                                            | 57,630                  | 1,032         | 58,662         |
| Consolidation                                                                        | 3,125                   | -             | 3,125          |
| Subtractions                                                                         | (18,088)                | (1,187)       | (19,275)       |
| Other changes*                                                                       | 4,900                   | 1,527         | 6,427          |
| <b>Balance as of December 31, 2020</b>                                               | <u>463,813</u>          | <u>11,696</u> | <u>475,509</u> |
| <b>Accumulated amortization:</b>                                                     |                         |               |                |
| <b>Balance as of January 1, 2019</b>                                                 | 171,570                 | 3,084         | 174,654        |
| Amortization                                                                         | 49,034                  | 879           | 49,915         |
| Subtractions                                                                         | (7,591)                 | (137)         | (7,728)        |
| Other changes*                                                                       | 2,040                   | 38            | 2,078          |
| <b>Balance as of December 31, 2019</b>                                               | <u>215,053</u>          | <u>3,866</u>  | <u>218,919</u> |
| <b>Changes over the year:</b>                                                        |                         |               |                |
| Amortization                                                                         | 51,145                  | 915           | 52,060         |
| Consolidation                                                                        | 1,064                   | -             | 1,064          |
| Subtractions                                                                         | (18,410)                | (478)         | (18,888)       |
| Other changes*                                                                       | 4,351                   | 226           | 4,577          |
| <b>Balance as of December 31, 2020</b>                                               | <u>253,203</u>          | <u>4,529</u>  | <u>257,732</u> |
| <b>Amortized cost balance as of January 1, 2020</b>                                  | <u>201,193</u>          | <u>6,458</u>  | <u>207,651</u> |
| <b>Amortized cost balance as of December 31, 2020</b>                                | <u>210,610</u>          | <u>7,167</u>  | <u>217,777</u> |

\* Derived from the translation differences of financial statements of subsidiaries prepared in foreign currency. Also, includes impairment of assets in respect of the right of use against the background of the Corona crisis.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

**b. Liabilities in respect of leases:**

|                                                | <b><u>Buildings</u></b>        | <b><u>Other</u></b> | <b><u>Total</u></b> |
|------------------------------------------------|--------------------------------|---------------------|---------------------|
|                                                | <b><u>Thousand dollars</u></b> |                     |                     |
| <b>Balance as of January 1, 2019</b>           | 227,493                        | 3,023               | 231,516             |
| <b>Changes over 2019:</b>                      |                                |                     |                     |
| Additions                                      | 24,511                         | 743                 | 25,254              |
| Consolidation                                  | 16,799                         | -                   | 16,799              |
| Interest expense                               | 8,324                          | (150)               | 8,474               |
| Payments for leases                            | (56,889)                       | (1,023)             | (57,912)            |
| Other changes *                                | (1,472)                        | (701)               | 2,173               |
| <b>Balance as of December 31, 2019</b>         | <u>221,710</u>                 | <u>4,594</u>        | <u>226,304</u>      |
| <b>Current maturities of lease liabilities</b> | 51,843                         | 1,558               | 53,401              |
| <b>Long-term lease liabilities</b>             | 169,867                        | 3,036               | 172,903             |
| <b>Balance as of December 31, 2019</b>         | <u>221,710</u>                 | <u>4,594</u>        | <u>226,304</u>      |
| <b>Changes over 2020:</b>                      |                                |                     |                     |
| Additions                                      | 57,242                         | 1,420               | 58,662              |
| Consolidation                                  | 2,208                          | -                   | 2,208               |
| Interest expense                               | 9,598                          | 238                 | 9,836               |
| Payments for leases                            | (55,342)                       | (1,516)             | (56,858)            |
| Other changes *                                | 1,535                          | 1,085               | 2,620               |
| <b>Balance as of December 31, 2020</b>         | <u>236,951</u>                 | <u>5,821</u>        | <u>242,772</u>      |
| <b>Current maturities of lease liabilities</b> | 58,927                         | 1,436               | 60,363              |
| <b>Long-term lease liabilities</b>             | 178,024                        | 4,385               | 182,409             |
| <b>Balance as of December 31, 2020</b>         | <u>236,951</u>                 | <u>5,821</u>        | <u>242,772</u>      |

\* Derive from translation differences of financial statements of subsidiaries prepared in foreign currency. Also, including a decrease in lease liabilities.

**Note 10 – Investments treated at equity and other long-term receivables**

|                                            | <b><u>As at December 31</u></b>    |                    |
|--------------------------------------------|------------------------------------|--------------------|
|                                            | <b><u>2020</u></b>                 | <b><u>2019</u></b> |
|                                            | <b><u>Thousands of Dollars</u></b> |                    |
| Investments in companies treated at equity | 5,961                              | 5,564              |
| Advance investment in joint venture        | 3,844                              | 4,164              |
| Other long-term receivables                | 4,863                              | 4,639              |
|                                            | <u>14,668</u>                      | <u>14,367</u>      |

The following are the movements in the balances of the investments in companies treated at equity:

|                                                                          | <b><u>As at December 31</u></b>    |                    |
|--------------------------------------------------------------------------|------------------------------------|--------------------|
|                                                                          | <b><u>2020</u></b>                 | <b><u>2019</u></b> |
|                                                                          | <b><u>Thousands of Dollars</u></b> |                    |
| <b>Balance as at January 1</b>                                           | 5,564                              | 5,346              |
| Share of profits in a held company accounted for using the equity method | 397                                | 950                |
| Repayment of loan                                                        | -                                  | (732)              |
| <b>Balance as at December 31</b>                                         | <u>5,961</u>                       | <u>5,564</u>       |

The fair value of the long-term debt balances is not materially different from their book value.

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### Note 11 – Debentures

#### 1. Details regarding the existing series of debentures

| Series Name                     | Date of issue | Par value   |         | Issuance Cost | Proceeds from Issuance | Duration<br>(1) | Fixed NIS interest | Fixed Dollar interest<br>(2) | NIS interest linked to the Dollar rate | Principal Payments                   | Interest Payments                  |
|---------------------------------|---------------|-------------|---------|---------------|------------------------|-----------------|--------------------|------------------------------|----------------------------------------|--------------------------------------|------------------------------------|
|                                 |               | In millions |         |               |                        |                 |                    |                              |                                        |                                      |                                    |
|                                 |               | NIS         | USD (2) | USD           | USD                    |                 |                    |                              |                                        |                                      |                                    |
| E                               | 8.4.2012      | 192.9       | 51.5    | 0.6           | 51.5                   | 1.44            | 7.6%               | 6.18%                        | -                                      | 8 equal annual payments 2014 - 2021  | Semi-annual in June and December   |
| A (4)                           | 13.8.2013     | 178.5       | 49.7    | 0.6           | 49.7                   | 4.13            | 5%                 | 4.075%                       | -                                      | 14 equal annual payments 2015 - 2028 | Semi-annual in February and August |
| A Expansion (3)                 | 27.10.2013    | 21.5        | 6.0     | -             | 6.0                    | 4.13            | 5%                 | 4.41%                        | -                                      | 14 equal annual payments 2015 - 2028 | Semi-annual in February and August |
| A 2 <sup>nd</sup> Expansion (3) | 14.5.2014     | 161.7       | 47.2    | 0.4           | 50.5                   | 4.13            | 5%                 | 5.45%                        | -                                      | 14 equal annual payments 2015 - 2028 | Semi-annual in February and August |
| A 3 <sup>rd</sup> Expansion (3) | 1.6.2014      | 38.3        | 11.7    | -             | 11.8                   | 4.13            | 5%                 | 5.45%                        | -                                      | 14 equal annual payments 2015 - 2028 | Semi-annual in February and August |
| A 4 <sup>th</sup> Expansion (4) | 24.12.2019    | 245.0       | 70.6    | 0.5           | 81.4                   | 4.13            | 5%                 | 6.78%                        | -                                      | 9 equal annual payments 2020 - 2028  | Semi-annual in February and August |
| B (4)                           | 18.9.2014     | 168.4       | 46.2    | 0.6           | 46.2                   | 4.50            | (6)₪               | -                            | -                                      | A single payment in 2024             | Semi-annual in April and October   |
| B Expansion (3)                 | 20.11.2014    | 31.6        | 8.2     | -             | 8.4                    | 4.50            | (7)₪               | -                            | -                                      | A single payment in 2024             | Semi-annual in April and October   |
| B 2 <sup>nd</sup> Expansion     | 24.5.2015     | 159.6       | 41.2    | 0.4           | 40.4                   | 4.50            | (8)₪               | -                            | -                                      | A single payment in 2024             | Semi-annual in April and October   |
| F                               | 27.3.2017     | 208.9       | 57.7    | 0.6           | 57.7                   | 3.66            |                    | -                            | 3.85%                                  | 9 equal payments 2018 - 2026         | Semi-annual in June and December   |
| F Expansion                     | 13.3.2019     | 253.5       | 70.4    | 0.9           | 69.1                   | 3.66            |                    | -                            | 3.85%                                  | 8 equal payments 2019 - 2026         | Semi-annual in June and December   |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 11 – Debentures (Continued)**

2. Details regarding the existing series of debentures as at December 31, 2020:

| Series Name                                | Book Value | Interest payable | Market value <sup>(5)</sup> | Fair value of the financial derivative |
|--------------------------------------------|------------|------------------|-----------------------------|----------------------------------------|
|                                            |            | US\$ thousands   |                             |                                        |
| E                                          | 7,483      | -                | 7,971                       | 1,310                                  |
| A <sup>(4)</sup>                           | 31,537     | 530              | 35,896                      | 7,001                                  |
| A Expansion <sup>(3)</sup>                 | 3,752      | 64               | 4,314                       | 650                                    |
| A 2 <sup>nd</sup> Expansion <sup>(3)</sup> | 29,773     | 480              | 32,517                      | 2,710                                  |
| A 3 <sup>rd</sup> Expansion <sup>(3)</sup> | 7,025      | 114              | 7,693                       | 641                                    |
| A 4 <sup>th</sup> Expansion <sup>(4)</sup> | 75,777     | 1,132            | 76,622                      | 3,484                                  |
| B <sup>(4)</sup>                           | 51,873     | 323              | 53,188                      | 6,618                                  |
| B Expansion <sup>(3)</sup>                 | 9,836      | 61               | 9,972                       | 1,892                                  |
| B 2 <sup>nd</sup> Expansion                | 48,681     | 306              | 50,395                      | 9,137                                  |
| F                                          | 38,216     | -                | 38,512                      | -                                      |
| F Expansion                                | 51,840     | -                | 52,572                      | -                                      |
| Total                                      | 355,793    | 3,011            | 369,652                     | 33,443                                 |

- (1) Gross average lifetime to maturity at the end of 2020.
- (2) The Company has decided to enter agreements to replace cash flows with those identical to the repayment dates of the above debentures to hedge cash flows for the payments of debentures against exchange rate risks and interest risks. For Series A and E, this hedging creates fixed cash flows for the Company in Dollar terms, in which the Company undertakes to transfer a dollar payment according to fixed USD interest rate as noted in the table, and receive NIS payment from the banking corporation according to the denoted interest rate. For series B - See notes 6, 7 and 8 below.
- (3) The maximum exposure level the banking corporation for the swap transaction as set by it for this transaction is \$5 million. The Company will be asked to provide collateral in the event that the exposure exceeds the sum in question, as the banking corporation demands. As of December 31 2020, the provision of deposits was not demanded.
- (4) The maximum exposure the banking corporation for the swap transaction as set by it for this transaction is \$ 3 million. The Company will be asked to provide collateral in the event that the exposure exceeds the sum in question, as the banking corporation demands. As of December 31 2020, the provision of deposits was not demanded.
- (5) According to the value on the Tel-Aviv Stock Exchange as at December 31, 2020.
- (6) Variable NIS interest rate: 3 month Telbor + 2.10%. Variable USD interest rate: 3 month LIBOR + 2.875%.
- (7) Variable NIS interest rate: 3 month Telbor + 2.10%. Variable USD interest rate: 3 month LIBOR + 2.55%.
- (8) Variable NIS interest rate: 3 month Telbor + 2.10%. Variable USD interest rate: 3 month LIBOR + 2.81%.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 11 – Debentures (Continued)**

The following are details of non-discounted contractual cash flows debentures, by years:

|      | <b>As at December 31</b>    |                |
|------|-----------------------------|----------------|
|      | <b>2020</b>                 | <b>2019</b>    |
|      | <b>Thousands of Dollars</b> |                |
| 2020 | -                           | 54,506         |
| 2021 | 50,862                      | 52,633         |
| 2022 | 42,579                      | 44,350         |
| 2023 | 41,196                      | 42,967         |
| 2024 | 135,300                     | 137,071        |
| 2025 | 35,515                      | 35,515         |
| 2026 | 34,138                      | 34,138         |
| 2027 | 17,534                      | 17,534         |
| 2028 | 16,737                      | 16,737         |
|      | <u>373,861</u>              | <u>435,451</u> |

3. The following are details of the financial covenants that are included in the trust deeds for Series E, A, B and F, the breach of which will constitute grounds for immediate repayment, subject to the periods for repair, which have been set.

#### Series E:

- If the Company's equity, as published in the financial statements, amounts to under three hundred and fifty (350) million NIS, and inasmuch as the equity was not increased past the sum in question within 30 days.
- If the Company's net financial debt to CAP ratio, as published in the financial statements exceeds a rate of 60% for two consecutive quarters after the increase in question in financial debt leverage ratio.

In this regard, "the equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term debts and loans, plus current maturities of long-term loans, plus long-term loans, plus liabilities due to operating leases, except for cash and cash equivalents and with the exception of short-term investments; "CAP" (capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights), plus long-term deferred taxes in the balance sheet.

#### Series A:

- If the Company's equity as published in the financial statements, amounts to under one hundred and fifty (150) million dollars, and inasmuch as the equity was not increased past the sum in question within 30 days after the publication date of the relevant financial statements.
- If the company's net financial debt to CAP ratio, as published in the financial statements, exceeds 60%, and inasmuch as the leverage rate of net financial debt to CAP does not drop by 60% as of the publication date of the second consecutive financial statements after the publication date of the financial statements That first reported the increase in question in the above leverage rate.

In this regard, "the equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debts, plus debentures and plus balance sheet liabilities due to leases, less cash and cash equivalents and less short-term investments; "CAP" (Capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights), plus long-term deferred taxes in the balance sheet.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 11 – Debentures (Continued)**

##### Series B:

- If the Company's equity, as published in the financial statements, amounts to under one hundred and fifty (150) million dollars, and inasmuch as the equity was not increased past the sum in question within 30 days after the publication date of the relevant financial statements.
- If the Company's net financial debt to CAP ratio, as published in the financial statements, exceeds 60%, and inasmuch as the leverage rate of net financial debt to CAP does not drop by 60% (and including) as of the publication date of the second consecutive financial statements after the publication of the financial statement that first reported the increase in question in the above leverage rate.

In this regard, "the equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debt, plus debentures, plus balance sheet due to leases, less cash and cash equivalents and less short-term investments; "CAP" (Capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights), plus long-term deferred taxes in the balance sheet.

##### Series F:

- If the Company's equity, as published in the financial statements amounts to under one hundred and eighty (180) million dollars, and inasmuch as the leverage rate was not increased past the sum in question within 30 days after the publication date of the relevant financial statements.
- If the Company's net financial debt to CAP ratio, as published in the financial statements, exceeds 60%, and inasmuch as the leverage rate of net financial debt to CAP does not drop by 60% (and including) as of the publication date of the second consecutive financial statements after the publication of the financial statements that first reported increase in question in the above leverage rate.

In this regard, "the equity" means the equity in the balance sheet, including minority rights; "net financial debt" means short-term bank loans (including current maturities), plus long-term bank debt, plus debentures, plus balance sheet due to leases, less cash and cash equivalents and less short-term investments; "CAP" (Capital basis) means financial debt, plus the total equity in the balance sheet (including minority rights), plus long-term deferred taxes in the balance sheet.

As at December 31, 2020, the Company was in compliance with the above financial covenants in respect of all series.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 11 – Debentures (Continued)**

4. The following are details of the restrictions on the distribution of dividends included in the deed of trust of debentures (Series E, A, B and F):

| <b>Restriction Type</b>                      | <b>Debentures (Series E)</b>                                                                                                                           | <b>Debentures (Series A)</b>                                                                                                                           | <b>Debentures (Series B)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Debentures (Series F)</b>                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Maximum distribution amount                  | 50% of the sum of the profits in the relevant quarter (or accumulated on a quarterly basis), but in any event no more than 50% of profit               | 50% of the sum of distributable profits, calculating just surpluses accumulated starting June 30, 2016                                                 | 50% of the sum of the distributable profits, calculating just surpluses accumulated above profits of one hundred (100) million dollars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 50% of the sum of the distributable profits, as decided at the time of the decision to make the distribution.                                                                                                                                                                                                                                |
| Impact on the equity                         | No dividend shall be distributed if following which Company's equity drops below four hundred and fifty (450) million NIS.                             | No dividend shall be distributed following which the Company's equity drops below one hundred and seventy-five (175) million dollars.                  | No dividend shall be distributed following which the Company's equity drops below two hundred (200) million dollars.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | No dividend shall be distributed following which Company's equity drops below one hundred and twenty (220) million Dollars.                                                                                                                                                                                                                  |
| Impact of financial net debt to EBITDA ratio |                                                                                                                                                        | The distribution is not expected to increase the Company's net financial debt to EBITDA ratio over 3.5                                                 | No dividends shall be distributed following which the Company's net financial debt to EBITDA ratio increases to over 3.5.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | No dividend shall be distributed following which Company's ratio of the net financial debt to EBITDA exceeds 3.5                                                                                                                                                                                                                             |
| Distribution from Revaluation                | No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments. | No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments. | No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | No distribution shall be made from profits deriving from the revaluation of the fair value of the Company's financial assets or financial instruments.                                                                                                                                                                                       |
| Additional restrictions                      |                                                                                                                                                        |                                                                                                                                                        | <div>dividend shall not be distributed:</div> <ul style="list-style-type: none"> <li>– When a "warning sign" exists.</li> <li>– If the Company is not in compliance with all of the significant commitments under the trust deed or is in significant breach of the provisions of the trust deed and the terms of the debentures.</li> <li>– If the Company's shareholders' equity, including following the distribution of the dividend, does not exceed an amount of one hundred and fifty (150) thousand Dollars.</li> <li>– If the Company's gearing ratio of the net financial debt to CAP, including following the distribution of the dividend, exceeds a rate of 60%.</li> </ul> | <div>dividend shall not be distributed:</div> <ul style="list-style-type: none"> <li>– When a "warning sign" exists.</li> <li>– If the Company is not in compliance with all of the significant commitments under the trust deed or is in significant breach of the provisions of the trust deed and the terms of the debentures.</li> </ul> |

As at December 31, 2020, 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 suited of hedging for the purpose of hedging cash flows, both through swaps in connection with the debenture series and through forward transactions, in order to hedge cash flows for the purchase of inventory, as follows:

a. Financial derivative in respect of swaps

The Company examines the value of the financial derivative in respect of swaps on each cut-off date and is assisted by an external expert for the purpose of examining its value.

The value of the financial derivative was tested on the basis of the exchange rate difference between the cash flow the Company will receive in the future (in NIS) and the cash flow it is expected to pay (in USD). The future value of these values is based on the fixed interest rates, the basis of days for calculating interest and the risk that one of the parties will not be able to meet their obligations. The following basic were used in calculation the value of the financials derivative as at December 31, 2020:

1. Market interest rates:

| Series | Market interest rate |             |
|--------|----------------------|-------------|
|        | NIS                  | Dollars     |
| E      | (0.23%) - (0.43%)    | 0.22%-0.13% |
| A      | (0.23%) - (0.44%)    | 0.76%-0.13% |
| B      | (0.4%) - (0.44%)     | 0.32%-0.13% |

b. Financial derivative in respect of forward transactions

The Company examines the value of the financial derivative in respect of the forward transactions on each cut-off date and is assisted by an external expert for the purpose of examining its value. An examination of the value of the financial derivative was made on the basis of the difference between the fair value of the asset acquired and the fair value in accordance with the strike price.

The effect of exchange rate forward contracts used to hedge exchange rate risk on the financial position and operation results of the Company for 2020 is as follows (the amounts presented in the table are in thousands of dollars):

|                                                                                                      | <b>December 31, 2020</b> |
|------------------------------------------------------------------------------------------------------|--------------------------|
|                                                                                                      | <b>Thousand dollars</b>  |
| <b>Cash Flow Hedge:</b>                                                                              |                          |
| The book value of the hedged item (liability)                                                        | 1,441                    |
| The item in the statement of financial position that includes the hedging item                       | Payables                 |
| Nominal Amount                                                                                       | 47,200                   |
| Contract termination date                                                                            | December 2020            |
| Hedging Ratio *                                                                                      |                          |
| The change in the fair value component of the hedging instruments as of January 1                    | (1,325)                  |
| The change in the value of the hedged item as a basis for recognizing ineffectiveness for the period | 92                       |

\* Forward contracts on exchange rates are denominated in the same currency as the expected cash flows in respect of sales to purchase inventory (dollar), and therefore the hedging ratio is 1: 1.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 12 – Derivative financial instruments (Continued)**

The main assumptions used in calculating the fair value of the derivative as of December 31, 2020 are as follows:

1. Dollar / Euro exchange rates

| <u>Date</u>                    | <u>Dollar / Euro exchange rate</u> |
|--------------------------------|------------------------------------|
| December 31 <sup>st</sup> 2020 | 1.227                              |

2. Interest Rates

| <u>Date</u>                     | <u>Duration</u> | <u>Euro interest</u> | <u>Dollar interest</u> | <u>NIS interest</u> |
|---------------------------------|-----------------|----------------------|------------------------|---------------------|
| March 24 <sup>th</sup> 2020     | 0.24            | (0.48%)              | 0.08%                  | 0.084%              |
| June 24 <sup>th</sup> 2021      | 0.49            | (0.49%)              | 0.078%                 | 0.077%              |
| September 24 <sup>th</sup> 2021 | 0.74            | (0.5%)               | 0.076%                 | 0.073%              |
| December 24 <sup>th</sup> 2021  | 0.99            | (0.5%)               | 0.077%                 | 0.069%              |

Following is the movement in a capital reserve in respect of the cash flow hedge for 2020 (in thousands of dollars):

|                                                                                                | Swap contracts | Forward transaction | Total hedge fund |
|------------------------------------------------------------------------------------------------|----------------|---------------------|------------------|
| <b>Balance as of January 1, 2019</b>                                                           | <b>3,687</b>   | <b>(15)</b>         | <b>3,672</b>     |
| Plus changes in the fair value of hedging instruments recognized in other comprehensive income | 2,617          | (239)               | 2,378            |
| Less current taxes                                                                             | (602)          | 55                  | (547)            |
| <b>Balance as of December 31, 2019</b>                                                         | <b>5,702</b>   | <b>(199)</b>        | <b>5,503</b>     |
| Plus changes in the fair value of hedging instruments recognized in other comprehensive income | (3,366)        | (1,184)             | (4,551)          |
| Less current taxes                                                                             | 774            | 272                 | 1,047            |
| <b>Balance as of December 31, 2020</b>                                                         | <b>3,110</b>   | <b>(1,111)</b>      | <b>1,999</b>     |

In the course of 2019 and 2020 \$ 111 thousand and \$ 378 thousand, respectively, were transferred from hedge fund cash flows to profit or loss in respect of forward contracts.

In the course of 2018, there were no transfers from hedge fund cash flows to profit or loss in respect of these contracts.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 13 – Other non-current liabilities**

|                                                        | <b>As at December 31</b>    |             |
|--------------------------------------------------------|-----------------------------|-------------|
|                                                        | <b>2020</b>                 | <b>2019</b> |
|                                                        | <b>Thousands of Dollars</b> |             |
| Liabilities for minimum royalty payments (see Note 8C) | 32,221                      | 38,576      |
| Conditional liability from the purchase of activity    | 13,682                      | 11,837      |
| Loan from suppliers                                    | 6,813                       | 8,757       |
| Machinery purchase liability                           | 8,561                       | 7,496       |
| Other liabilities                                      | 8,341                       | 3,166       |
| Total liabilities (see section 1 below)                | 69,618                      | 69,832      |
| Less – current maturities                              | 26,588                      | 21,933      |
| Total long-term liabilities                            | 43,030                      | 47,899      |

The fair value of the non-current liabilities is not materially different from their book value.

1. The following are details of other liabilities payable by year:

|                           | <b>As at December 31</b>    |             |
|---------------------------|-----------------------------|-------------|
|                           | <b>2020</b>                 | <b>2019</b> |
|                           | <b>Thousands of Dollars</b> |             |
| 2020                      | -                           | 22,734      |
| 2021                      | 27,449                      | 28,880      |
| 2022                      | 23,644                      | 14,245      |
| 2023 and onward           | 7,821                       | 23,033      |
| 2024 and onward           | 26,623                      | -           |
| Less – interest component | (15,919)                    | (19,060)    |
|                           | 69,618                      | 69,832      |

#### **Note 14 – Equity**

##### **a. Equity, funds and surpluses:**

- 1) Composed of ordinary shares worth 1 NIS NV, as follows:

|                                                                | <b>Number of shares<br/>as at December 31</b> |             |
|----------------------------------------------------------------|-----------------------------------------------|-------------|
|                                                                | <b>2020</b>                                   | <b>2019</b> |
|                                                                |                                               |             |
| Registered capital                                             | 45,000,000                                    | 45,000,000  |
| Issued and paid-up capital (after eliminating treasury shares) | 25,521,308                                    | 25,515,715  |
| Treasury shares                                                | 1,402,161                                     | 1,407,754   |

As at December 31, 2020, the Company's shares are traded on the Tel-Aviv Stock Exchange at a price of US\$ 25.30 (NIS 81.36).

- 2) The following are dividend sums distributed in past three years:

| <b>Year</b> | <b>Amount distributed<br/>(Thousands of Dollars)</b> | <b>Dividend per share<br/>(Dollars)</b> |
|-------------|------------------------------------------------------|-----------------------------------------|
| 2018        | 14,070                                               | 0.56                                    |
| 2019        | 11,084                                               | 0.43                                    |
| 2020        | 6,506                                                | 0.26                                    |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 14 – Equity (continued)**

3) Retained earnings:

In determining the sums available for distribution as dividends, according to the Companies Law, the total number of Company shares bought back (presented under a separate item in equity) should be deducted from retained earnings presented under Company equity.

The shares held by the Company ("treasury shares") do not grant voting rights and do not grant dividends.

**b. Share based payment:**

1. The 2009 plans:

On August 20, 2009, the Company's Board of Directors decided to adopt an additional options plan for remunerating employees, officers, directors, consultants and other providers of services to the Company or to the Company's subsidiary companies and related companies (hereinafter – "The Recipients"). The options shall be granted free of charge. Pursuant to the plan, the Company shall be entitled to allocate up to 800,000 non-tradable options, exercisable as up to 800,000 ordinary shares worth 1NIS NV each. The exercise price of each option will be determined by the Company's Board of Directors at its sole discretion in accordance with the law.

In addition, the Board of Directors decided to adopt an options plan for the remuneration of the American employees of the Company and of its subsidiaries. Pursuant to the plan, the Company shall be entitled to allocate up to 300,000 options, exercisable up to 300,000 ordinary Company shares worth 1 NIS NV each.

On October 27, 2011, the Company's Board of Directors decided to increase the number of regular Company shares saved for the purpose of the remuneration plan for employees, officers, directors, consultants and other selected senior providers of services to the Company or to the Company's subsidiaries and related companies, approved by the Company's Board of Directors on August 20, 2009, by 300,000 shares, so the total number of shares saved for the purpose of the plan will amount to 1,100,000.

On the same date, the Company's Board of Directors decided to increase the number of regular shares in the Company that are reserved for the purpose of the remuneration plan for the remuneration of the American employees of the Company and of its subsidiary companies, including directors and other officers, approved by the Company's Board of Directors on August 20, 2009, by 300,000 shares, so the total number of shares saved for the purpose of the plan will amount to 600,000.

On December 15, 2013, the Company's Board of Directors decided to increase the number of regular Company shares saved for the purpose of the remuneration plan for employees, officers, directors, consultants and other selected senior providers of services to the Company or to the Company's subsidiaries companies and related companies, by 500,000, so the total number of shares saved for the purpose of the 2009 plan for Israeli recipients will amount to 1,600,000.

Furthermore, regarding the expansion of the plan for the above 500,000 options, the Company's Board of Directors decided, to revised the 2009 plan for Israeli recipients, according to which the formula for calculating the issue of options via for exercising options as shares on the basis of the benefit component would be amended recipients so the recipients will not be required to pay the notational value of the exercise shares.

The Company undertook so long as the 2009 plan for Israeli recipients was still in effect, to save in the balance of profits worthy of distribution, a sum sufficient to turn it into stock capital in accordance with section 304 of the Companies Law, 1999.

The remaining provisions of the 2009 plan for Israeli recipients will remain unchanged.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 14 – Equity (Continued)**

On February 14, 2018, the Company received approval from the Tel Aviv Stock Exchange for the registration of an outline plan for employees that was submitted on June 21, 2017 and was amended on September 4, 2017.

As part of the outline, the Company listed 730,000 options exercisable into up to 730,000 shares and 200,000 restricted share units exercisable for up to 200,000 shares.

On December 30, 2020, the Company received approval from the Stock for the registration of an outline plan for employees that was submitted on November 11, 2020.

As part of the outline, the Company listed 1,200,000 options exercisable into up to 1,200,000 shares and 300,000 restricted share units exercisable for up to 300,000 shares.

As of December 31, 2020, the balance of options that can be allotted from this plan amounts to 818,717 and the balance of restricted shares that can be allotted from this plan amounts to 402,933.

In accordance with the path that has been selected by the Company, the Company is not entitled to claim sums attributed to employees as a bonus as expense for tax purposes, including sums listed as salary benefit in the Company's accounts due to options the employees received as part of the plan, with the exception of a fruit bonus component, if any, set upon allocation.

The 2014 plan:

On July 28, 2014, the Company's Board of Directors decided to adopt a plan to allocate 300,000 restricted share units. The units shall be awarded to recipients for no return at the Board of Directors' discretion and the recommendation of the Company's CEO.

On February 14, 2019, the Company received approval from the Tel Aviv Stock Exchange for the registration of an outline plan for employees.

As part of the outline, the Company listed 417,391 restricted share units exercisable into up to 417,391 shares of the 2014 plan, exercisable into up to 417,391 shares.

The balance of the share units that can be allocated from the plan stands at 404,875 as at December 31, 2020.

2. The fair value of the options granted (with the exception of options contingent on implementation goals) during the years 2020, 2019 and 2018 stood at US\$ 2,132, 385 and 83 thousand, respectively at the time of their grant.

The fair value of each option granted (with the exception of options contingent on implementation goals) is estimated on date of grant using the Black & Scholes option pricing model using the following assumptions:

|                                 | <b>2020</b>            | <b>2019</b>           | <b>2018</b>          |
|---------------------------------|------------------------|-----------------------|----------------------|
| Dividend yield                  | 0%                     | 0%                    | 0%                   |
|                                 | <u>41.84% - 43.49%</u> | <u>24.04% - 22.3%</u> | <u>24.8% - 23.7%</u> |
| Expected standard deviation (*) |                        |                       |                      |
| Risk free interest rate         | <u>0.13% - 0.19%</u>   | <u>1.08% - 0.46%</u>  | <u>1.2% - 0.3%</u>   |
| Expected lifetime – in years    | <u>4.5</u>             | <u>2.5-3.7</u>        | <u>3.7</u>           |

(\*) Based on historical volatility of Company's shares over periods similar to the expected life of the option through its exercise date.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 14 – Equity (Continued)**

The theoretical economic value of the options that are conditional upon the achievement of targets that were granted in 2020 is US\$ 6,173 thousand and was estimated at the time of their grant using the Black & Scholes model for pricing options, under the following assumptions:

|                                 | <b>2020</b>   | <b>2019</b>  | <b>2018</b>   |
|---------------------------------|---------------|--------------|---------------|
| Dividend yield                  | 0%            | 0%           | 0%            |
| Expected standard deviation (*) | 24.94%-43.49% | 24.04%-23.8% | 24.6% - 24.9% |
| Risk free interest rate         | 0.13%-0.39%   | 0.46%-0.19%  | 0.6% - 0.3%   |
| Expected lifetime – in years    | 4.0-4.5       | 3.7-4.1      | 3.7           |

(\*) Based on historical volatility of Company's shares over periods similar to the expected lifetime of the option until their exercise.

3. The sums of the expenses attached to the options included in the financial statements in 2020, 2019 and 2018 are \$ 1,121, \$ 820,000 and \$ 382,000, respectively.

The sums of the expenses relating to the granting of blocked share units that have been recorded in the financial statements in 2020, 2019 and 2018 amount to \$ 170,000, \$ 379,000 and \$ 564,000, respectively.

4. The balance of the benefits not yet recognized for all the option plans, as of December 31, 2020, on assuming the achievement of all goals met, amounts to a total of \$ 7,205,000. Its recognition is expected to take place over the coming 4 years.

The balance of the benefit not yet recognized for the issue of blocked shares as of December 31, 2020, amounts to a total of \$ 802,000, and its recognition is expected to take place over the coming 4 years.

5. The movements in the number of options not yet exercised and the relevant weighted average of the exercise prices (original price before adaptation due to distribution of dividends) are as follows:

- a. Options not contingent on meeting performance goals:

|                                                    | <b>2020</b>     |                                                       | <b>2019</b>     |                                                       | <b>2018</b>     |                                                       |
|----------------------------------------------------|-----------------|-------------------------------------------------------|-----------------|-------------------------------------------------------|-----------------|-------------------------------------------------------|
|                                                    | <b>Quantity</b> | <b>Weighted<br/>average<br/>exercise<br/>price \$</b> | <b>Quantity</b> | <b>Weighted<br/>average<br/>exercise<br/>price \$</b> | <b>Quantity</b> | <b>Weighted<br/>average<br/>exercise<br/>price \$</b> |
| <b>Outstanding at the beginning of the year</b>    | 153,613         | 19.98                                                 | 144,370         | 29.18                                                 | 149,596         | 27.77                                                 |
| Granted                                            | 258,200         | 18.58                                                 | 63,434          | 27.69                                                 | 12,366          | 29.61                                                 |
| Forfeited                                          | (46,528)        | 26.24                                                 | (53,566)        | 25.71                                                 | (500)           | 32.30                                                 |
| Exercised                                          | -               | -                                                     | (625)           | 15.20                                                 | (17,092)        | 16.77                                                 |
| <b>Outstanding at the end of the year</b>          | 365,285         | 21.74                                                 | 153,613         | 19.98                                                 | 144,370         | 29.18                                                 |
| <b>Of which exercisable at the end of the year</b> | 58,421          | 29.84                                                 | 67,973          | 28.55                                                 | 52,437          | 26.20                                                 |

**Delta Galil Industries Ltd.**

## Notes to the Financial Statements

**Note 14 – Equity (Continued)**

- b. Options subject to meeting performance goals:

|                                                        | <b>2020</b>     |                                                       | <b>2019</b>     |                                                       | <b>2018</b>     |                                                       |
|--------------------------------------------------------|-----------------|-------------------------------------------------------|-----------------|-------------------------------------------------------|-----------------|-------------------------------------------------------|
|                                                        | <b>Quantity</b> | <b>Weighted<br/>average<br/>exercise<br/>price \$</b> | <b>Quantity</b> | <b>Weighted<br/>average<br/>exercise<br/>price \$</b> | <b>Quantity</b> | <b>Weighted<br/>average<br/>exercise<br/>price \$</b> |
| <b>Outstanding at the<br/>beginning of the year</b>    | 471,817         | 29.48                                                 | 521,596         | 30.77                                                 | 375,221         | 31.02                                                 |
| Granted                                                | 880,240         | 19.25                                                 | 195,767         | 27.42                                                 | 148,000         | 30.16                                                 |
| Forfeited                                              | (100,217)       | 31.15                                                 | (209,796)       | 30.44                                                 | -               | -                                                     |
| Exercised                                              | -               | -                                                     | (35,750)        | 31.60                                                 | (1,625)         | 30.98                                                 |
| <b>Outstanding at the end<br/>of the year</b>          | 1,251,840       | 22.14                                                 | 471,817         | 29.48                                                 | 521,596         | 30.77                                                 |
| <b>Of which exercisable at<br/>the end of the year</b> | 168,257         | 30.24                                                 | 194,446         | 31.24                                                 | 115,124         | 31.63                                                 |

# **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, 2020 and 2019 and the movements in 2020\*\*:

| Granting Date                                | Exercise price<br>(\$) (***) | 31.12.2019                                                    | Movements in 2020 |           |           | 31.12.2020                                                    |                                                                                 |
|----------------------------------------------|------------------------------|---------------------------------------------------------------|-------------------|-----------|-----------|---------------------------------------------------------------|---------------------------------------------------------------------------------|
|                                              |                              | Balance of the<br>options granted<br>and not yet<br>exercised | Granted           | Exercised | Forfeited | Balance of the<br>options granted<br>and not yet<br>exercised | Weighted<br>average of the<br>balance of the<br>forecast lifetime<br>(in years) |
| July 2013                                    | 15.22                        | 875                                                           | -                 | -         | 875       | -                                                             | -                                                                               |
| August 2015                                  | 32.3                         | 11,000                                                        | -                 | -         | 5,500     | 5,500                                                         | 1.08                                                                            |
| August 2015– conditional upon performance    | 32.3                         | 141,524                                                       | -                 | -         | 73,884    | 67,640                                                        | 1.08                                                                            |
| January 2016                                 | 26.58                        | 4,000                                                         | -                 | -         | -         | 4,000                                                         | 1.04                                                                            |
| January 2016– conditional upon performance   | 26.58                        | 2,625                                                         | -                 | -         | 1,125     | 1,500                                                         | 1.04                                                                            |
| February 2016                                | 24.88                        | 20,000                                                        | -                 | -         | 20,000    | -                                                             | -                                                                               |
| September 2016                               | 28.25                        | 24,150                                                        | -                 | -         | 6,787     | 17,363                                                        | 1.63                                                                            |
| September 2016– conditional upon performance | 28.25                        | 51,343                                                        | -                 | -         | 1,500     | 49,843                                                        | 1.63                                                                            |
| February 2017– conditional upon performance  | 30.33                        | 31,500                                                        | -                 | -         | -         | 31,500                                                        | 2.17                                                                            |
| February 2017– conditional upon performance  | 30.52                        | 3,693                                                         | -                 | -         | -         | 3,693                                                         | 1.50                                                                            |
| February 2017– conditional upon performance  | 30.47                        | 5,256                                                         | -                 | -         | 2,628     | 2,628                                                         | 1.50                                                                            |
| March 2017– conditional upon performance     | 28.42                        | 1,398                                                         | -                 | -         | -         | 1,398                                                         | 2.00                                                                            |
| November 2017                                | 32.38                        | 10,000                                                        | -                 | -         | -         | 10,000                                                        | 2.58                                                                            |
| November 2017                                | 32.39                        | 18,788                                                        | -                 | -         | 2,000     | 16,788                                                        | 2.35                                                                            |
| May 2018                                     | 29.97                        | 10,000                                                        | -                 | -         | -         | 10,000                                                        | 3.33                                                                            |
| May 2018 – conditional upon performance      | 29.97                        | 45,000                                                        | -                 | -         | -         | 45,000                                                        | 2.17                                                                            |
| November 2018                                | 28.08                        | 2,366                                                         | -                 | -         | 2,366     | -                                                             | -                                                                               |
| February 2019                                | 27.74                        | 45,304                                                        | -                 | -         | 9,000     | 36,304                                                        | 3.83                                                                            |
| February 2019– conditional upon performance  | 27.74                        | 154,604                                                       | -                 | -         | 15,258    | 139,346                                                       | 3.82                                                                            |
| August 2019                                  | 27.54                        | 7,130                                                         | -                 | -         | -         | 7,130                                                         | 4.42                                                                            |
| August 2019– conditional upon performance    | 27.54                        | 11,645                                                        | -                 | -         | 5,822     | 5,823                                                         | 4.0                                                                             |
| November 2019– conditional upon performance  | 25.14                        | 23,229                                                        | -                 | -         | -         | 23,229                                                        | 4.25                                                                            |
| February 2020– conditional upon performance  | 26.42                        | -                                                             | 60,000            | -         | -         | 60,000                                                        | 4.83                                                                            |
| October 2020                                 | 18.83                        | -                                                             | 57,500            | -         | -         | 57,500                                                        | 5.17                                                                            |
| October 2020– conditional upon performance   | 18.83                        | -                                                             | 547,240           | -         | -         | 547,240                                                       | 5.17                                                                            |
| November 2020                                | 18.51                        | -                                                             | 200,700           | -         | -         | 200,700                                                       | 5.17                                                                            |
| November 2020– conditional upon performance  | 18.51                        | -                                                             | 273,000           | -         | -         | 273,000                                                       | 5.17                                                                            |
| Total                                        |                              | 625,430                                                       | 1,138,440         | -         | 146,745   | 1,617,126                                                     | 4.32                                                                            |

\* The balance of the options does not include the options that were issued to the trustee and have not yet been allocated to the managers.

\*\* See also section 5 above.

\*\*\* The exercise price in the above table is the original price before adjustment for the distribution of dividends.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 14 – Equity (Continued)**

7. The movements and balances in the number of blocked share units are as follows:

a. Blocked share units that are not conditional upon performance targets:

|                                      | <b>For the year ended December 31</b> |              |              |
|--------------------------------------|---------------------------------------|--------------|--------------|
|                                      | <b>2020</b>                           | <b>2019</b>  | <b>2018</b>  |
|                                      | <b>US\$ thousands</b>                 |              |              |
| Balance at the beginning of the year | 6,682                                 | 9,929        | 15,858       |
| Granted                              | 30,095                                | 2,000        | 454          |
| Exercised                            | (2,907)                               | (4,333)      | (6,383)      |
| Forfeited                            | (591)                                 | (914)        | -            |
| Balance at the end of the year       | <u>33,279</u>                         | <u>6,682</u> | <u>9,929</u> |

b. Blocked share units that are conditional upon performance targets:

|                                      | <b>For the year ended December 31</b> |               |                |
|--------------------------------------|---------------------------------------|---------------|----------------|
|                                      | <b>2020</b>                           | <b>2019</b>   | <b>2018</b>    |
|                                      | <b>US\$ thousands</b>                 |               |                |
| Balance at the beginning of the year | 40,364                                | 108,966       | 88,619         |
| Granted                              | -                                     | 25,573        | 51,464         |
| Exercised                            | (3,872)                               | (39,640)      | (27,722)       |
| Forfeited                            | (5,201)                               | (54,535)      | (3,395)        |
| Balance at the end of the year       | <u>31,291</u>                         | <u>40,364</u> | <u>108,966</u> |

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### **Note 14 – Equity (Continued)**

- c. Details of the balance of blocked share units which are not conditional upon performance as at December 31, 2020 and December 31, 2019 and the movements in 2020, by plan:

| <b>Date of the plan</b> | <b>Time of the grant</b> | <b>31.12.2019</b>                                                                      | <b>Movements in 2020</b> |                  |                  | <b>31.12.2020</b>                                                                      |
|-------------------------|--------------------------|----------------------------------------------------------------------------------------|--------------------------|------------------|------------------|----------------------------------------------------------------------------------------|
|                         |                          | <b>Balance of the blocked share units that have been granted and not yet exercised</b> | <b>Granted</b>           | <b>Exercised</b> | <b>Forfeited</b> | <b>Balance of the blocked share units that have been granted and not yet exercised</b> |
| October 2009            | August 2015              | 250                                                                                    | -                        | -                | 250              | -                                                                                      |
| October 2009            | September 2016           | 1,721                                                                                  | -                        | 1,721            | -                | -                                                                                      |
| October 2009            | November 2017            | 2,370                                                                                  | -                        | 1,186            | -                | 1,184                                                                                  |
| October 2009            | November 2018            | 341                                                                                    | -                        | -                | 341              | -                                                                                      |
| October 2009            | February 2019            | 2,000                                                                                  | -                        | -                | -                | 2,000                                                                                  |
| October 2019            | November 2020            | -                                                                                      | 30,095                   | -                | -                | 30,095                                                                                 |
|                         | <b>Total</b>             | <b>6,682</b>                                                                           | <b>30,095</b>            | <b>2,907</b>     | <b>591</b>       | <b>33,279</b>                                                                          |

# Delta Galil Industries Ltd.

## Notes to the Financial Statements

### Note 14 – Equity (Continued)

- d. Details of the balance of blocked share units which are conditional upon performance as at December 31, 2020 and December 31, 2019 and the movements in 2020, by plan:

| Date of the plan | Time of the grant | 31.12.2019                                                                      | Movements in 2020 |           |           | 31.12.2020                                                                      |
|------------------|-------------------|---------------------------------------------------------------------------------|-------------------|-----------|-----------|---------------------------------------------------------------------------------|
|                  |                   | Balance of the blocked share units that have been granted and not yet exercised | Granted           | Exercised | Forfeited | Balance of the blocked share units that have been granted and not yet exercised |
| October 2009     | August 2015       | 2,500                                                                           | -                 | 500       | 2,000     | -                                                                               |
| July 2014        | August 2015       | 1,375                                                                           | -                 | 125       | 750       | 500                                                                             |
| July 2014        | February 2016     | 375                                                                             | -                 | 375       | -         | -                                                                               |
| October 2009     | September 2016    | 2,500                                                                           | -                 | -         | -         | 2,500                                                                           |
| July 2014        | September 2016    | 885                                                                             | -                 | 885       | -         | -                                                                               |
| October 2009     | February 2017     | 414                                                                             | -                 | -         | -         | 414                                                                             |
| July 2014        | February 2017     | 1,178                                                                           | -                 | 589       | 589       | -                                                                               |
| October 2009     | March 2017        | 192                                                                             | -                 | 64        | -         | 128                                                                             |
| October 2009     | March 2017        | 3,372                                                                           | -                 | -         | -         | 3,372                                                                           |
| July 2014        | May 2018          | 2,000                                                                           | -                 | 1,334     | -         | 666                                                                             |
| July 2014        | February 2019     | 6,465                                                                           | -                 | -         | 926       | 5,539                                                                           |
| October 2009     | August 2019       | 14,587                                                                          | -                 | -         | 936       | 13,651                                                                          |
| July 2014        | August 2019       | 468                                                                             | -                 | -         | -         | 468                                                                             |
| July 2014        | November 2019     | 4,053                                                                           | -                 | -         | -         | 4,053                                                                           |
|                  | Total             | 40,364                                                                          | -                 | 3,872     | 5,201     | 31,291                                                                          |

## **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  
As from the 2008 tax year, the Company's results are measured in nominal values for tax purposes.
- 2) In January 2017, the Company approached the tax authority and announced its intention of submitting its tax reports for the years 2017 and thereafter in accordance with the Dollar Regulations.
- 3) Tax rates

The revenues of the Company are liable for corporate taxes and the usual tax rate of 23%.

Capital gains held by the Company in Israel are taxable according to the regular corporate tax rate applicable in the tax year.

##### **b. Taxation of the subsidiary companies outside of Israel**

The subsidiaries incorporated outside of Israel are assessed according to the tax law in their countries of resident, except for companies that are defined as a "foreign controlled company", in accordance with the provisions of the Income Tax Ordinance, whose income may be taxed in Israel in addition to the taxation under the tax laws in the countries in which they are resident.

The main tax rates in 2020 that apply to the main subsidiary companies, which were incorporated outside of Israel, are:

Companies incorporated in the United States – a tax rate of 25% (including federal tax and state tax) – see Section J and K below.

Companies incorporated in Germany – a tax rate of 30%.

Companies incorporated in Great Britain - a tax rate of 19%.

Companies incorporated in France – a tax rate of 28%.

Companies incorporated in Hong Kong – a tax rate of 16.5%.

Consolidated companies that were incorporated outside of Israel in free trade areas, are registered for tax purposes according to the laws in the countries of their residence.

In general, inter-company transactions between the Company and foreign subsidiaries are subject to the provisions of Income Tax Regulations (Determination of Market Terms) – 2006.

##### **c. Losses for Tax purposes Carried on to Subsequent Years**

Deferred tax assets for losses for tax purposes carried on to subsequent years, are recognized in the event that realization of the tax benefit in question through the existence of future taxable income is expected.

Losses for tax purposes transferable to subsequent years deriving from the parent company, as of December 31, 2020 and 2019, amounted to \$ 0.6 million and to \$ 8 million, respectively.

Losses for tax purposes carried over to subsequent years derive from the Group subsidiaries, as of December 31, 2020 and 2019, amounted to \$ 61.9 million and to \$ 11.9 million, respectively.

The tax asset recognized in Israel as of December 31, 2020 and 2019 amounted to \$ 0.1 million and to \$ 1.8 million, respectively.

Losses carried over for tax purposes, accumulated in Israel may be offset over an unlimited period of time.

The tax asset recognized for income tax losses in subsidiaries, as of December 31, 2020 and 2019, amounted to \$ 3.2 million and to \$ 2.7 million, respectively.

## 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 of the balance sheet dates and transactions in said years as follows:

|                                                                                        | For Balance Sheet Items |                                          |           |                                |         |                         |          |
|----------------------------------------------------------------------------------------|-------------------------|------------------------------------------|-----------|--------------------------------|---------|-------------------------|----------|
|                                                                                        | Fixed assets            | Intangible assets and right of use asset | Inventory | Provision to Employee benefits | Others  | Losses for tax purposes | Total    |
|                                                                                        | Thousands of Dollars    |                                          |           |                                |         |                         |          |
| Balance as at January 1, 2018                                                          | (4,067)                 | (8,606)                                  | 2,105     | 3,214                          | 9,905   | 7,365                   | 9,916    |
| Changes in 2018:                                                                       |                         |                                          |           |                                |         |                         |          |
| Charged to Statement of Operations                                                     | (929)                   | (1,316)                                  | (573)     | (573)                          | 1,873   | (1,979)                 | 476      |
| Deferred taxes created in purchase of company                                          | (3,323)                 | (17,577)                                 | 1,015     | 1,015                          | (1,173) | 1,918                   | (21,588) |
| Sums charged to other comprehensive earnings (loss)                                    | -                       | -                                        | 68        | 68                             | -       | -                       | 68       |
| Charging to capital reserve from translation differences and exchange rate differences | 223                     | 484                                      | (16)      | (16)                           | (24)    | (30)                    | 601      |
| Balance as at December 31, 2018                                                        | (9,159)                 | (25,935)                                 | 4,043     | 3,202                          | 5,985   | 5,351                   | (16,513) |
| Changes in 2019:                                                                       |                         |                                          |           |                                |         |                         |          |
| Charged to Statement of Operations                                                     | (308)                   | (46)                                     | 141       | 219                            | 712     | (776)                   | (58)     |
| Deferred taxes created in purchase of company                                          | -                       | (8,363)                                  | -         | -                              | -       | -                       | (8,363)  |
| Deferred taxes created in the application of standard IFRS16                           | -                       | 4,294                                    | -         | -                              | -       | -                       | 4,294    |
| Sums charged to other comprehensive earnings (loss)                                    | -                       | -                                        | -         | 451                            | -       | -                       | 451      |
| Charging to capital reserve from translation differences and exchange rate differences | 11                      | 504                                      | (2)       | (23)                           | 29      | (20)                    | 499      |
| Balance as at December 31, 2019                                                        | (9,456)                 | (29,546)                                 | 4,182     | 3,849                          | 6,726   | 4,555                   | (19,690) |
| Changes in 2020:                                                                       |                         |                                          |           |                                |         |                         |          |
| Charged to Statement of Operations                                                     | (4,023)                 | 1,496                                    | (412)     | (136)                          | 3,326   | (1,223)                 | (522)    |
| Sums charged to other comprehensive earnings (loss)                                    | -                       | -                                        | -         | (157)                          | -       | -                       | (157)    |
| Deferred taxes created in purchase of company                                          | -                       | (416)                                    | -         | -                              | -       | -                       | (416)    |
| Charging to capital reserve from translation differences and exchange rate differences | 178                     | (2,623)                                  | -         | -                              | 307     | -                       | (2,138)  |
| Balance as at December 31, 2020                                                        | (13,301)                | (30,639)                                 | 3,770     | 3,556                          | 10,359  | 3,332                   | (22,923) |

## **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 legal enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority. The offset sums are as follows:

|                                                                                | <b>As of December, 31</b>   |                 |
|--------------------------------------------------------------------------------|-----------------------------|-----------------|
|                                                                                | <b>2020</b>                 | <b>2019</b>     |
|                                                                                | <b>Thousands of Dollars</b> |                 |
| Deferred tax assets:                                                           |                             |                 |
| The repayment of which is expected within 12 months of the balance sheet date  | 12,849                      | 10,277          |
| The repayment of which is expected over 12 months after the balance sheet date | 14,319                      | 11,712          |
|                                                                                | <u>27,168</u>               | <u>21,989</u>   |
| Deferred tax liabilities:                                                      |                             |                 |
| Then repayment of which is expected within 12 months of the balance sheet date | (7,581)                     | (11,446)        |
| The repayment of which is expected over 12 months after the balance sheet date | (42,510)                    | (30,233)        |
|                                                                                | <u>(50,091)</u>             | <u>(41,679)</u> |
|                                                                                | <u>(22,923)</u>             | <u>(19,690)</u> |

|                                    | <b>As of December, 31</b>   |                 |
|------------------------------------|-----------------------------|-----------------|
|                                    | <b>2020</b>                 | <b>2019</b>     |
|                                    | <b>Thousands of Dollars</b> |                 |
| Presentation in the balance sheet: |                             |                 |
| Under deferred tax assets          | 15,590                      | 19,678          |
| Under deferred tax reserve         | (38,513)                    | (39,368)        |
|                                    | <u>(22,923)</u>             | <u>(19,690)</u> |

Most deferred taxes are calculated according to tax rates of 11% to 33%.

##### **e. Profit before taxes on income is comprised as follows:**

|                          | <b>For the year ended December 31</b> |               |               |
|--------------------------|---------------------------------------|---------------|---------------|
|                          | <b>2020</b>                           | <b>2019</b>   | <b>2018</b>   |
|                          | <b>Thousands of Dollars</b>           |               |               |
| Israeli Companies        | 24,164                                | 11,036        | (2,945)       |
| Non-Israeli subsidiaries | (68,780)                              | 56,579        | 62,268        |
|                          | <u>(44,616)</u>                       | <u>67,615</u> | <u>59,323</u> |

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### **Note 15 – Taxes on income (Continued)**

#### **f. Composition of taxes on income in the Report on profit and loss:**

|                           | <b>For the year ending December 31</b> |               |               |
|---------------------------|----------------------------------------|---------------|---------------|
|                           | <b>2020</b>                            | <b>2019</b>   | <b>2018</b>   |
|                           | <b>US\$ thousands</b>                  |               |               |
| Current:                  |                                        |               |               |
| Israeli Companies         | 2,902                                  | 2,467         | 2,466         |
| Non-Israeli subsidiaries  | (9,779)                                | 7,788         | 8,686         |
|                           | <u>(6,877)</u>                         | <u>10,255</u> | <u>11,152</u> |
| Deferred:                 |                                        |               |               |
| The Company in Israel     | 1,417                                  | 2,342         | 22            |
| Non-Israeli subsidiaries  | (895)                                  | (2,284)       | (498)         |
|                           | <u>522</u>                             | <u>58</u>     | <u>(476)</u>  |
| Taxes for previous years: |                                        |               |               |
| The Company in Israel     | 3,051                                  | 500           | 200           |
| Non-Israeli subsidiaries  | (791)                                  | (898)         | 270           |
|                           | <u>2,260</u>                           | <u>(398)</u>  | <u>470</u>    |
|                           | <u>(4,095)</u>                         | <u>9,915</u>  | <u>11,146</u> |

- g.** The following is a reconciliation of the "theoretical" tax amount which would have applied if all revenues had been taxed at the regular rate applicable to companies in Israel (see Section A3), to the tax sums charged in the report on Comprehensive Earnings (loss) for the reported years:

|                                                                                                         | <b>For the year ending December 31</b> |              |               |
|---------------------------------------------------------------------------------------------------------|----------------------------------------|--------------|---------------|
|                                                                                                         | <b>2020</b>                            | <b>2019</b>  | <b>2018</b>   |
|                                                                                                         | <b>Thousands of Dollars</b>            |              |               |
| Profit and loss before taxes on income as presented in reports on comprehensive income                  | (44,616)                               | 67,615       | 59,323        |
| Theoretical tax expenses                                                                                | (10,261)                               | 15,538       | 13,644        |
| Decrease in tax due to different tax rates applicable to non-Israeli subsidiaries                       | (2,467)                                | (6,114)      | (6,019)       |
|                                                                                                         | <u>(12,728)</u>                        | <u>9,424</u> | <u>7,625</u>  |
| Increase(decrease) in tax due to fixed differences:                                                     |                                        |              |               |
| Non-deductible                                                                                          | 2,018                                  | 1,024        | 336           |
| Expenses less exempt revenues, net                                                                      | 2,260                                  | (398)        | 470           |
| Increase in taxes deriving from losses for tax purposes for which deferred taxes have not been recorded | 11,930                                 | 1,459        | 2,353         |
| Utilization of current loss on profits of previous years                                                | (6,591)                                | (1,273)      | -             |
| Exchange differences and differences in the measurement base                                            | (610)                                  | 52           | (319)         |
| Change in deferred taxes as a result of a change in the tax rate                                        | -                                      | (255)        | -             |
| Other- net                                                                                              | (374)                                  | (118)        | 681           |
| Taxes on income – in the statements of profit and loss                                                  | <u>(4,095)</u>                         | <u>9,915</u> | <u>11,146</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 judgment tax assessment for 2014. In accordance with the tax assessment clauses, an additional tax of \$ 10 million was imposed.

In February 2021, the said tax assessment was settled by way of a settlement in which the total additional tax liability for 2014 will amount to approximately \$ 1.5 million (excluding interest and linkage) which will be paid partly in cash and partly by way of tax credit reduction. The said amount was paid in February 2021.

In January 2021, an assessment to the best of judgment was issued to the Company for the years 2015-2017. In accordance with the assessment clauses, an additional tax of a total of approximately \$ 23 million is imposed.

The Company disagrees with the Tax Assessor's position and estimates that it has a proper defense against the assessment's clauses and the likelihood that its position will be accepted is higher than the likelihood of it being rejected.

The Company will file an appeal to the income tax authorities in respect of the best judgment assessment as stated above.

##### **i. The impact of the adoption of IFRS in Israel on Tax Liability**

The Company has prepared its financial statements in accordance with the IFRS Standards as of January 1, 2008.

IFRS Standards different from generally accepted Israeli accounting principles and accordingly, preparation of financial statements as per IFRS Standards may reflect a financial position, operating results and cash flows materially different from those presented according to generally accepted Israeli accounting principles.

In accordance with laws issued in 2010, 2012 and 2014 (hereinafter – the temporary orders), in determine taxable income for tax years 2007-2013, Accounting Standard 29 of the Israeli Accounting Standards Board shall not apply, even if implemented in the Financial Statements for the tax years in question. The significance of the temporary orders is that the IFRS Standards will not be applied when calculating the income reported for tax purposes for the tax years in question.

over the course of 2014 a Law Memorandum was published for an amendment to the Income Tax Ordinance (hereinafter – The Law Memorandum) deriving from the implementation of IFRS Standards in financial statements. The Law Memorandum adopts the IFRS principles as a rule. However, the Law Memorandum proposes a number of amendments to the Income Tax Ordinance, which will clarify the mode of calculation of taxable income in cases where a lack of clarity exists, and the IFRS standards are not compatible with Israeli tax principles. Legislation regarding the Law Memorandum has yet to be completed and is doubtful that it will be completed in the foreseeable future.

Due to the failure to complete legislation on the matter of the Law Memorandum, Company management estimates that the Temporary Order set for 2007 to 2013 will be extended to 2014-2020 as well. As a result, Company management predicts at this stage that the new legislation will not apply to tax years prior to 2021.

Taking the temporary orders applicable to tax years 2007 to 2013 and the Company's estimates regarding the likelihood of their extension to 2014 to 2020, as noted above e, the Company calculated its taxable income for tax years 2008 to 2020 based on Israeli accounting standards in effect prior to adoption of the IFRS Standards in Israel, subject to certain adjustments.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 15 – Taxes on income (Continued)**

##### **j. The impact of the tax reform in the US**

On December 22, 2017, the former President of the United States, Donald Trump, signed on legislation that brings about broad changes in the America tax system ("The Reform"). Within the framework of the Reform, significant changes have occurred in the array of tax laws in the United States, which include a number of provisions which will have an impact of the Company's tax liability in the United States.

The following are the main provisions of the reform, which are relevant to the Company:

- a) The lowering of the Federal tax rate on companies in the United States from 35% to 21%, with effect from January 1, 2018.
- b) A transition to a territorial based tax system, such that the profits that are produced outside of the United States by foreign companies, in which an American company has a holding of more than 10%, will be exempt from tax on dividends that may be distributed.
- c) The cancellation of the Alternative Minimal Tax (AMT) on American companies and the restriction of the deduction of accumulated losses (Net Operation Losses) to 80% of the chargeable income.
- d) The imposition of a one-time tax on the accumulated net income of foreign companies in which an American shareholder has a holding of more than 10%. The effective tax rate that will be imposed on those profits will be at the level of 15.5% in connection with cash and cash equivalents and 8% in respect of profits that have been invested in illiquid fixed assets, in accordance with the higher of the balance of retained earnings as at November 2, 2017 and the balance as at December 31, 2017. The payment of the tax can be spread over a period of 8 years.
- e) **Global Intangible Low-Taxed Income (GILTI)** – The surplus income of foreign controlled companies (CFC) will be subject to Federal corporation tax in the United States. This income is to be measured in accordance with the amount of the CFC's income that exceeds 10% of the yield on the CFC's tangible assets. This income will be chargeable with corporation tax in the United States at an effective rate of 10.5%. In addition, to this, subject to certain conditions, it will be possible to receive a credit against 80% of the foreign tax that applies to the CFC's income in a foreign country.
- f) **Foreign Derived Intangible Income** – The possibility of receiving a deduction for tax purposes in respect of certain components of the Company's income from exporting, under certain conditions.
- g) **Interest expenses** – In accordance with the new legislation, during the years 2019 to 2021 (inclusive), companies will not be allowed to deduct interest expenses, the amount of which exceed 30% of those companies' total adjusted income (EBITDA). After 2021, companies will not be allowed to deduct interest expenses, the amount of which exceed 30% of those companies' total income (EBIT). Any amount that has not been allowed as a deduction in a year, may be carried forward to the coming years on the basis of that same mechanism, without time limit.
- h) **Accelerated depreciation (Bonus Depreciation)** – Within the framework of the Reform, it has been decided to allow companies to record an immediate expense at a particular rate of the cost of certain fixed assets, which have been made available for use between September 27, 2017 and January 1, 2028.

##### **k. Corona Epidemic Assistance Act (CARES Act)**

In March 2020, the Corona Epidemic Assistance Act was enacted in the United States (CARES Act), which, among other things, provides tax relief for businesses, including the possibility of deducting current losses for tax purposes retroactively from taxable income five years back, in exchange for tax refunds (NOL carry back). As a result, the Company recognized in its consolidated financial statements a tax asset of approximately \$ 18 million, as part of the current assets.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 16 – Earnings per share**

##### **a. Basic**

The basic earnings per share calculated by dividing the income attributed to the shareholders in the parent company by the weighted average number of ordinary shares issued, except for the ordinary shares purchased by the Company and held as treasury shares.

|                                                                                                | <b>Year</b> |             |             |
|------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
|                                                                                                | <b>2020</b> | <b>2019</b> | <b>2018</b> |
| Net income (loss) attributed to Company shareholders (in thousands of dollars)                 | (39,850)    | 57,898      | 48,539      |
| Weighted average number of ordinary shares issued (in thousands)                               | 26,923      | 26,920      | 26,902      |
| Less weighted average of treasury shares (in thousands)                                        | 1,407       | 1,407       | 1,451       |
| Total shares for the purpose of the calculation of the basic earnings per share (in thousands) | 25,516      | 25,513      | 25,451      |
| Basic income (loss) per share (in dollars per share)                                           | (1.56)      | 2.27        | 1.91        |

##### **b. Diluted**

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in circulation less treasury shares while including potential ordinary shares with diluting effect.

|                                                                                                                                                         | <b>Year</b> |             |             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
|                                                                                                                                                         | <b>2020</b> | <b>2019</b> | <b>2018</b> |
| Net income (loss) used for calculating diluted earnings per share (in thousands of dollars)                                                             | (39,850)    | 57,898      | 48,539      |
| Weighted average number of regular shares issued and were used for the calculation of basic earnings per share (in thousands)                           | 26,923      | 26,920      | 26,902      |
| Less treasury shares (in thousands)                                                                                                                     | 1,407       | 1,407       | 1,451       |
| Adjustment for weighted average of additional shares in respect of the exercise of options and blocked share units (in thousands)                       | -           | 81          | 97          |
| Total shares for the purpose of the calculation of the diluted earnings per share (in thousands)                                                        | 25,516      | 25,594      | 25,548      |
| Diluted income (loss) per share (in US \$ per share)                                                                                                    | (1.56)      | 2.26        | 1.90        |
| Adjustments were not taken into account in the calculation of the diluted earnings per share in respect of options that are non-dilutive (in thousands) | 657         | 471         | 473         |

#### **Note 17 – Commitments**

- a) Shareholder agreement in connection with the establishment and operation of stores and a commerce site of the Bath & Body Works® brand in Israel

On December 24, 2020, Delta Galil and its subsidiary, Delta Israel Brands Ltd., entered into an agreement with Amarla Retail SA (the "Partner" and the "Agreement"), by virtue of which a joint company was established called D and A International Brands Ltd., which will be held by the Company (60%) and the Partner (40%) (the "Joint Company").

The Partner has operating rights to open and operate the Bath & Body Works® brand stores ("BBW®") in certain countries in Europe, including Israel. The operating rights of the BBW brand stores in Israel were granted to the Partner in accordance with the system of agreements between the Partner and the owner of the BBW® brand ("Brand Owner") and are subject to the Partner's compliance with its obligations towards the Brand Owner and the approval mechanism set forth in these agreements. It should be noted that prior to the date of amendment of the agreement, the Partner had a conditional right to open and operate the Victoria's Secret® brand stores in Israel, and this right was revoked.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 17 – Commitments (continued)**

The Partner intends to open and operate in Israel, exclusively through the Joint Company, stores and a commerce site of the BBW® brand ("Brand Stores" and "Commerce Site"), subject to the terms and the approval mechanism set forth in the agreements between it and the Brand Owner. It will be emphasized that the actual opening of any of the Brand Stores in Israel will be subject to the approval of the Brand Owner and the Partner's compliance with its current obligations to the Brand Owner. Depending on the relationship with the Brand Owner, the Partner is defined as the operator of the Brand Stores and the Commerce Site (the "Operator").

The parties undertook to inject into the Joint Company the funds required for its activities, up to a total of \$ 12 million, each party in proportion to its holding in the Joint Company.

The agreement stipulates that Delta Galil will provide the Joint Company with a number of letters of credit ("Letters of Credit") which will be provided by the Joint Company back-to-back to the Brand Owner to ensure the Joint Company's purchases and other payments to the Brand Owner. The Joint Company will pay Delta Galil an annual fee in respect of the Letters of Credit that will be submitted provided it, in amounts that are not material to the Company ("Letters of Credit Allocation Fee"). Delta Galil also provided the Partner with a Letter of Credit (in the amount of US \$ 1.75 million, which is not material) which was used by the Partner to provide a Letter of Credit back-to-back in favor of the Brand Owner, to ensure the Partner meets all its obligations to the Brand Owner.

In the event that funds are exercised by virtue of the letter of credit made to the Partner, these funds will be regarded as a loan given to the Partner from Delta Galil, and in such case, the Partner undertook to transfer the Partner's goods to the Joint Company to sell such goods, when the proceeds will be used to repay the loan. It should also be noted that Delta Galil provided the Partner with loans in a total amount that is not material to Delta Galil. In the event of a breach of the Partner's obligations to Delta Galil (in connection with the repayment of the said loans or its obligations to transfer such goods), Delta Galil will be entitled to receive the Partner's holdings in the Joint Company, for no consideration.

The agreement stipulates that in the event of the Partner's insolvency events and/or the Joint Company's inability to open Brand Stores in Israel due to, among other things, breach of the Partner's obligations to the Brand Owner, the Company will be entitled to receive the Partner's holdings in the Joint Company, for no consideration.

The agreement also stipulates infringement events, in which case the mechanisms set forth in the agreement regarding the transfer of the infringing party's holdings in the Joint Company to the other party (in accordance with the consideration mechanism set forth in the agreement), or the sale of the parties' holdings in the Joint Company to a third party, and all subject to the approval of the Brand Owner as required, including with regard to the continued operation of the Brand Stores and the Commerce Site.

The agreement and the Articles of Association of the Joint Company stipulate, among other things, restrictions on the transfer of shares in the Joint Company, including the right of first refusal and the co-sale right (which as stated above may be subject to the Brand Owner's approval). The Articles of Association set forth a series of standard and accepted resolutions (which will require the unanimous consent of all members of the Board of Directors, such as: (1) capital requirements for shareholders except as provided in the agreement; (2) taking credit that exceeds the limits set forth in the Articles; (3) changes in the Joint Company capital or transfer of holdings; (4) entering into a material agreement or joint ventures that are not part of the Joint Company's activities, (5) sale of a material part of the Joint Company's assets, and (6) a material change in the Joint Company's activities.

To the extent that there is a possibility of joint investment with the Partner for the purpose of opening and operating BBW® stores in Germany, subject to the consent of the Brand Owner and under the conditions to be determined, Delta Galil will be entitled to exercise this option at its discretion.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 17 – Commitments (continued)**

The opening of the Brand Stores, the Commerce Site and the day-to-day activities of the Joint Company is subject, among other things, to the Partner's fulfillment of its obligations to the Brand Owner, the retention period of the Partner's rights, including the Partner being entitled to open and operate the Brand Stores and Commerce Site in Israel through the Joint Company. In addition, the actual opening of the Brand's Stores and the Commerce Site in Israel is subject to the approvals set forth in the system of agreements between the Partner and the Brand Owner, including the approval of the Brand Owner. It will be clarified that the validity of the operating rights by the Partner, the Partner's compliance with its obligations to the Brand Owner and obtaining the Brand Owner's approval to open the Brand Stores and Commerce Site in Israel are factors beyond the Company's control and are affected, among other things, by the Partner's activities in Europe and the potential impact of the Corona pandemic on the other brand stores operated by the Partner and its obligations.

- b) As of December 31, 2018, the Company and its subsidiaries lease a number of buildings under operating leases as well as shops rented by the Delta Israel, Delta European Brands and Delta Premium Brands operating segments in the United States and in Europe. The leases on these properties will expire at various times between 2019 and 2038.

The minimal future annual rental fees (taking into account options for extensions, which will probably be exercised), will amount to \$ 52.3 million, \$ 45.3 million, \$ 41.3 million, \$ 33.6 million and US\$ 27.7 million in each of the years 2020 to 2023, respectively.

In the period from 2024 and until the end of the leasing periods, the cumulative rental fees will amount to US\$ 89.4 million.

The expenses in respect of leasing for 2018 amounted to US\$ 55.7 million.

- c) See Notes 13 and 8C regarding liability for minimum royalty payments.
- d) The Company and some of its subsidiaries provided bank collateral as of December 31, 2020, mainly for rental agreements, royalty agreements and purchases of subcontractors and others, which they are a party to, to the sum of \$ 35.7 million.

#### **Note 18 – Transactions and balances with interested and related parties**

The Group is controlled by Mr. Isaac Dabah, who holds 48.88% of the shares in the Company through the GMM Capital LLC fund and directly. Isaac Dabah Children's Trust and Isaac and Ivette Dabah Charitable Foundation also hold 0.16% of the Company's shares. Sterling Macro, which is a fund, which is managed by Mr. Dabah also has a holding of approximately 4.95% of the Company's shares as at the reporting date.

"Interested Parties" – according to the definition of "Interested Parties" in the Securities Regulations (Yearly Financial Statements) – 2010.

"Related Parties" – as defined in IAS 24 "Related Party Disclosures".

Key Company management personnel included together under the definition of "related parties" as per IAS24, include the members of the Board of Directors and the Company's CEO.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 18 – Transactions and balances with interested and related parties (Continued)**

##### **a. Transactions with interested and related parties**

The benefits that have been provided to interested and related parties are as follows:

|                                                                                                                                                                                                         | <b>For year ending December 31</b> |               |               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|---------------|---------------|
|                                                                                                                                                                                                         | <b>2020</b>                        | <b>2019</b>   | <b>2018</b>   |
| Salary and benefit components in respect of options and blocked share units that have been granted to interested parties and related parties who are employed in the Company or in a subsidiary company |                                    |               |               |
| Sum – in thousands of dollars– see (1) and (2) below *                                                                                                                                                  | <u>1,674</u>                       | <u>2,440</u>  | <u>2,488</u>  |
| Number of people to whom benefit refers                                                                                                                                                                 | <u>3</u>                           | <u>3</u>      | <u>3</u>      |
| Fees and travelling expenses provided to directors                                                                                                                                                      |                                    |               |               |
| Sum – in thousands of dollars                                                                                                                                                                           | <u>279</u>                         | <u>374</u>    | <u>383</u>    |
| Number of people to whom benefit refers                                                                                                                                                                 | <u>7</u>                           | <u>7</u>      | <u>10</u>     |
| Purchases from related parties – companies treated at equity                                                                                                                                            | <u>15,487</u>                      | <u>19,367</u> | <u>18,692</u> |

\* The expenditure in 2020 includes the long-term bonus component of \$ 337 thousand which is a relative share of the multi-annual bonus to the CEO, relating to the Company's performance in 2019-2022.

The expenditure in 2019 includes the long-term bonus component of \$ 675 thousand (the entire which is a relative share of the multi-annual bonus to the CEO, relating to the Company's performance in 2019-2021.

The expenditure in 2018 does not include the cancellation of the long-term bonus component of \$ 1,250 thousand (all of the multi-annual bonus to the CEO for 2016-2018), relating to the Company's performance, which was not paid to the Company's CEO due to failure to meet the targets set for their receipt in 2016-2018.

\*\* During the course of 2018, three serving directors were replaced and one additional director was added.

#### **Approval of Terms of Employment of Interested Parties**

- 1) Approval of the terms of employment of the Company's controlling shareholder and director, Mr. Isaac Dabah, as CEO of the Company – following is a summary of his terms of employment:  
The terms of his employment as CEO in 2018 were approved by the Compensation Committee, the Company's Board of Directors, and by the general meeting on January 20, 2016, effective from January 1, 2016, for three years.

Under the conditions approved, in the years 2016-2018 Mr. Dabah is entitled to an annual salary of \$ 750 thousand, social benefits, reimbursement of expenses, insurance and indemnity, an annual bonus of \$ 750 thousand subject to achieving business objectives up to a maximum annual bonus of \$ 937.5 thousand subject to achieving even higher business objectives, and a long-term bonus of \$ 1,875 thousand for the years 2016-2018 subject to achieving three-year business objectives. These goals were not achieved, and therefore Mr. Dabah did not receive the long-term bonus.

On December 5, 2018, after the approval of the Compensation Committee and the Board of Directors of the Company, the general meeting approved the employment terms of Mr. Dabah as of January 1, 2019, for three years. Under the terms approved, Mr. Dabah is entitled to an annual salary of \$ 810 thousand, social benefits, reimbursement of expenses, insurance and indemnity, an annual bonus of \$ 810 to \$ 1,000, subject to the achievement of business objectives, and a long-term bonus of \$ 2,025 thousand for the years 2019 - 2021 subject to achieving three-year business objectives.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 18 – Transactions and balances with interested and related parties (Continued)**

On January 28, 2021, after the approval of the Compensation Committee and the Board of Directors of the Company, the general meeting approved the employment terms of Mr. Dabah as of December 31, 2022. Under the terms approved, Mr. Dabah is entitled to an annual salary of \$ 810 thousand, social benefits, reimbursement of expenses, insurance and indemnity, an annual bonus of \$ 810 to \$ 1,000, subject to the achievement of business objectives, and a long-term bonus of \$ 2,025 thousand for the years 2019 - 2022 subject to achieving business objectives.

- 2) Ratification of the terms of employment of the daughter of the Company's controlling shareholder, acting as Vice President Kids Division DG Premium Brands:

On January 2, 2017 the general meeting of the Company's shareholders approved the new terms of employment of Ms. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company' CEO and controlling shareholder, as Vice President Kids Division DG Premium Brands, which came into effect on January 1, 2017, all in accordance with the recommendations of the Company's Compensation Committee and Board of Directors, who examined, *inter alia*, Ms. Dabah's new position, which constituted a significant change and advancement from her previous role, taking into account her authorities, the responsibility placed upon her and the operating turnover of the department that she will lead and manage, following which they confirmed that the new terms of employment are generally acceptable, reasonable and fair in the circumstances in hand, and finally approved that the new terms of employment are acceptable, reasonable and fair under the circumstances.

On February 14, 2018, the Company's Board of Directors approved the updating of Gloria Dabah's job description, such that it will be General Manager of Splendid Kids, Ladies and Men's, including the addition of fields of responsibility without there being a change in her terms of employment, which have been approved by the authorized bodies in the Company.

On April 8, 2019, the general meeting of the Company's shareholders approved, after the approval of the Compensation Committee and the Board of Directors, a new employment agreement for Ms. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company' CEO and controlling shareholder, in her capacity as President, of Splendid Ladies and Men's & Kids, whereby her annual salary, as of April 1 2020, will stand at \$ 350 thousand, and she will be entitled to an annual bonus of up to 50% of her annual income, subject to her meeting objectives.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 18 – Transactions and balances with interested and related parties (Continued)**

##### **b. Balances with interested and related parties**

|                                                                                                                                          | <b>As of December, 31</b>   |              |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------|
|                                                                                                                                          | <b>2020</b>                 | <b>2019</b>  |
|                                                                                                                                          | <b>Thousands of Dollars</b> |              |
| Current credit balance due to salary expenses for Directors:<br>balance as of the balance sheet date                                     | <u>74</u>                   | <u>101</u>   |
| Current debit balances due to salaries and bonuses for interest and related parties<br>employed at the Company.                          |                             |              |
| Balance as of the balance sheet date                                                                                                     | <u>1,120</u>                | <u>759</u>   |
| Current credit balances for purchases from related parties as of the balance sheet date<br>companies treated according to equity method. | <u>4,607</u>                | <u>2,628</u> |

##### **c. Directors Compensation, Exemption and Insurance**

The Company has indemnification, exemption and insurance arrangements for directors and senior executives, including insurance of senior executives in subsidiaries in which the Company holds at least 25% of the Company's equity. The amount of indemnification is limited to 25% of the Company's according to its latest financial statements prior to the payment of the indemnification in practice. The limit of liability of the directors' insurance policy is \$ 10 million per event and per period, and the yearly premium in respect thereof amounts to \$59,000 before an addition of approximately \$ 15.8 thousand for the extension of coverage for the public subsidiary, Delta Israel Brands Ltd., until the end of the current insurance period (July 31, 2021). In addition, the Company exempted, in advance and retrospectively, officers therein (including the controlling shareholder) from their liability, due to damage as a result of the breach of the duty of care towards it, subject to the reservations stated in the written exemption from liability granted to the officers.

##### **d. Negligible transactions with interested parties**

The Company's Board of Directors decided to adopt guidelines and principles for the classification of a transaction as "a negligible transaction", as defined in Regulation 41(A3) of the Securities Regulations (Financial Statements) – 2010. These principles and guidelines will also be used for determine e the extent of disclosure regarding transactions by the Company with the controlling interest or in the approval of which the controlling interest has a personal interest, as determined in Regulation 222 of the Securities Regulations (Periodic and Immediate Reports) – 1970 and Regulation 54 of the Securities Authority (Details in a Prospectus and a Draft Prospectus – Structure and Form) – 1969 and also for examining the need for submitting an immediate report in respect of such a transaction by the Company, as determined on Regulation 37A(6) of the Securities Regulations (Periodic and Immediate Reports) – 1970.

The Company's Board of Directors determined that a transaction between the Company with a controlling shareholder or where the controlling shareholder has a personal interest in it shall be considered "a negligible transaction " if all of the following conditions are met:

- 1) It is not an exceptional transaction as defined in Section 1 of the Companies Law – 1999;
- 2) The transaction is not expected to have a significant or strategic impact on the Company, from the qualitative perspective of the transaction.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 18 – Transactions and balances with interested and related parties (Continued)**

- 3) The impact of the relevant parameter (as stated below) is at a rate of 1%. For this purpose, the parameter that is relevant to the transaction will be tested as the most relevant parameter from among the following: (a) the sales ratio – i.e. the total sales that are the subject of the transaction divided by the Company's total annual sales; (b) the cost of sales ratio – i.e. the cost of the transaction divided by the Company's total annual sales; (c) the profits ratio – i.e. the profit or loss that is attributed to the transaction divided by the annual profit or loss; (d) the assets ratio – i.e. the total of the assets that are the subject of the transaction divided by the Company's total assets; (e) the liabilities ratio – i.e. the liabilities that are the subject of the transaction divided by the Company's total liabilities; (f) the operating expenses ratio – i.e. the total expenses that are the subject of the transaction divided by the Company's total operating expenses.

The impact of the transaction will be tested on an annual basis, based on the Company's audited (consolidated) annual financial statements.

In cases in which, in the Company's judgment, any of the quantitative criteria that are mentioned above are not relevant to the testing for the immateriality of the transaction, the transaction will be considered to be immaterial in accordance with another quantitative criteria, which may be determined by the Company, and solely that the relevant criteria that is calculated for the transaction will be at a rate not exceeding 1% of the relevant parameter.

- 4) In the examination of the immateriality of a transaction, which is expected to take place in the future, inter alia, the probability of the execution of the transaction and the realization of its impact are to be examined.
- 5) Separate transactions, which are inter-dependent, such that in practice they form part of the same commitment, are to be examined as a single transaction.

The immateriality of a transaction will be tested by the Company's Chief Financial Officer, who is to report to the Chairman of the Audit Committee on the transaction and the results of the examination that he has conducted as soon as possible.

Despite the aforesaid, the Company is entitled to report on transactions with controlling interests even in cases in which it is not required to do so in accordance with the foregoing.

#### **Note 19 – Additional information regarding the financial statements**

##### **a. Cash and cash equivalents**

|                              | <b>As of December, 31</b>   |                |
|------------------------------|-----------------------------|----------------|
|                              | <b>2020</b>                 | <b>2019</b>    |
|                              | <b>Thousands of Dollars</b> |                |
| Cash at bank                 | 169,599                     | 63,258         |
| Short-term deposits in banks | 61,244                      | 45,036         |
|                              | <u>230,843</u>              | <u>108,294</u> |

##### **b. Receivables**

###### **1. Customers**

|                                                                    | <b>As of December, 31</b>   |                |
|--------------------------------------------------------------------|-----------------------------|----------------|
|                                                                    | <b>2020</b>                 | <b>2019</b>    |
|                                                                    | <b>Thousands of Dollars</b> |                |
| Outstanding debts                                                  | 195,248                     | 210,336        |
| Checks receivables                                                 | 4,953                       | 1,975          |
|                                                                    | <u>200,201</u>              | <u>212,311</u> |
| The item is presented net of a provision for loss in the amount of | <u>8,838</u>                | <u>4,248</u>   |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 19 – Additional information regarding the financial statements (continued)**

As of December 31, 2020, a trade receivables balance of \$ 3.1 million (\$ 5.1 million as of December 31, 2019), is a balance exceeding the contractual payment date for which no provision for doubtful debts has been recorded and which has yet to be repaid by the approval of these financial statements. The balance is comprised of a large number of customers who are independent of each other, who do not have a history of insolvency.

The Company periodically reviews the aging of its customers and makes a provision to loss for customers which the Company believes are insolvent.

- a. Provisions for loss for the balance of customers for 2018, 2019 and 2020 made by the Company is as follows:

|                                                                                                | <b>Thousands of<br/>Dollars</b> |
|------------------------------------------------------------------------------------------------|---------------------------------|
| <b>Balance as of January 1, 2018 - calculated according to IAS 39</b>                          | 1,620                           |
| Impact of First Adoption of IFRS 9 - charged to Balance Sheet as of January 1, 2018            | -                               |
| Balance of the provision for loss as of January 1, 2018 - calculated in accordance with IFRS 9 | 1,620                           |
| Debts for which the provision for loss was measured throughout the life of the customer        | 1,485                           |
| Consolidation                                                                                  | 3,687                           |
| Exchange rate differences                                                                      | (109)                           |
| <b>Balance as of December 31, 2018</b>                                                         | <b>6,683</b>                    |
| Debts for which the provision for loss was measured throughout the life of the customer        | 165                             |
| Amounts previously provided for and not utilized                                               | (2,600)                         |
| <b>Balance as of December 31, 2019</b>                                                         | <b>4,248</b>                    |
| Debts for which the provision for loss was measured throughout the life of the customer        | 9,671                           |
| Customer balances deleted during 2020 due to non-collection                                    | (5,526)                         |
| Exchange rate differences                                                                      | 445                             |
| <b>Balance as of December 31, 2020</b>                                                         | <b>8,838</b>                    |

#### **2. Other receivables and debit balances**

|                                           | <b>As of December, 31</b>   |               |
|-------------------------------------------|-----------------------------|---------------|
|                                           | <b>2020</b>                 | <b>2019</b>   |
|                                           | <b>Thousands of Dollars</b> |               |
| Prepaid expenses                          | 7,533                       | 6,651         |
| Government institutions                   | 8,609                       | 6,616         |
| Income receivable                         | 4,451                       | 5,665         |
| Advances to suppliers and sub-contractors | 4,385                       | 5,196         |
| Loan to a business partner, see Note 17A  | 2,500                       | -             |
| Sundry                                    | 10,777                      | 11,072        |
|                                           | <b>38,255</b>               | <b>35,200</b> |

The fair value of the monetary items that are included in other receivables approximates to the value at which they are presented in the accounting records. The balances that are included in other receivables in respect of non-monetary items to not include amounts whose settlement date has passed. The maximum exposure to credit risks as at the date of the statement of financial position in respect of other receivables is the fair value of each group of receivables less non-monetary balances (deriving from prepaid expenses) in respect of these receivables.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 19 – Additional information regarding the financial statements (Continued)**

##### **c. Inventory**

Composition of Inventory:

|                               | <b>As of December, 31</b>   |                |
|-------------------------------|-----------------------------|----------------|
|                               | <b>2020</b>                 | <b>2019</b>    |
|                               | <b>Thousands of Dollars</b> |                |
| Finished products             | 217,084                     | 251,038        |
| Goods in process              | 37,697                      | 39,208         |
| Raw materials                 | 32,001                      | 33,355         |
| Packaging and other materials | 4,921                       | 4,507          |
|                               | <u>291,703</u>              | <u>328,108</u> |

As of December 31, 2020, the inventory balance that had undergone depreciation is presented less the depreciation provision in the amount of \$ 50.4 million (as of December 31, 2019 – \$ 36 million). The balance of the inventory is presented at the lower of cost and realizable value less selling costs. The change in the provision for impairment in value is recorded in the statement of profit or loss or other comprehensive income under "cost of sales".

##### **d. Short-term bank credit from banking corporations**

1. Total including extra-balance sheet credit provided the Company by the banks for short amounted to \$ 287 million as of December 31, 2020 (\$ 360 million as of December 31, 2019), of which \$ 240 million (\$ 260 million as of December 31, 2019) have not been utilized. The credit lines utilized include the receipt of short-term credit and utilization for documentary credit and guarantees. In addition to these credit lines, as at December 31, 2020 the Company has cash balances of \$ 231 million, such that the Company's unutilized sources of credit amounted to \$ 471 million as at December 31, 2020 (\$ 368 million as of December 31, 2019). The abovementioned sources of credit include \$ 107 million of non-binding lines. In the course of 2020, the Company extended the agreements covering the binding credit facilities with banks in Israel in an amount of \$ 100 million. As of this report date, the interest rate on these short-term loans is LIBOR + 1.70% - 1.60% a year.
2. On June 3<sup>rd</sup> 2019, the subsidiary Delta USA signed a credit agreement with Bank Leumi and Discount Bank USA for a two years period. The total short-term revolving loan is \$ 80 million. This credit agreement is secured by a floating lien in an unlimited amount on Delta USA's assets and rights and on some of the assets of its subsidiary companies.

As at December 31, 2020, \$ 2 million of this facility in the United States is as part of the short-term credit and for documentary credit. As at the date of this report, the interest rate on the short-term loans is LIBOR + 2.00% a year. In certain cases, it is possible to amend the agreement to loans bearing interest at the Prime rate. The credit agreement depends upon the following financial stipulations:

- a. Delta USA's net yearly profit shall not be less than \$1.
- b. Tangible equity defined as equity less intangible assets (primarily goodwill) shall not be less than \$ 28 million.
- c. The ratio between the tangible equity and total assets less intangible assets shall not be less than 20%.
- d. The cash flow from ongoing activity in the last 12 months shall be no less than \$ 1.

Notwithstanding the aforesaid, if the net balance of customers plus the cash and less the loans in Delta USA is less than \$ 40 million, said stipulations will not be examined and the Company will be deemed as being compliant with the terms of the agreement.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 19 – Additional information regarding the financial statements (Continued)**

As part of the credit agreement, the subsidiary, Delta USA was given the option of redeeming the loans granted by the Parent Company under the condition that it meet the abovementioned financial covenants.

As of the balance sheet date and as of this report, the Company has complied with the financial stipulations in question.

The fair value of the short-term loans is equivalent to their carrying value in the accounting records, since the impact of discounting is not significant.

During August 2020, the parent company signed a guarantee in favor of Bank Leumi USA to secure the obligations of its subsidiary, Delta USA. This guarantee is valid until December 31, 2020.

#### **e. Long-term loans from banking corporations**

- 1) On July 1, 2018, the Company signed a long-term loan agreement with an Israeli bank in the amount of € 70 million (approximately \$ 81 million on the date of receipt of the loan). The term of the loan is five years, half of which will be repaid in equal quarterly installments, and one half will be repaid at the end of the period in one installment. The annual interest rate is 1.99% fixed. The loan agreement is secured by an unlimited floating charge on the Company's rights, assets and property.

The loan is subject to the following stipulations:

- a. The Company's equity shall not be less than \$ 180 million.
- b. The ratio of net financial debt to CAP will not exceed 60%.

Additionally, the Company undertook to comply with the following conditions in order to approve the distribution of a dividend:

- a. The total dividend distribution shall not exceed 50% of the distributable profits, as defined in the provisions of Section 302 of the Companies Law.
- b. The balance of shareholders' equity will not fall below \$ 220 million after the distribution of the dividend.
- c. The ratio of net financial debt to EBITDA will not exceed 3.5 after distribution.

- 2) On June 1, 2020, the Company signed a state-guaranteed long-term loan agreement with an Israeli bank in the amount of NIS 100 million (approximately \$ 28.5 million on the day of receipt of the loan). The loan is for a period of 5 years and without payment of principal during the first year. The annual interest rate is P+1.5% (effective interest rate for the reporting date of approximately 3.0%), which is repaid as of June 2020.

As part of the loan agreement, the Company deposited a total of NIS 5 million in a deposit to ensure the repayment of the original loan.

As part of the Delta Israel Brands Ltd. Split Agreement and in accordance with the approval of the state and the lending bank, a total of approximately NIS 56 million was converted and under the same conditions, from the said loan, to the subsidiary.

In addition, Delta Galil transferred to the subsidiary part of the deposit in the amount of NIS 2.8 million, which is part of the collateral provided by the Company in favor of the bank in connection with the loan.

- 3) On June 29, 2020, the subsidiary in Germany (Schiesser) received a bullet loan in the amount of 9.5 million euros (approximately \$ 10.6 million on the day of receipt of the loan) for a period of two years, at an annual interest rate of 2%.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 19 – Additional information regarding the financial statements (continued)**

- 4) On March 31, 2020, Schiesser's subsidiary in Switzerland received a bullet loan in the amount of 0.5 million Swiss francs (approximately \$ 0.5 million on the day of receipt of the loan) for a period of 5 years, without interest.
- 5) During July and August 2020, the subsidiary in France (Eminence) received a bullet loan of 5.0 million euros for a year, at an annual interest rate of 0.5%.

As of the balance sheet date and as at the date of this report, the Company is in compliance with the financial covenants above.

#### **f. Other payables**

|                                             | <b>As of December, 31</b>   |                |
|---------------------------------------------|-----------------------------|----------------|
|                                             | <b>2020</b>                 | <b>2019</b>    |
|                                             | <b>Thousands of Dollars</b> |                |
| Expenses payable                            | 57,392                      | 43,738         |
| Employees and institutions for salaries     | 32,901                      | 43,226         |
| Liability for minimal royalty payments      | 14,760                      | 13,844         |
| Institutions                                | 11,051                      | 9,023          |
| Provision for vacation and recuperation pay | 7,297                       | 7,360          |
| Suppliers in respect of fixed assets        | 4,422                       | 4,392          |
| Current maturities of loans from suppliers  | 1,594                       | 6,384          |
| Interest payable on debentures, see Note 11 | 3,011                       | 3,036          |
| Deposit for a cash flow hedge transaction   | 1,770                       | -              |
| Others                                      | 16,539                      | 7,799          |
|                                             | <b>150,737</b>              | <b>138,802</b> |

The carrying value of other payables is reasonably close to their fair value since the impact of discounting is not significant.

#### **g. Restructuring expenses**

##### **The 2020 program**

The Company's strategy strives for continuous improvement in flexibility and operational efficiency, in its marketing activities as well as in its development activities, while improving the cost structure, in order to position the Company in a leading position vis-à-vis its customers. Accordingly, and in order to enable improvement in profitability, the Company decided in the second quarter of 2020 to implement a comprehensive restructuring plan.

The plan includes reducing and/or closing some of its production activities in China, Turkey, Egypt and Eastern Europe, as well as reducing overheads at the Company's headquarters in the United States, Europe and Israel, while implementing changes in lateral processes aimed at adapting work processes to industry trends; Including, reinforcing the on-line sales array and assimilation of technological changes in the sales and development processes.

The cost of the plan amounts to approximately \$ 39.2 million and was included as an expense in the second quarter of the year. The total said cost includes approximately \$ 35.6 million in cash in respect of severance pay and other costs due to termination of employment of employees and approximately \$ 3.6 million that are not in cash and are attributed to a reduction in the value of fixed assets in the Company's factories.

During the second half of the year, the Company continued to implement the plan, mainly in factories in China, Egypt and Bulgaria, as well as reducing overheads in the US and Israel, so that as of the date of this report, the Company made approximately \$ 14.5 million for termination of employment (including \$ 10.2 million in cash) of the total plan and is expected to complete it in the course of 2021.

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### **Note 19 – Additional information regarding the financial statements (continued)**

##### **The 2018 program**

During 2018, the Company included in its financial statements net restructuring expenses in the total amount of \$ 5.4 million, mainly in the upper market segment.

As part of a strategy to reduce production costs and against the background of a decrease in the volume of production orders at its plant in Israel, the Company decided to close its socks production activity in Israel.

In addition, as part of the streamlining processes at the Company's plants, it was decided to reduce the number of employees in the Company's plants in Bulgaria and Turkey, as well as the closure of the Company's plant in Jordan

The total restructuring expenses involved in this decision amount to approximately \$ 5.4 million, of which \$ 4.9 million is for employee termination costs, \$ 0.5 million is not in cash for depreciation of fixed assets and the balance for various costs involved in closing the plant in Jordan.

At the end of 2019, the Company canceled the remainder of the restructuring plan of 2018 that was not carried out, in the amount of \$ 1.0 million. Such cancellation is recorded as income under the net restructuring expense item.

1. **Movement in the provision for employees' costs, which are included in restructuring expenses in the years 2020, 2019 and 2018:**

|                                                       | <b>For year Ending December 31</b> |              |              |
|-------------------------------------------------------|------------------------------------|--------------|--------------|
|                                                       | <b>2020</b>                        | <b>2019</b>  | <b>2018</b>  |
|                                                       | <b>Thousands of Dollars</b>        |              |              |
| <b>Opening balance</b>                                | 1,435                              | 5,239        | 2,458        |
| Additional provisions during the year                 | 35,596                             | -            | 4,941        |
| Utilized during the year                              | (10,206)                           | (2,817)      | (2,160)      |
| Cancellation of provisions for restructuring expenses | -                                  | (987)        | -            |
| <b>Closing balance</b>                                | <b>26,825</b>                      | <b>1,435</b> | <b>5,239</b> |

2. **The main components of the expenses in respect of the new restructuring plan are as follows:**

|                                                           | <b>For year Ending December 31</b> |              |              |
|-----------------------------------------------------------|------------------------------------|--------------|--------------|
|                                                           | <b>2020</b>                        | <b>2019</b>  | <b>2018</b>  |
|                                                           | <b>Thousands of Dollars</b>        |              |              |
| Costs connected to reduction of manpower, see above       | 35,596                             | (987)        | 4,941        |
| Impairment in value of fixed assets and intangible assets | 3,558                              | -            | 481          |
|                                                           | <b>39,154</b>                      | <b>(987)</b> | <b>5,422</b> |

##### **h. Sales**

See Note 5E regarding sales to a main customer

The following are details of costs of sales, selling and marketing and administrative and general expenses. These expenses in 2020 included expenses of Bare Necessities (from the date of its acquisition in October 2020) which were not included in 2019 and 2018. In addition, 2019 included expenses of the Bogart Group from its acquisition (second half of 2019) which were not included in 2018 and expenses in 2018 included Eminence's expenses from its acquisition (second half of 2018).

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

#### Note 19 – Additional information regarding the financial statements (continued)

**i. Cost of sales**

|                                                                               | <b>For year ending December 31</b> |                  |                |
|-------------------------------------------------------------------------------|------------------------------------|------------------|----------------|
|                                                                               | <b>2020</b>                        | <b>2019</b>      | <b>2018</b>    |
|                                                                               | <b>Thousands of Dollars</b>        |                  |                |
| Purchases from sub-contractors                                                | 456,693                            | 650,704          | 631,561        |
| Materials consumed                                                            | 163,721                            | 163,802          | 97,845         |
| Salaries and social benefits                                                  | 139,240                            | 135,882          | 87,114         |
| Haulage and customs                                                           | 59,429                             | 66,724           | 59,651         |
| Royalties                                                                     | 21,407                             | 28,064           | 24,487         |
| Other production expenses                                                     | 14,976                             | 9,050            | 21,754         |
| Depreciation and amortization                                                 | 20,462                             | 17,345           | 11,159         |
| Decrease (increase) in inventory of finished products and products in process | 46,574                             | 14,434           | (1,965)        |
|                                                                               | <u>922,502</u>                     | <u>1,086,005</u> | <u>939,606</u> |

**j. Selling, marketing, administrative and general expenses**

|                                                               | <b>For year ending December 31</b> |                |                |
|---------------------------------------------------------------|------------------------------------|----------------|----------------|
|                                                               | <b>2020</b>                        | <b>2019</b>    | <b>2018</b>    |
|                                                               | <b>US\$ thousands</b>              |                |                |
| <b>Selling and marketing:</b>                                 |                                    |                |                |
| Salaries and social benefits                                  | 163,044                            | 202,941        | 189,772        |
| Rental and maintenance *                                      | 29,758                             | 33,363         | 79,197         |
| Relief in rent                                                | (6,026)                            | -              | -              |
| Advertising                                                   | 44,005                             | 39,138         | 41,469         |
| Haulage, packaging, storage and customs                       | 29,432                             | 25,198         | 22,852         |
| Commissions to franchisees and agents                         | 17,604                             | 18,694         | 17,203         |
| Depreciation and amortization *                               | 62,850                             | 60,153         | 15,486         |
| Amortization of intangible assets, except for software        | 6,079                              | 4,689          | 2,639          |
| Other expenses                                                | 38,761                             | 45,529         | 37,514         |
| Total selling and marketing expenses                          | <u>385,507</u>                     | <u>429,705</u> | <u>406,132</u> |
| <b>Administrative and general:</b>                            |                                    |                |                |
| Salaries and social benefits                                  | 45,748                             | 42,882         | 35,584         |
| Professional fees                                             | 11,433                             | 12,872         | 11,477         |
| Office rental and maintenance *                               | 984                                | 316            | 4,669          |
| Subsistence, entertaining and travelling                      | 1,042                              | 2,624          | 2,457          |
| Office expenses                                               | 1,868                              | 1,636          | 1,250          |
| Depreciation and amortization *                               | 9,025                              | 7,637          | 2,553          |
| Other expenses                                                | 7,346                              | 9,348          | 8,458          |
| Total administrative and general expenses                     | <u>77,446</u>                      | <u>77,315</u>  | <u>66,448</u>  |
| Total selling, marketing, administrative and general expenses | <u>462,953</u>                     | <u>507,020</u> | <u>472,580</u> |

\* The increase in depreciation and amortization expenses and the decrease in rental expenses in 2019 compared to 2018 is due to the implementation of International Accounting Standard 16.

# **Delta Galil Industries Ltd.**

## Notes to the Financial Statements

### Note 19 – Additional information regarding the financial statements (continued)

#### k. Expenses by type

|                                                                                                                      | For year ending December 31 |                  |                  |
|----------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------|------------------|
|                                                                                                                      | 2020                        | 2019             | 2018             |
|                                                                                                                      | Thousands of Dollars        |                  |                  |
| Purchases from sub-contractors                                                                                       | 456,693                     | 650,704          | 639,561          |
| Salaries and wages                                                                                                   | 348,032                     | 381,705          | 312,470          |
| Materials consumed                                                                                                   | 163,721                     | 163,802          | 97,845           |
| Lease and maintenance *                                                                                              | 24,716                      | 34,054           | 83,911           |
| Haulage, packaging, storage and customs                                                                              | 88,861                      | 91,922           | 82,503           |
| Depreciation and amortization *                                                                                      | 98,416                      | 89,824           | 31,837           |
| Royalties expenses, net                                                                                              | 21,407                      | 28,064           | 24,487           |
| Advertising expenses                                                                                                 | 44,005                      | 39,138           | 41,469           |
| Other expenses                                                                                                       | 93,030                      | 98,513           | 103,066          |
| Change in inventory of finished products and products in process                                                     | 46,574                      | 14,434           | (1,965)          |
| Total cost of sales, selling, marketing, administrative and general expenses and impairment in value of fixed assets | <u>1,385,455</u>            | <u>1,593,025</u> | <u>1,412,186</u> |

\* The increase in depreciation and amortization expenses and the decrease in rental expenses in 2019 compared to 2018 is due to the implementation of International Accounting Standard 16.

#### l. Other income (expenses), net

|                                                     | For the year ended December 31 |              |              |
|-----------------------------------------------------|--------------------------------|--------------|--------------|
|                                                     | 2020                           | 2019         | 2018         |
|                                                     | US\$ thousands                 |              |              |
| Capital gain (loss) on the sale of fixed assets     | 314                            | 86           | (99)         |
| Gain (loss) from financial instruments              | (1,948)                        | 653          | 1,567        |
| Compensation for termination of franchise agreement | (1,000)                        | 3,000        | 1,000        |
| Total other income (expenses), net                  | <u>(2,634)</u>                 | <u>3,739</u> | <u>2,468</u> |

#### m. Financing expenses, net

|                                                                              | For year ending December 31 |                |               |
|------------------------------------------------------------------------------|-----------------------------|----------------|---------------|
|                                                                              | 2020                        | 2019           | 2018          |
|                                                                              | Thousands of Dollars        |                |               |
| Interest expenses on credit and loans from banking corporations              | 6,277                       | 8,784          | 4,652         |
| Interest expenses on debentures, see Note 11                                 | 15,505                      | 14,751         | 12,840        |
| Other interest expenses                                                      | 390                         | 353            | 430           |
| Discount component on assets and long-term liabilities                       | 4,385                       | 3,670          | 3,064         |
| Interest expenses and commissions on discounting arrangements with customers | 613                         | 1,489          | 1,269         |
| Liabilities for leases                                                       | 9,836                       | 8,474          | -             |
| Total financing expenses                                                     | <u>37,006</u>               | <u>37,521</u>  | <u>22,255</u> |
| Interest income from banking corporations and others                         | <u>(661)</u>                | <u>(1,385)</u> | <u>(273)</u>  |
| Exchange rate expenses (income), net                                         | <u>1,130</u>                | <u>(71)</u>    | <u>(630)</u>  |
| Total financing expenses, net                                                | <u>37,475</u>               | <u>36,065</u>  | <u>21,352</u> |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

**Note 20 – Details of investee companies that are held directly and through subsidiary companies as of December 31, 2020:**

| <b>Holding company</b>             | <b>Name of the Company</b>                                           | <b>Holding and control rate</b> |                      |
|------------------------------------|----------------------------------------------------------------------|---------------------------------|----------------------|
| <b>Delta Galil Industries Ltd.</b> | Delta Galil USA. Inc.                                                | 100%                            | Consolidated company |
|                                    | Delta Galil Holland B.V.                                             | 100%                            | Consolidated company |
|                                    | Delta Textiles (London) Ltd                                          | 100%                            | Consolidated company |
|                                    | Delta Galil Vietnam Co. Ltd                                          | 100%                            | Consolidated company |
|                                    | Delta Galil Properties (1988) ltd.                                   | 100%                            | Consolidated company |
|                                    | Kwond Fat Industrial Limited                                         | 100%                            | Consolidated company |
|                                    | Brunet Industrial Holdings Limited                                   | 100%                            | Consolidated company |
|                                    | Delta Alfa Corap Ve Tekstil San Tlc A.S.                             | 100%                            | Consolidated company |
|                                    | Delta Israel Brands Ltd.                                             | 100%                            | Consolidated company |
|                                    | Delta Brayola Ltd.                                                   | 100%                            | Consolidated company |
|                                    | Zhejiang Guangtai Delta Socks Co. Ltd.                               | 50%                             | Affiliated company   |
|                                    | Delta Galil China Holdings Limited                                   | 100%                            | Consolidated company |
| <b>Delta Galil USA. Inc.</b>       | Wundies Bangladesh Limited                                           | 100%                            | Consolidated company |
|                                    | Delta Galil Premium Brand LLC                                        | 100%                            | Consolidated company |
|                                    | Seven for All Mankind LLC                                            | 100%                            | Consolidated company |
|                                    | Bare Necessities                                                     | 100%                            | Consolidated company |
|                                    | Mo Industries LLC                                                    | 100%                            | Consolidated company |
| <b>Delta Galil Holland B.V.</b>    | Delta Textile Egypt - Free Zone S.A.E.                               | 100%                            | Consolidated company |
|                                    | Century Wear Corporation (WLL)                                       | 100%                            | Consolidated company |
|                                    | Delta Textile Upper Egypt                                            | 100%                            | Consolidated company |
|                                    | Thai Progress Garment Co. Ltd                                        | 100%                            | Consolidated company |
|                                    | Delta Textile Bulgaria Ltd.                                          | 100%                            | Consolidated company |
|                                    | Delta Galil Hong Kong Ltd.                                           | 100%                            | Consolidated company |
|                                    | Dominion Hosiery mills Inc                                           | 100%                            | Consolidated company |
|                                    | Delta Galil Hungary Kft                                              | 100%                            | Consolidated company |
| <b>Delta Galil Hong Kong Ltd.</b>  | Delta Galil Limited Apparel (Guangzhou) Co. Ltd.                     | 100%                            | Consolidated company |
| <b>Delta Textiles (London) Ltd</b> | Delta Galil Textile Germany GmbH & Co. KG                            | 100%                            | Consolidated company |
|                                    | Sport Socks Company (Belgium) Ltd                                    | 100%                            | Consolidated company |
|                                    | Delta Galil Germany GMBH                                             | 100%                            | Consolidated company |
|                                    | Seven for All Mankind International SAGL                             | 100%                            | Consolidated company |
|                                    | Delta Textiles France SAS                                            | 100%                            | Consolidated company |
|                                    | Delta Galil Mexico SA de CV                                          | 100%                            | Consolidated company |
|                                    | Seven For All Mankind Brazil IMPORTAÇÃO, COMÉRCIO E DISTRIBUIÇÃO S.A | 50%                             | Consolidated company |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

**Note 20 – Details of investee companies that are held directly and through subsidiary companies as of December 31, 2020 (Continued):**

| <b>Holding company</b>                               | <b>Name of the Company</b>               | <b>Holding and control rate</b> |                      |
|------------------------------------------------------|------------------------------------------|---------------------------------|----------------------|
| <b>Delta Galil Textile Germany GmbH &amp; Co. KG</b> | Schiesser AG                             | 100%                            | Consolidated company |
| <b>Schiesser AG</b>                                  | Schiesser Marken GmbH                    | 100%                            | Consolidated company |
|                                                      | Schiesser International B.V Nederland    | 100%                            | Consolidated company |
|                                                      | Schiesser International A/S Denmark      | 100%                            | Consolidated company |
|                                                      | Schiesser Schweiz AG Switzerland         | 100%                            | Consolidated company |
|                                                      | Schiesser Ges m.b.H. Austria             | 100%                            | Consolidated company |
|                                                      | Schiesser International NV (Belgium)     | 100%                            | Consolidated company |
|                                                      | Pleas a.s.                               | 100%                            | Consolidated company |
|                                                      | Gemtex a.s                               | 100%                            | Consolidated company |
|                                                      | Reliable Global Sourcing Ltd, Hong Kong  | 100%                            | Consolidated company |
| <b>Seven for All Mankind International SAGL</b>      | Seven for All Mankind Austria GmbH       | 100%                            | Consolidated company |
|                                                      | Seven for All Mankind France SARL        | 100%                            | Consolidated company |
|                                                      | Seven for All Mankind Srl                | 100%                            | Consolidated company |
|                                                      | Seven for All Mankind Germany GmbH       | 100%                            | Consolidated company |
|                                                      | Seven for All Mankind Netherlands B.V    | 100%                            | Consolidated company |
|                                                      | Seven for All Mankind Spain SL           | 100%                            | Consolidated company |
|                                                      | Seven for All Mankind Belgium BVBA       | 100%                            | Consolidated company |
| <b>Delta Textile France SAS</b>                      | Boxer Holding SAS                        | 100%                            | Consolidated company |
| <b>Boxer Holding SAS</b>                             | Eminence SAS                             | 100%                            | Consolidated company |
| <b>Eminence SAS</b>                                  | Liabie SAS (Italie)                      | 100%                            | Consolidated company |
|                                                      | Distrebem (France)                       | 100%                            | Consolidated company |
|                                                      | Eminence Beneluxe (Belgique)             | 100%                            | Consolidated company |
|                                                      | Eminter (Espagne)                        | 100%                            | Consolidated company |
| <b>Delta Galil China Holdings Limited</b>            | Delta Fashion Costume (Shanghai) Co, LTD | 100%                            | Consolidated company |
| <b>Kwond Fat Industrial Limited</b>                  | Bogart (Far East) Limited                | 100%                            | Consolidated company |
| <b>Bogart (Far East) Limited</b>                     | Bogart Lingerie Limited                  | 100%                            | Consolidated company |
|                                                      | Hangamania Limited                       | 100%                            | Consolidated company |
|                                                      | Sun Hing Shing Fashion Factory Limited   | 100%                            | Consolidated company |
|                                                      | Bogart Garment (HK) Limited              | 100%                            | Consolidated company |
|                                                      | Bogart Lingerie (Thailand) Ltd.          | 100%                            | Consolidated company |
|                                                      | B&B Apparel Accessories Company Limited  | 100%                            | Consolidated company |
|                                                      | BL (Thailand) Limited                    | 100%                            | Consolidated company |
| <b>Bogart Lingerie Limited</b>                       | Bogart Lingerie (Shenzhen) Limited       | 100%                            | Consolidated company |
|                                                      | Bogart Lingerie (Guangzhou) Limited      | 100%                            | Consolidated company |
|                                                      | Bogart Lingerie (Yangon) Limited         | 100%                            | Consolidated company |

## **Delta Galil Industries Ltd.**

### Notes to the Financial Statements

**Note 20 – Details of investee companies that are held directly and through subsidiary companies as of December 31, 2020 (continued):**

| <u><b>Holding company</b></u>                      | <u><b>Name of the Company</b></u>                  | <u><b>Holding<br/>and control<br/>rate</b></u> |                      |
|----------------------------------------------------|----------------------------------------------------|------------------------------------------------|----------------------|
| <b>Sun Hing Shing Fashion Factory Limited</b>      | Sun Hing Shing (Shenzhen) Fashion Factory Limited  | 100%                                           | Consolidated company |
| <b>B&amp;B Apparel Accessories Company Limited</b> | B&B Apparel Accessories (Shenzhen) Company Limited | 100%                                           | Consolidated company |
|                                                    | B&B Apparel Accessories (Kaiping) Company Limited  | 100%                                           | Consolidated company |
| <b>Kwond Fat Industrial Limited</b>                | BL France Limited                                  | 100%                                           | Consolidated company |
|                                                    | Brunet International (Hong Kong) Limited           | 100%                                           | Consolidated company |
|                                                    | Intercontinental Lace Industry Limited             | 100%                                           | Consolidated company |
| <b>BL France Limited</b>                           | BL Manufacturing Company Limited                   | 100%                                           | Consolidated company |
|                                                    | BL Industrial Company Limited                      | 100%                                           | Consolidated company |
|                                                    | BL Investment Company Limited                      | 100%                                           | Consolidated company |
| <b>Brunet International (Hong Kong) Limited</b>    | Brunet International (Shenzhen) Limited            | 100%                                           | Consolidated company |

**Note 21 – Event after the balance sheet date**

Splitting the Delta Israel operating segment and the issuance of a subsidiary

On September 30<sup>th</sup>, 2020, the Company announced that Delta Galil Israel Brands Ltd., a wholly owned subsidiary of the Company (hereinafter the "**Subsidiary**"), submitted an application to the Securities Authority for permission to publish a prospectus together with a draft prospectus for supplementation and a shelf prospectus. The Company further announced that on the same day, before submitting the permit application and the draft prospectus, it had entered into a conditional split agreement (the "**Split Agreement**") with the Subsidiary, according to which - shortly before the completion of the public offering according to the draft prospectus, the Company will transfer to the Subsidiary the Company's "Delta Israel" operating segment (excluding non-material activities), in exchange for shares issued to it by the Subsidiary.

On February 25<sup>th</sup>, 2021, the Company announced that the Subsidiary has published a prospectus for supplementation of a public offering that also constitutes a shelf prospectus.

On March 4<sup>th</sup>, 2021, the Subsidiary issued a prospectus for supplementation. On the same day, the Subsidiary reported the results of the offering. In accordance with the results of the offering, the Subsidiary issued 20% of its shares for a (gross) consideration of approximately NIS 262.5 million.

On March 5<sup>th</sup>, 2021, the Split Agreement and transfer of the aforesaid operating segment was completed, retroactively as of September 30<sup>th</sup>, 2020. The Company and the Subsidiary intend to take steps for the splitting of the activity to be done tax-free, in accordance with the relevant legal provisions.

On March 9<sup>th</sup>, 2021, the shares of the Subsidiary began trading on the Tel Aviv Stock Exchange.

**Delta Galil Industries Ltd.**  
**Chapter D**

**Additional Information Regarding  
the Corporation  
As of December 31 2020**

## **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 reporting year.

### **Regulation 11 – List of investments in material subsidiaries, directly and indirectly, as of the report date**

| Fully-controlled and fully-held subsidiaries (100%) | Number of shares held by the company, of any type | Par value of the shares<br>Foreign currency | Cost of investment in thousands of Dollars | Balance sheet value in thousands of Dollars | Loans and capital notes in thousands of Dollars |
|-----------------------------------------------------|---------------------------------------------------|---------------------------------------------|--------------------------------------------|---------------------------------------------|-------------------------------------------------|
| Delta Galil USA Inc.                                | 100                                               | 10\$                                        | 39,126                                     | 62,674                                      | 96,000                                          |
| Delta (Textile) London Ltd.                         | 10,002                                            | GBP 10,000                                  | 12,941                                     | 193,797                                     | 104,335                                         |
| Delta Galil Holland B.V.                            | 250                                               | \$ 21,000                                   | 21                                         | 104,511                                     | -                                               |

### **Regulation 12 – Changes regarding investments in material subsidiaries**

During the reporting year, no changes were made in investments in material subsidiaries. It will be clarified that Delta Israel Brands Ltd. became a material subsidiary after the reporting year. For further details, see section 1.5 in Part A of this periodic report.

### **Regulation 13 – Revenues of material subsidiaries and the corporation's revenues therefrom as of the report date**

| Name of subsidiary          | 2020                     |                               |                              |                                                |
|-----------------------------|--------------------------|-------------------------------|------------------------------|------------------------------------------------|
|                             | In Thousands of Dollars  |                               |                              |                                                |
|                             | Profit (loss) before tax | Net profit (loss) (after tax) | Total comprehensive earnings | Interest revenues received from subsidiary (1) |
| Delta Galil USA Inc.        | (65,725)                 | (54,163)                      | (54,213)                     | 4,332                                          |
| Delta (Textile) London Ltd. | 10,012                   | 6,737                         | 24,960                       | 2,728                                          |
| Delta Galil Holland B.V.    | 10,445                   | 6,225                         | 6,225                        | -                                              |

(1) Data refers to interest income received or that the Company is entitled to receive from subsidiaries for 2020.

### **Regulation 20 – Stock market trade – securities listed for trade – dates and reasons for trade discontinuation**

Except for the above, in the reporting year, no additional securities of the Company were listed for trading.

During the reporting period, trade of the Company's securities listed for trade on the stock exchange did not stop.

## **Regulation 21 – Remuneration of interested parties and senior officers**

- a. Following are details of the cost to the Company of the remuneration (remuneration given in the reporting year, including the Company's remuneration obligations for the reporting year) for the five most highly compensated of the Group's senior officers, including the three senior officers with the highest remuneration in the Company who were remunerated in connection to their service in the Company itself, in USD and in NIS:

| <u>Recipient of the remuneration</u> |                                                |                            |               |                                                          | <u>Remuneration for Services <sup>1</sup></u>       |                      |                                     |                    |                                         |              | <u>Total in NIS</u>                         |
|--------------------------------------|------------------------------------------------|----------------------------|---------------|----------------------------------------------------------|-----------------------------------------------------|----------------------|-------------------------------------|--------------------|-----------------------------------------|--------------|---------------------------------------------|
| <u>Name</u>                          | <u>Position</u>                                | <u>Scope of employment</u> | <u>Gender</u> | <u>Holdings in the Corporation's equity <sup>3</sup></u> | <u>Salary, social benefits and associated costs</u> | <u>Current bonus</u> | <u>Long-Term Bonus <sup>4</sup></u> | <u>Total bonus</u> | <u>Share based payment <sup>2</sup></u> | <u>Total</u> | <u>(according to average exchange rate)</u> |
| In US Dollars                        |                                                |                            |               |                                                          |                                                     |                      |                                     |                    |                                         |              |                                             |
| Isaac Dabah                          | CEO and Director                               | 100%                       | M             | 48.88%                                                   | 547,459                                             | -                    | 337,500                             | 337,500            | -                                       | 884,959      | 3,044,260                                   |
| Steve Moore                          | President of the Mass Market Unit at Delta USA | 100%                       | M             |                                                          | 348,253                                             | 79,296               | -                                   | 79,296             | 191,224                                 | 618,773      | 2,128,581                                   |
| Asaf Alperovitz                      | CFO                                            | 100%                       | M             |                                                          | 429,644                                             | -                    | -                                   | -                  | 177,727                                 | 607,371      | 2,089,355                                   |
| Gil Shimon                           | Manager of the Global Upper Market Division    | 100%                       | M             |                                                          | 487,745                                             |                      | -                                   | -                  | 102,798                                 | 590,543      | 2,031,469                                   |
| Victoria Vandergriff                 | Manager of the Branded Unit at Delta USA       | 100%                       | F             |                                                          | 468,208                                             | -                    | -                                   | -                  | 108,678                                 | 576,886      | 1,984,488                                   |

- (1) In terms of annual cost to the Company. It is clarified that the benefits listed in the table above reflect an across-the-board salary reduction of 20% for all officers from April to September this year and 50% for the Company CEO for April to December 2020, carried out due to the Corona crisis, without change in social rights provisions according to regular pay.
- (2) Share-based payment includes the benefit component for options and blocked share units granted to executives as part of the Company's 2009 plan and 2014 plan, when the benefit component is calculated according to the B&S Model, and is included as an expense in the Company's statements in the reporting year. This component was not paid in cash. For further information regarding the exercise price and the value of the options see Note 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 7<sup>th</sup> 2021 (ref. no. 2021-01---3189), included herein by way of reference.
- (3) Mr. Dabah's holdings noted in the above table include holdings of Isaac Dabah Children's Trust, Isaac & Ivette Dabah Charitable Foundation at a rate of 0.04% and 0.12%, respectively, but does not include the holding in Sterling Macro at a rate of 4.95% (which is a fund managed by Mr. Dabah).
- (4) The long-term grant was not actually paid and refers to compliance with the Company's performance in 2022, in accordance with the amendment to Mr. Dabah's terms of employment which were approved at the shareholders' meeting dated January 28<sup>th</sup>, 2021, if achieved. Company management estimates that there is a high likelihood that the conditions for payment of the grant will be met and that it is expected to be fully paid.

- b. Following are details of the remuneration paid to interested parties and to directors (excluding Mr. Isaac Dabah, who was included in the table detailed in Section A above), in USD and in NIS:

|                             |                                                    |                            |                                             |                                                     |              | Remuneration for Services <sup>(1)</sup> |              |                     |
|-----------------------------|----------------------------------------------------|----------------------------|---------------------------------------------|-----------------------------------------------------|--------------|------------------------------------------|--------------|---------------------|
| <u>Name</u>                 | <u>Position</u>                                    | <u>Scope of employment</u> | <u>Holdings in the Corporation's equity</u> | <u>Salary, social benefits and associated costs</u> | <u>Bonus</u> | <u>Share based payment</u>               | <u>Total</u> | <u>Total in NIS</u> |
|                             |                                                    |                            |                                             |                                                     |              | In US Dollars                            |              |                     |
| Directors <sup>(2)</sup>    |                                                    | 7 in number                | 10.0% <sup>(3)</sup>                        |                                                     |              |                                          | 278,582      | 947,180             |
| Gloria Dabah <sup>(4)</sup> | GM of Splendid Kids, Ladies and Men's              | 100%                       | -                                           | 308,146                                             | 22,005       | -                                        | 330,151      | 1,135,719           |
| Itzhak Weinstock            | Director and Chief Operating Officer, Delta U.S.A. |                            | 0.43%                                       | 410,434                                             | 47,840       | -                                        | 458,274      | 1,576,462           |

(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, 2020, the Company has seven directors.

(3) Refers to the holding of 9.96% by Mr. Noam Lautman, and 0.04% by Mr. Israel Baum.

(4) For further information regarding the terms of employment of Ms. Gloria Dabah, see Note 18 to the Financial Statements, in Chapter C of this periodic report as well as regulation 22 below.

Remuneration sums for directors Tzipporah Carmon, Rinat Gazit, Shlomo Sharf and Richard Hunter are each paid to companies under their full control: "Tzippah Carmon Exports Ltd.", "Gaia Nona Ltd.", "S. Sharf Ltd." and "Hunter Consulting and Management Ltd.", respectively.

Mr. Isaac Dabah, Company CEO and Director

Mr. Isaac Dabah began working in the Company in 2008.

With regard to the terms of his office and his employment as CEO of the Company in 2020 and thereafter, as approved by the Remuneration Committee, the Board of Directors and the General Meeting of the Company, see Section 2 of the report on the convening of the meeting of the Company of October 29<sup>th</sup> 2018 (ref. 2018-01-102015) and the immediate report on the outcome of the meeting dated December 5<sup>th</sup> 2018 (ref. 2018-01-112150), as well as section 1.4 of the report on the convening of the meeting of the Company published on December 23<sup>rd</sup>, 2020 (reference: 2020-01-131575) and the immediate report on the outcome of the meeting dated January 28<sup>th</sup>, 2021 (reference: 2021-01-011611) included herein by way of reference. The remuneration of Mr. Dabah is paid as follows: 84% of the salary and the bonus to which he is entitled is paid by the subsidiary Delta Galil USA and the balance is paid by the Company.

Mr. Steve Moore, President of the Mass Market Unit at Delta USA

Mr. Moore began working at the Subsidiary on July 2019; the following are the key terms of his employment:

Mr. Moore's gross annual salary is \$ 400,000, as of July 2020 (before said date it totaled \$ 350,000 per annum).

Mr. Moore is entitled to social benefits as is customary in Delta USA.

According to his employment agreement, Mr. Moore is entitled to an annual bonus that will not exceed 4.8 monthly salaries, based on Company policy and on goals to be set by the Company's Remuneration Committee and Board of Directors. In 2020, the Company's Remuneration Committee and Board of Directors set with respect to Mr. Moore the following goals for the receipt of the annual bonus: Meeting the Company's operating profit target (EBIT) (10% of the bonus), meeting the operating profit target (EBIT) of the operating segment (70% of the bonus) and meeting measurable personal targets (20% of the bonus). In light of the above and according to the goals set for him, Mr. Moore is entitled to a bonus totaling \$ 79,296 in respect of 2020.

As of the date of this report, 13,651 restricted share units and 35,000 options, conditional on achieving operational objectives, have been allotted to Mr. Moore.

Mr. Asaf Alperovitz, CFO

Mr. Alperovitz began working at the Company on October 2019; the following are the key terms of his employment:

Mr. Alperovitz's gross monthly salary is NIS 100,000.

Mr. Alperovitz is entitled to social benefits as is customary in the Company.

According to his employment agreement, Mr. Alperovitz is entitled to an annual bonus based on Company policy and on goals to be set by the Company's Remuneration Committee and Board of Directors. The annual bonus Mr. Alperovitz is entitled to will not exceed 6 monthly salaries. The Company's Remuneration Committee and Board of Directors set with respect to Mr. Alperovitz the following goals for the receipt of the annual bonus: Meeting the Company's operating profit target (EBIT) (80% of the bonus) and meeting measurable personal targets (20% of the bonus). According to the goals set for him, Mr. Alperovitz is not entitled to a bonus in respect of 2020.

As of the date of this report, 100,000 options, conditional on achieving operational objectives, have been allotted to Mr. Alperovitz.

Mr. Alperovitz's employment agreement is for an indefinite period and each party may terminate it by giving 4 months' prior written notice to the other party.

Mr. Gil Shimon, Manager of the Global Upper Market Division

Mr. Shimon began working at the Company on February 2017; the following are the key terms of his employment:

Mr. Shimon's gross monthly salary is NIS 110,000 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 Company policy and on goals to be set by the Company's Remuneration Committee and Board of Directors. The annual bonus Mr. Shimon is entitled to will not exceed 6 monthly salaries. The Company's Remuneration Committee and Board of Directors set with respect to Mr. Shimon the following goals for the receipt of the annual bonus: Meeting the Company's operating profit target (EBIT) (20% of the bonus), meeting the operating profit target (EBIT) of the operating segment (60% of the bonus) and meeting measurable personal targets (20% of the bonus). According to the goals set for him, Mr. Shimon is not entitled to a bonus in respect of 2020.

As of the date of this report, 84,729 options and 4,053 restricted share units, conditional on achieving operational objectives, have been allotted to Mr. Shimon.

Mr. Shimon's employment agreement is for an indefinite period and each party may terminate it by giving 6 months' prior written notice to the other party.

#### Ms. Victoria Vandergriff, Manager of the Branded Unit at Delta USA

Ms. Vandergriff began working at the Company on September 2011; the following are the key terms of her employment:

Ms. Vandergriff's gross annual salary is \$ 500,000.

Ms. Vandergriff is entitled to social benefits and reimbursement of various expenses, as is customary in Delta USA.

According to her employment agreement, Ms. Vandergriff is entitled to an annual bonus based on the Company's policy and on goals to be determined by the Company's Remuneration Committee and Board of Directors. Ms. Vandergriff's annual bonus will not exceed 6 monthly salaries. The Company's Remuneration Committee and Board of Directors set the following goals for Ms. Vandergriff for the purpose of receiving an annual bonus: Meeting the Company's operating profit target (EBIT) (10% of the bonus), meeting the operating segment's operating profit target (70%) and meeting measurable personal targets (20% of the bonus). According to the goals set for him, Ms. Vandergriff is not entitled to a bonus in respect of 2020.

As of the date of this report, 77,250 options, conditional on achieving operational objectives, have been allotted to Ms. Vandergriff, 5,583 of which have matured as of the date of the balance sheet.

Company Board of Directors – as of this report, the Company's directors<sup>1</sup> are entitled to an annual compensation and remuneration for participation to the maximum amounts as per the Companies Regulations (Rules Regarding Remunerations and Expenses for External Directors), 2000 (**"the Remuneration Regulations"**) according to the Company's grade. The directors are entitled to annual compensation of 112,000 NIS and to remuneration for participation of 4,312 NIS per meeting. The sums in question are linked to the consumer price index.

As stated in section 1.3 of the Board of Directors 'Report, the Company's directors initiated the reduction of the directors' salary paid to them by a rate of 25%, for the months of April to July 2020 (see in this regard the Company's immediate report dated June 25<sup>th</sup>, 2020, reference no.: 2020-01-058342). At the Board of Directors meeting on August 18<sup>th</sup>, 2020, the directors announced, of their own initiative, the extension of the period for the reduction of their salaries, until the end of December 2020. Accordingly, the remuneration for participation in the meeting in the period from April 1<sup>st</sup> to December 31<sup>st</sup>, 2020 amounted to NIS 3,234 and the annual remuneration for the year 2020 amounted to NIS 91,000.

#### Gloria Dabah, daughter of the Company's controlling shareholder, GM of Splendid Kids, Ladies and Men's at a subsidiary

On January 2<sup>nd</sup> 2017 the general meeting of the Company shareholders approved the new terms of the

---

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.

employment of Mrs. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company's CEO and controlling shareholder, as Vice President Kids Division DG Premium Brands. Mrs. Dabah's new terms of employment came into effect starting January 1<sup>st</sup> 2017, in accordance with the recommendations of the Company Compensation Committee and Board of Directors. For further information on the terms of her employment see Section 3.1 of the complementary report published by the Company on December 28<sup>th</sup> 2016 (reference no.: 2016-01-092952) and the immediate report on the results of the meeting of January 2<sup>nd</sup> 2017 (reference no.: 2017-01-000970), included herein by way of reference.

On February 14<sup>th</sup> 2018, the Company's Board of Directors approved an update to Gloria Dabah's job description, so that it be GM of Splendid Kids, Ladies and Men's, including adding responsibilities without changing the terms of employment approved by the Company's competent organs. For further information, see the immediate report of February 15<sup>th</sup> 2018 (reference no.: 2018-010-015496), included herein by way of reference.

On February 18<sup>th</sup> 2019 the Compensation Committee and Board of Directors approved a new employment agreement with Mrs. Gloria Dabah, daughter of Mr. Isaac Dabah, the controlling shareholder, as President of Splendid Kids, Ladies and Men's, whereby her annual salary will stand at, as of April 1<sup>st</sup> 2019, \$ 350,000, and she will be entitled to an annual bonus of up to 50% of her annual salary, subject to her meeting the goals. Said employment agreement was approved by the general meeting of the Company shareholders.

Mrs. Dabah is entitled to an annual bonus based on Company policy and goals set – meeting the Company's operating profit goal (EBIT) (10% of the bonus) and that of the operating segment she is the manager of (70% of the bonus) and meeting measurable personal goals (20% of the bonus). In light of Mrs. Dabah's compliance with the goals set for her, she is entitled to a bonus of \$ 22,005 for 2020.

### **Regulation 21 – Control of the Corporation**

The Company's controlling shareholder is Mr. Isaac Dabah, holding the Company shares directly and through holdings under his control.

### **Regulation 22 – Transactions with the Controlling Shareholder**

#### **Transactions Listed in Section 270(4) of the Companies Law, 5759 – 1999**

| <u>Identity of the parties</u>                                                               | <u>Description of the transaction</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <u>Identity of the organ approving the transaction and approval date</u>                                                                                                                                                                                                                       |
|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Delta USA and Mrs. Gloria Dabah, daughter of the Company's controlling shareholder           | On February 18 <sup>th</sup> 2019 the Compensation Committee and Board of Directors approved a new employment agreement with Mrs. Gloria Dabah, daughter of Mr. Isaac Dabah, the Company's controlling shareholder, as President of Splendid Kids, Ladies and Men's, whereby her annual salary will stand at, as of April 1 <sup>st</sup> 2019, \$ 350,000, and she will be entitled to an annual bonus of up to 50% of her annual salary, subject to her meeting the goals. The new employment agreement is subject to the approval of the general meeting of the Company shareholders that will be convened pursuant to the provisions of the law | The Company Board of Directors and Compensation Committee– February 18 <sup>th</sup> 2019                                                                                                                                                                                                      |
|                                                                                              | Approval of Ms. Dabah's terms of employment in a subsidiary for a period of three years from January 1 <sup>st</sup> 2017. On February 14 <sup>th</sup> 2018, the Company's Board of Directors approved the update of Gloria Dabah's position to that of GM of Splendid Kids, Ladies and Men's (for further details see Regulation 21 above)                                                                                                                                                                                                                                                                                                        | The Company Board of Directors – February 14 <sup>th</sup> 2018 regarding the change of her position;<br>The general meeting – January 2 <sup>nd</sup> 2017;<br>The Company Board of Directors – November 15 <sup>th</sup> 2016<br>The Compensation Committee – November 15 <sup>th</sup> 2016 |
| The Company and Mr. Isaac Dabah,<br>Controlling shareholder in the Company, director and CEO | Approval of the terms of employment of Mr. Dabah as Company CEO for three years from January 1 <sup>st</sup> 2019 (for further information see Regulation 21 above), which includes the granting of letters of indemnification and amendment of the remuneration policy with respect thereto.                                                                                                                                                                                                                                                                                                                                                       | The general meeting – December 5 <sup>th</sup> 2018;<br>The Company Board of Directors – October 17 <sup>th</sup> 2018;<br>The Compensation Committee – October 11 <sup>th</sup> 2018.                                                                                                         |
|                                                                                              | Approval of the terms of employment of Mr. Dabah as Company CEO for a period up to December 31 <sup>st</sup> , 2022 (for further information see Regulation 21 above), which includes the granting of letters of indemnification and amendment of the remuneration policy with respect thereto.                                                                                                                                                                                                                                                                                                                                                     | The general meeting – January 28 <sup>th</sup> 2021;<br>The Company Board of Directors – December 21 <sup>st</sup> , 2020;<br>The Compensation Committee – November 22 <sup>nd</sup> , 2020.                                                                                                   |
|                                                                                              | Approval of the granting of a letter of exemption to Mr. Isaac Dabah (for further information see Regulation 29a below).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | The general meeting – January 28 <sup>th</sup> 2021;<br>The Company Board of Directors – December 21 <sup>st</sup> , 2020;<br>The Compensation Committee – November 22 <sup>nd</sup> , 2020.                                                                                                   |

#### **Regulation 24 – Holdings of interested parties and senior executives**

For details regarding shares and securities held by interested parties and by senior officers at the Company, see the immediate report dated January 7<sup>th</sup> 2021 (ref. no. 2021-01-003189), included herein by way of referral.

For details regarding the dormant shares held by the Company, see the immediate report dated January 7<sup>th</sup> 2021 (ref. no. 2021-01-003189).

#### **Regulation 24a – Registered capital, issued capital and convertible securities**

For details regarding registered capital, issued capital and convertible securities, including options and blocked shares granted to Company employees; see Note 14 to the Financial Statements in Chapter C of this periodic report.

#### **Regulation 24b – Register of the Corporation's Shareholders will be updated**

For details regarding the register of the corporation's shareholders see the immediate report dated December 31<sup>st</sup>, 2020 (ref. no. 2020-01-143358), included herein by way of referral.

#### **Regulation 25a – The Corporation's registered address and details**

Address: 45 Ha'eshel, Caesarea Industrial Park, 3088900 Israel

Telephone no: 972-76-8177009; Fax: 972-76-8177280

Email: [Asaf.Alperovitz@deltagalil.com](mailto:Asaf.Alperovitz@deltagalil.com)

Website: [www.deltagalil.com](http://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>Last name</u>       | <u>First name</u> |                  | <u>City &amp; Country</u> | <u>Street</u> | <u>House no.</u> | <u>Year</u>                | <u>Month</u> | <u>Day</u> |
| Lautman                | Noam              | 24407280         | Tel Aviv, Israel          | Ha'Rav Amiel  | 34               | 01                         | 11           | 30         |
| Dabah                  | Isaac             | 054907852        | New York, USA             | Park Avenue   | 2                | 05                         | 11           | 15         |
| Baum                   | Israel            | 005172796        | Rishon Letzion, Israel    | Ein Hakoreh   | 22               | 05                         | 12           | 26         |
| Weinstock              | Itzhak            | 6139265          | New Jersey, USA           | Harmon Plaza  | 1                | 07                         | 10           | 21         |
| Carmon                 | Tzipporah         | 051528933        | Savion, Israel            | Hatichon      | 9                | 09                         | 10           | 20         |
| Richard                | Hunter            | 011179538        | Ra'anana, Israel          | Dganya        | 18               | 28                         | 10           | 21         |
| Shlomo                 | Sharf             | 030223549        | Tel Aviv, Israel          | Rothschild    | 1                | 18                         | 10           | 21         |
| Gazit                  | Rinat             | 024441628        | Tel Aviv, Israel          | Bnei Moshe    | 16               | 18                         | 10           | 21         |
| Gold                   | Yehosua           | 051744415        | Tel Aviv, Israel          | Emil Zola     | 28               | 18                         | 12           | 05         |

b. Additional information regarding board members

|                                                                                                                                        |                                                                                                                                                                                                                                             |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Director's name – Chairman of the Board of Directors</b>                                                                            | <b>Noam Lautman</b>                                                                                                                                                                                                                         |
| <b>ID number</b>                                                                                                                       | 24407280                                                                                                                                                                                                                                    |
| <b>Citizenship</b>                                                                                                                     | Israeli                                                                                                                                                                                                                                     |
| <b>Date of birth</b>                                                                                                                   | April 16 <sup>th</sup> 1969                                                                                                                                                                                                                 |
| <b>Address for service of court documents</b>                                                                                          | 34 Ha'Rav Amiel, Tel-Aviv, Israel                                                                                                                                                                                                           |
| <b>Date of commencement of office</b>                                                                                                  | November 30 <sup>th</sup> 2001                                                                                                                                                                                                              |
| <b>Membership of Board committee/ committees</b>                                                                                       | No                                                                                                                                                                                                                                          |
| <b>External or independent director</b>                                                                                                | No                                                                                                                                                                                                                                          |
| <b>Established as having accounting and financial competency or professional qualifications</b>                                        | No                                                                                                                                                                                                                                          |
| <b>Position as employee of the corporation, a subsidiary, an associate or an interested party</b>                                      | No                                                                                                                                                                                                                                          |
| <b>Education and occupation in past five years</b>                                                                                     | <p><b><u>Education:</u></b></p> <p>2000 – M.B.A. – New York University</p> <p>1995 – B.Sc. – Mathematics and Computer Sciences – Tel-Aviv University</p> <p><b><u>Employment:</u></b></p> <p>2006 – to date – 2gether Capital Ltd – CEO</p> |
| <b>Other corporations in which he serves as a director</b>                                                                             | Babcom Centers Ltd, Adinoam Properties Ltd, N.D.R.L Investments 1998 Ltd, Shefa Media                                                                                                                                                       |
| <b>Family member of another interested party in the corporation</b>                                                                    | No                                                                                                                                                                                                                                          |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | No                                                                                                                                                                                                                                          |

|                                                                                                         |                                  |
|---------------------------------------------------------------------------------------------------------|----------------------------------|
| <b>Director's name - CEO and Director</b><br>Responsible for the market risks management in the Company | <b>Isaac Dabah</b>               |
| <b>ID number</b>                                                                                        | 054907852                        |
| <b>Citizenship</b>                                                                                      | Israeli; American                |
| <b>Date of birth</b>                                                                                    | August 11 <sup>th</sup> 1957     |
| <b>Address for service of court documents</b>                                                           | 2 Park Avenue, New York, NY, USA |
| <b>Date of commencement of office</b>                                                                   | November 15 <sup>th</sup> 2005   |
| <b>Membership of Board committee/ committees</b>                                                        | None                             |
| <b>External or independent director</b>                                                                 | No                               |
| <b>Established as having accounting and financial competency or professional qualifications</b>         | No                               |

|                                                                                                                                        |                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Director's name - CEO and Director</b><br>Responsible for the market risks management in the Company                                | <b>Isaac Dabah</b>                                                                                                                                                                       |
| <b>Position as employee of the corporation, a subsidiary, an associate or an interested party</b>                                      | Yes – Company CEO; and the person responsible for market risk management at the Company                                                                                                  |
| <b>Education and occupation in past five years</b>                                                                                     | <b><u>Education:</u></b><br>Attended Baruch College of the City University of NY<br><b><u>Employment:</u></b><br>2008 – to date – Company CEO                                            |
| <b>Other corporations in which he serves as a director</b>                                                                             | Subsidiaries:<br>Delta Galil USA Inc. ,Delta Textile (London) Ltd. , Schiesser AG (Supervisory Board) ,Delta Textile Egypt SAE ,Garment Co. Ltd. Thai Progress, Delta Israel Brands Ltd. |
| <b>Family member of another interested party in the corporation</b>                                                                    | Yes                                                                                                                                                                                      |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | No                                                                                                                                                                                       |

|                                                                                                                                        |                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| <b>Director's name – COO of Delta USA and Company director</b>                                                                         | <b>Itzhak Weinstock</b>                                                                       |
| <b>ID number</b>                                                                                                                       | 6139265                                                                                       |
| <b>Citizenship</b>                                                                                                                     | Israeli; American                                                                             |
| <b>Date of birth</b>                                                                                                                   | November 25 <sup>th</sup> 1946                                                                |
| <b>Address for service of court documents</b>                                                                                          | 1 Harmon Plaza, NJ, USA                                                                       |
| <b>Date of commencement of office</b>                                                                                                  | October 21 <sup>st</sup> 2007                                                                 |
| <b>Membership of Board committee/ committees</b>                                                                                       | No                                                                                            |
| <b>External or independent director</b>                                                                                                | No                                                                                            |
| <b>Established as having accounting and financial competency or professional qualifications</b>                                        | No                                                                                            |
| <b>Position as employee of the corporation, a subsidiary, an associate or an interested party</b>                                      | Chief Operating Officer at subsidiary (Delta Galil USA) starting January 1 <sup>st</sup> 2011 |
| <b>Education</b>                                                                                                                       | CPA – Certified Public Accountant<br>M.B.A. – Columbia University                             |
| <b>Other corporations in which he serves as a director</b>                                                                             | No                                                                                            |
| <b>Family member of another interested party in the corporation</b>                                                                    | No                                                                                            |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | No                                                                                            |

|                                                                                                                                        |                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Director's name</b>                                                                                                                 | <b>Tzipporah Carmon</b>                                                                                                                                                                                                                                             |
| <b>ID number</b>                                                                                                                       | 051528933                                                                                                                                                                                                                                                           |
| <b>Citizenship</b>                                                                                                                     | Israeli                                                                                                                                                                                                                                                             |
| <b>Date of birth</b>                                                                                                                   | December 7 <sup>th</sup> 1952                                                                                                                                                                                                                                       |
| <b>Address for service of court documents</b>                                                                                          | 9 Hatichon, Savion, Israel                                                                                                                                                                                                                                          |
| <b>Date of commencement of office</b>                                                                                                  | October 20 <sup>th</sup> 2009                                                                                                                                                                                                                                       |
| <b>Membership of Board committee/ committees</b>                                                                                       | Remuneration Committee                                                                                                                                                                                                                                              |
| <b>External or independent director</b>                                                                                                | No                                                                                                                                                                                                                                                                  |
| <b>Established as having accounting and financial competency or professional qualifications</b>                                        | No                                                                                                                                                                                                                                                                  |
| <b>Position as employee of the corporation, a subsidiary, an associate or an interested party</b>                                      | No                                                                                                                                                                                                                                                                  |
| <b>Education and occupation in past five years</b>                                                                                     | <p><b><u>Education:</u></b></p> <p>M.B.A. – International Marketing and Trade – UCLA, California</p> <p>B.A. – Sociology and Education – Hebrew University, Jerusalem</p> <p><b><u>Employment:</u></b></p> <p>1993 – to date – Manager and owner of T.C. Export</p> |
| <b>Other corporations in which he serves as a director</b>                                                                             | Azrieli Group Ltd., Rafael Advanced Defense Systems Ltd.                                                                                                                                                                                                            |
| <b>Family member of another interested party in the corporation</b>                                                                    | No                                                                                                                                                                                                                                                                  |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | No                                                                                                                                                                                                                                                                  |

|                                                                                                   |                                                                                           |
|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| <b>Director's name</b>                                                                            | <b>Israel Baum</b>                                                                        |
| <b>ID number</b>                                                                                  | 005172796                                                                                 |
| <b>Citizenship</b>                                                                                | Israeli                                                                                   |
| <b>Date of birth</b>                                                                              | January 24 <sup>th</sup> 1938                                                             |
| <b>Address for service of court documents</b>                                                     | 22 Ein Hakoreh, Rishon Letzion, Israel                                                    |
| <b>Date of commencement of office</b>                                                             | December 26 <sup>th</sup> 2005                                                            |
| <b>Membership of Board committee/ committees</b>                                                  | No                                                                                        |
| <b>External or independent director</b>                                                           | No                                                                                        |
| <b>Established as having accounting and financial competency or professional qualifications</b>   | No                                                                                        |
| <b>Position as employee of the corporation, a subsidiary, an associate or an interested party</b> | No                                                                                        |
| <b>Education and occupation in past five years</b>                                                | <p><b><u>Education:</u></b></p> <p>B.SC – Manufacturing Engineer - Temple University,</p> |

|                                                                                                                                        |                                                                                              |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>Director's name</b>                                                                                                                 | <b>Israel Baum</b>                                                                           |
|                                                                                                                                        | Philadelphia<br><b>Employment:</b><br>Provided consulting services to the Company until 2012 |
| <b>Other corporations in which he serves as a director</b>                                                                             | No                                                                                           |
| <b>Family member of another interested party in the corporation</b>                                                                    | No                                                                                           |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | No                                                                                           |

|                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Director's name</b>                                                                                                                 | <b>Rinat Gazit</b>                                                                                                                                                                                                                                                                                                                                                                                |
| <b>ID number</b>                                                                                                                       | 024441628                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Citizenship</b>                                                                                                                     | Israeli                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Date of birth</b>                                                                                                                   | July 27 <sup>th</sup> 1969                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Address for service of court documents</b>                                                                                          | 16 Bnei Moshe, Tel Aviv                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Date of commencement of office</b>                                                                                                  | October 21 <sup>st</sup> 2018                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Membership of Board committee/ committees</b>                                                                                       | Committee for Approval of Financial Statements, Audit Committee                                                                                                                                                                                                                                                                                                                                   |
| <b>External or independent director</b>                                                                                                | Independent director                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Established as having accounting and financial competency or professional qualifications</b>                                        | Yes, has accounting and financial expertise                                                                                                                                                                                                                                                                                                                                                       |
| <b>Position as employee of the corporation, a subsidiary, an associate or an interested party</b>                                      | No                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Education and occupation in past five years</b>                                                                                     | <b>Education:</b><br>MSc in Business Administration, Recanati School of Business Administration, Tel Aviv University; B.A Political Science and Sociology and Anthropology from the University of Haifa.<br><b>Employment:</b><br>Advising in the field of mergers and acquisitions for international companies such as: Ormat Technologies, Magal Security Systems, GP Minerals and TSC Capital. |
| <b>Other corporations in which he serves as a director</b>                                                                             | The Edmond Benjamin de Rothschild Property Corporation (2001) Ltd.; The Edmond Benjamin de Rothschild Caesarea Development Corporation Ltd.; Vitania Real Estate Ltd.; Alium Medical Ltd., Melisron Ltd.; Ratio Petroleum Energy – Limited Partnership; Panaxia Israel, Ion Acquisition Corp (Nasdaq).                                                                                            |
| <b>Family member of another interested party in the corporation</b>                                                                    | No                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | Yes                                                                                                                                                                                                                                                                                                                                                                                               |

|                                                                                                                                        |                                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Director's name - External director</b>                                                                                             | <b>Shlomo Sharf</b>                                                                                                                                                                                                    |
| <b>ID number</b>                                                                                                                       | 030223549                                                                                                                                                                                                              |
| <b>Citizenship</b>                                                                                                                     | Israeli                                                                                                                                                                                                                |
| <b>Date of birth</b>                                                                                                                   | September 10 <sup>th</sup> 1949                                                                                                                                                                                        |
| <b>Address for service of court documents</b>                                                                                          | 1 Rothschild St., Tel Aviv                                                                                                                                                                                             |
| <b>Date of commencement of office</b>                                                                                                  | October 21 <sup>st</sup> 2018                                                                                                                                                                                          |
| <b>Membership of Board committee/ committees</b>                                                                                       | Audit Committee, Remuneration Committee, Committee for Approval of Financial Statements                                                                                                                                |
| <b>External or independent director</b>                                                                                                | Yes                                                                                                                                                                                                                    |
| <b>Established as having accounting and financial competency or professional qualifications</b>                                        | Yes                                                                                                                                                                                                                    |
| <b>Expert external director</b>                                                                                                        | No                                                                                                                                                                                                                     |
| <b>Position as employee of the corporation, a subsidiary, an associate or an interested party</b>                                      | No                                                                                                                                                                                                                     |
| <b>Education and occupation in past five years</b>                                                                                     | <p><b><u>Education:</u></b><br/>B.Sc. in Mechanical Engineering - Ben Gurion University</p> <p><b><u>Employment:</u></b><br/>2011-2013 CEO of the Azrieli Group Ltd.<br/>2006-2010 CEO of Electra Real Estate Ltd.</p> |
| <b>Other corporations in which he serves as a director</b>                                                                             | External director in Midroog Ltd.; external director in Melisron; S. Sharf Ltd.                                                                                                                                        |
| <b>Family member of another interested party in the corporation</b>                                                                    | No                                                                                                                                                                                                                     |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | Yes                                                                                                                                                                                                                    |

|                                                                                                 |                                                                                             |
|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| <b>Director's name - External director</b>                                                      | <b>Shuki Gold</b>                                                                           |
| <b>ID number</b>                                                                                |                                                                                             |
| <b>Citizenship</b>                                                                              | Israeli                                                                                     |
| <b>Date of birth</b>                                                                            | December 24 <sup>th</sup> 1952                                                              |
| <b>Address for service of court documents</b>                                                   | 28 Emil Zola, Tel Aviv                                                                      |
| <b>Date of commencement of office</b>                                                           | December 5 <sup>th</sup> 2018                                                               |
| <b>Membership of Board committee/ committees</b>                                                | Audit Committee, Committee for Examination of Financial Statements, Remuneration Committee, |
| <b>External or independent director</b>                                                         | External director                                                                           |
| <b>Established as having accounting and financial competency or professional qualifications</b> | Yes                                                                                         |
| <b>Expert external director</b>                                                                 | No                                                                                          |
| <b>Position as employee of the corporation, a subsidiary,</b>                                   | No                                                                                          |

|                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Director's name - External director<br/>an associate or an interested party</b>                                                     | <b>Shuki Gold</b>                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Education and occupation in past five years</b>                                                                                     | <p><b><u>Education:</u></b></p> <p>BA in Economics with specialization in Business Administration, Ben Gurion University.</p> <p>MA, MSc in Economic Management, Ben Gurion University.</p> <p><b><u>Employment:</u></b></p> <p>Chairman of OPC Rotem Ltd. (until 2016); Executive Vice Chairman of IC Power Ltd. (until 2016); Owner of NPV Economic Consulting Ltd. (until 7/2018).</p> |
| <b>Other corporations in which he serves as a director</b>                                                                             | None                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Family member of another interested party in the corporation</b>                                                                    | No                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | Yes                                                                                                                                                                                                                                                                                                                                                                                       |

|                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Director's name - External director</b>                                                        | <b>Richard Hunter</b>                                                                                                                                                                                                                                                                                                                                              |
| <b>ID number</b>                                                                                  | 011179538                                                                                                                                                                                                                                                                                                                                                          |
| <b>Citizenship</b>                                                                                | Israeli                                                                                                                                                                                                                                                                                                                                                            |
| <b>Date of birth</b>                                                                              | August 24 <sup>th</sup> 1969                                                                                                                                                                                                                                                                                                                                       |
| <b>Address for service of court documents</b>                                                     | 18 Dganya, Ra'anana                                                                                                                                                                                                                                                                                                                                                |
| <b>Date of commencement of office</b>                                                             | October 21 <sup>st</sup> 2018                                                                                                                                                                                                                                                                                                                                      |
| <b>Membership of Board committee/ committees</b>                                                  | Audit Committee, Committee for Examination of Financial Statements, Remuneration Committee,                                                                                                                                                                                                                                                                        |
| <b>External or independent director</b>                                                           | External director                                                                                                                                                                                                                                                                                                                                                  |
| <b>Established as having accounting and financial competency or professional qualifications</b>   | Yes, has accounting and financial competency                                                                                                                                                                                                                                                                                                                       |
| <b>Expert external director</b>                                                                   | No                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Position as employee of the corporation, a subsidiary, an associate or an interested party</b> | No                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Education and occupation in past five years</b>                                                | <p><b><u>Education:</u></b></p> <p>LL. B Graduate of Law at the College of Management, Rishon LeZion; MBA from Insead.</p> <p><b><u>Employment:</u></b></p> <p>CEO of McCann Tel Aviv (2012-2015)</p> <p>Chairman of the Board of Holmes Place (a public company).</p> <p>Partner in the Green Lantern Group and has invested through it in various companies.</p> |
| <b>Other corporations in which he serves as a director</b>                                        | Icon Fitness Israel Ltd., Dizengoff Club Ltd.; Green Lantern HP Israel 1 Limited Partnership; Green Lantern                                                                                                                                                                                                                                                        |

|                                                                                                                                        |                                                                                                                                                                                                                                                                                         |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Director's name - External director</b>                                                                                             | <b>Richard Hunter</b>                                                                                                                                                                                                                                                                   |
|                                                                                                                                        | Consultants 2 Ltd; Green Lantern Management Ltd; Green Lantern Management 2 Ltd., Green Lantern Management Ltd.; Gal Heatid Ltd.; Middle East Automobile Agency Ltd., Holmes Place Ltd.; Gad Dairies Ltd.; Partner Communications Ltd.; Palco Ltd.; Yarkon Club Ltd.; Trigo Vision Ltd. |
| <b>Family member of another interested party in the corporation</b>                                                                    | No                                                                                                                                                                                                                                                                                      |
| <b>Director with accounting and financial expertise for the purpose of upholding the minimum number set by the Board of Directors?</b> | Yes                                                                                                                                                                                                                                                                                     |

#### **Regulation 26a – Senior Officers in the Company<sup>2</sup>**

|                                                                                                                    |                                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Victoria Vandergriff</b>                                                                                                                         |
| <b>ID number</b>                                                                                                   | Passport no. 506672486                                                                                                                              |
| <b>Date of birth</b>                                                                                               | August 29 <sup>th</sup> 1967                                                                                                                        |
| <b>Date of commencement of office</b>                                                                              | September 2011                                                                                                                                      |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | Manager of the Branded Division in Delta USA                                                                                                        |
| <b>Education and occupation in past five years</b>                                                                 | <b><u>Education:</u></b><br>B.S.- Fashion Institute of Technology<br><b><u>Employment:</u></b><br>Manager of business units at Delta Galil USA Inc. |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                  |

|                                                                                                                    |                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Steve Moore</b>                                                                                                                                                                       |
| <b>ID number</b>                                                                                                   | Passport no. 524323447                                                                                                                                                                   |
| <b>Date of birth</b>                                                                                               | November 8 <sup>th</sup> 1970                                                                                                                                                            |
| <b>Date of commencement of office</b>                                                                              | July 15 <sup>th</sup> 2019                                                                                                                                                               |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | President of the Mass Market Unit at Delta USA                                                                                                                                           |
| <b>Education and occupation in past five years</b>                                                                 | <b><u>Education:</u></b><br>BS Michigan State University<br>MBA Wake Forest University<br><b><u>Employment:</u></b><br>Gildan VP Sales 8/2016 - 7/2109<br>Hanes VP Sales prior to 8/2016 |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                                                       |

<sup>2</sup> Excluding officers whose tenure has ended prior to the report date.

|                                                                                                                    |                                                                                                                                                                                                             |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Iric Laurence Browndorf</b>                                                                                                                                                                              |
| <b>ID number</b>                                                                                                   | Passport no. 530928023                                                                                                                                                                                      |
| <b>Date of birth</b>                                                                                               | November 20 <sup>th</sup> 1962                                                                                                                                                                              |
| <b>Date of commencement of office</b>                                                                              | August 1 <sup>st</sup> 2016                                                                                                                                                                                 |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | Executive Vice President Sourcing and Production Delta Galil USA                                                                                                                                            |
| <b>Education and occupation in past five years</b>                                                                 | <p><b><u>Education:</u></b><br/>Communications – Arizona State University</p> <p><b><u>Employment:</u></b><br/>September 2012 to July 2016 – SVP Global Sourcing and Manufacturing in Li &amp; Fung USA</p> |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                                                                          |

|                                                                                                                    |                                                                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Yossi Hajaj</b>                                                                                                                                                                         |
| <b>ID number</b>                                                                                                   | 023543572                                                                                                                                                                                  |
| <b>Date of birth</b>                                                                                               | June 15 <sup>th</sup> 1968                                                                                                                                                                 |
| <b>Date of commencement of office</b>                                                                              | October 28 <sup>th</sup> 2015                                                                                                                                                              |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | Deputy CEO and COO<br>Director in a number of subsidiaries                                                                                                                                 |
| <b>Education and occupation in past five years</b>                                                                 | <p><b><u>Education:</u></b><br/>Certified Public Accountant<br/>B.A. in Accounting and Economics – Tel-Aviv University</p> <p><b><u>Employment:</u></b><br/>2004 to 2015 – Company CFO</p> |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                                                         |

|                                                                                   |                                                                                                                                                          |
|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                     | <b>Asaf Alperovitz</b>                                                                                                                                   |
| <b>ID number</b>                                                                  | 024933285                                                                                                                                                |
| <b>Date of birth</b>                                                              | March 3 <sup>rd</sup> 1970                                                                                                                               |
| <b>Date of commencement of office</b>                                             | October 22 <sup>nd</sup> 2019                                                                                                                            |
| <b>Position in the company, in a subsidiary or in an interested party therein</b> | Chief Financial Officer<br>Responsible for management of market risk associated with exchange rates and interest<br>Director in a number of subsidiaries |
| <b>Education and occupation in past five years</b>                                | <p><b><u>Education:</u></b><br/>Business Administration certification – Tel Aviv University</p>                                                          |

|                                                                                                                    |                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Asaf Alperovitz</b>                                                                                                              |
|                                                                                                                    | B.A. in Accounting and Economics – Tel Aviv University<br><b>Employment:</b><br>2012 to 2019 - CEO of Allium Medical Solutions Ltd. |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                  |

|                                                                                                                    |                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Inbar Schwartz</b>                                                                                                                                                    |
| <b>ID number</b>                                                                                                   | 025086612                                                                                                                                                                |
| <b>Date of birth</b>                                                                                               | November 25 <sup>th</sup> 1972                                                                                                                                           |
| <b>Date of commencement of office</b>                                                                              | August 24 <sup>th</sup> 2014                                                                                                                                             |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | VP of Business Development (SVP)                                                                                                                                         |
| <b>Education and occupation in past five years</b>                                                                 | <b>Education:</b><br>Law degree – Harvard Law School<br>BA in History – Columbia College<br><b>Employment:</b><br>2009 to 2014 – Director – Fishman Thermal Technologies |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                                       |

|                                                                                                                    |                                                                                                                                                                                                                                                   |
|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Miki Laxer</b>                                                                                                                                                                                                                                 |
| <b>ID number</b>                                                                                                   | 024557480                                                                                                                                                                                                                                         |
| <b>Date of birth</b>                                                                                               | October 24 <sup>th</sup> 1969                                                                                                                                                                                                                     |
| <b>Date of commencement of office</b>                                                                              | October 20 <sup>th</sup> 2015                                                                                                                                                                                                                     |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | VP Finance, director at a number of subsidiaries                                                                                                                                                                                                  |
| <b>Education and occupation in past five years</b>                                                                 | <b>Education:</b><br>Certified Public Accountant<br>M.B.A. – Tel-Aviv College of Management<br>B.A. – Accounting and Business Education – Tel-Aviv College of Management<br><b>Employment:</b><br>2004 to 2015 – Company Accountant and Secretary |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                                                                                                                |

|                               |                     |
|-------------------------------|---------------------|
| <b>Name of senior officer</b> | <b>Yaniv Bendek</b> |
| <b>ID number</b>              | 43056407            |

|                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Yaniv Bendek</b>                                                                                                                                                                                                                                                                                                                                  |
| <b>Date of birth</b>                                                                                               | April 18 <sup>th</sup> 1981                                                                                                                                                                                                                                                                                                                          |
| <b>Date of commencement of office</b>                                                                              | October 20 <sup>th</sup> 2015                                                                                                                                                                                                                                                                                                                        |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | VP Global Tax , Corporate Controller and Company Secretary                                                                                                                                                                                                                                                                                           |
| <b>Education and occupation in past five years</b>                                                                 | <p><b><u>Education:</u></b></p> <p>Certified Public Accountant</p> <p>Certification in Business Administration – Tel-Aviv University</p> <p>BA in Accounting and Economics – Hebrew University in Jerusalem</p> <p><b><u>Employment:</u></b></p> <p>Starting October 2015 – Company Comptroller</p> <p>2011 to 2015 – Deputy Company comptroller</p> |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                                                                                                                                                                                                                   |

|                                                                                                                    |                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Einat Menachem Amitay</b>                                                                                                                                                                                                         |
| <b>ID number</b>                                                                                                   | 028666857                                                                                                                                                                                                                            |
| <b>Date of birth</b>                                                                                               | July 27 <sup>th</sup> 1971                                                                                                                                                                                                           |
| <b>Date of commencement of office</b>                                                                              | April 7 <sup>th</sup> 2014                                                                                                                                                                                                           |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | VP Human Resources (SVP)                                                                                                                                                                                                             |
| <b>Education and occupation in past five years</b>                                                                 | <p><b><u>Education:</u></b></p> <p>M.B.A – Ben Gurion University</p> <p>BA – Education and Literature – Tel-Aviv University</p> <p><b><u>Employment:</u></b></p> <p>2012 to 2014 – Senior VP Human Resources – Ness Technologies</p> |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                                                                                                   |

|                                                                                                                    |                                               |
|--------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Avi Avital</b>                             |
| <b>ID number</b>                                                                                                   | 55090567                                      |
| <b>Date of birth</b>                                                                                               | January 26 <sup>th</sup> 1958                 |
| <b>Date of commencement of office</b>                                                                              | July 3 <sup>rd</sup> 2008                     |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | VP of Information Systems                     |
| <b>Education</b>                                                                                                   | The Technion – School of Computer Engineering |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                            |

|                                                                                                                    |                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Gil Shimon</b>                                                                                                             |
| <b>ID number</b>                                                                                                   | 022459655                                                                                                                     |
| <b>Date of birth</b>                                                                                               | July 3 <sup>rd</sup> 1966                                                                                                     |
| <b>Date of commencement of office</b>                                                                              | February 7 <sup>th</sup> 2017                                                                                                 |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | President of Global Upper Market Division                                                                                     |
| <b>Education</b>                                                                                                   | B.A. in Economics and Business Administration – Haifa University                                                              |
| <b>Employment</b>                                                                                                  | July 2013 to January 2017 – CEO of Tefron<br>March 2013 to June 2013 – CEO of the Garden Warehouses Division at Keter Plastic |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                            |

|                                                                                                                    |                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Anat Bogner</b>                                                                                                                                                                                                                                                       |
| <b>ID number</b>                                                                                                   | 038350900                                                                                                                                                                                                                                                                |
| <b>Date of birth</b>                                                                                               | December 21 <sup>st</sup> 1975                                                                                                                                                                                                                                           |
| <b>Date of commencement of office</b>                                                                              | February 19 <sup>th</sup> 2019                                                                                                                                                                                                                                           |
| <b>Position in the company, in a subsidiary or in an interested party therein</b>                                  | CEO of a subsidiary - Delta Israel Brands Ltd. (at the end of the reporting year - Manager of the Delta Israel operating segment)                                                                                                                                        |
| <b>Education and occupation in past five years</b>                                                                 | <p><b><u>Education:</u></b></p> <p>LL. B Graduate of Law from Tel Aviv University and a licensed lawyer. Working in Delta since February 2<sup>nd</sup> 2015.</p> <p><b><u>Employment:</u></b></p> <p>Prior to that, she managed fashion chains in the Golf AQ Group</p> |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                                                                                                                                                                                                       |

|                                                                                   |                                                                                                                                   |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                     | <b>Moshe Cohen</b>                                                                                                                |
| <b>ID number</b>                                                                  | 51209971                                                                                                                          |
| <b>Date of birth</b>                                                              | April 3 <sup>rd</sup> 1952                                                                                                        |
| <b>Date of commencement of office</b>                                             | January 27 <sup>th</sup> 2013                                                                                                     |
| <b>Position in the company, in a subsidiary or in an interested party therein</b> | Internal Auditor                                                                                                                  |
| <b>Education and occupation in past five years</b>                                | <p><b><u>Education:</u></b></p> <p>Certified Public Accountant</p> <p>B.A. in Economics and Accounting – Tel Aviv University.</p> |

|                                                                                                                    |                                                                                           |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| <b>Name of senior officer</b>                                                                                      | <b>Moshe Cohen</b>                                                                        |
|                                                                                                                    | <b><u>Employment:</u></b><br>2003 – to date – senior partner at Chaykin Cohen Rubin & Co. |
| <b>Interested party in the Company or family member of interested party or other senior officer in the Company</b> | No                                                                                        |

#### **Regulation 26b – Independent Authorized Signatory**

The Company has no independent authorized signatories except in the case of the execution of confidentiality agreements.

#### **Regulation 27 – The Company's CPAs**

Accountant Name: PwC Israel (Kesselman and Kesselman)

Office Address: 146 Menachem Begin, Tel Aviv, Israel

#### **Regulation 28 – Changes to Memorandum of Association or Articles of Association**

In the reporting year, no change was made in the memorandum or in the articles of association.

#### **Regulation 29 – Recommendations and decisions by the Board of Directors; resolutions of the special general meeting**

Following are the resolutions of the special general meeting during or after the reporting period:

On January 28<sup>th</sup>, 2021, an annual general meeting was held of the Company's shareholders, when on its agenda: (a) the reappointment of directors serving in the Company (who are not external directors), Messrs. Noam Lautman, Isaac Dabah, Itzhak Weinstock, Tzippah Carmon, Israel Baum, Rinat Gazit and Richard Hunter, for an additional period up to the end of the first annual general meeting following the appointment; (b) the reappointment of the of PWC Israel accounting firm (Kesselman and Kesselman) as the Company's auditing accountant up to the date of the next annual general meeting of the Company; (c) a discussion of the Company's Financial Statements and Board of Directors' Report for the year ending December 31<sup>st</sup> 2019; (d) approval of the terms of office and employment of the Company's CEO, director and controlling shareholder of the Company, and amendment of section 5 of the Remuneration Policy; (e) amendment of the Remuneration Policy; (f) granting a letter of exemption to all officers in the Company except for its controlling shareholder; (g) granting a letter of exemption to Mr. Isaac Dabah, the Company's CEO, director and controlling shareholder. All resolutions put to the vote were approved. For further information, see the immediate report on the convening of the meeting of December 23<sup>rd</sup>, 2020 (reference: 2020-01-131575) and the immediate report on the outcome of the meeting dated January 23<sup>rd</sup>, 2021 (reference: 2021-01-011611) included herein by way of reference.

#### **Regulation 29a – Corporate Decisions**

Following are the Company's resolutions regarding exemptions, insurance or undertaking for the indemnification of officers, in effect on the reporting date:

##### **Directors' and Officers' Liability Insurance Policy**

In accordance with the revised remuneration policy for Company officers, without derogating from the provisions of the law, the Remuneration Committee shall be entitled to approve, from time to time and as long as the remuneration policy is in effect, the Company's engagement in an insurance policy to cover the liability of all Company officers, including directors (and including officers and directors who are controlling shareholders in the Company), provided the annual coverage included in the policy for a specific year will be up

to \$ 50 million, the deductible does not exceed \$ 300,000 and the premium does not exceed \$ 250,000 per annum.

In accordance with the above, the Company has a policy covering the liability of directors and officers serving in it and in its subsidiaries. The policy has a liability limit of \$ 20 million, for any insurance event and in aggregate for the insurance period. The insurance period starts August 1<sup>st</sup> 2020 and ends July 31<sup>st</sup>, 2021. The total annual premium for said policy is approximately \$ 59,000. To the said premium amount, \$ 15,800 was added, without change in the other terms of the policy, in order to include the officers and directors of Delta Israel Brands Ltd.

#### Indemnity for directors and officers

On January 2<sup>nd</sup> 2017 the Company's general meeting approved, after receiving the approval of the Compensation Committee and the Board of Directors, to re-issue 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<sup>th</sup> 2016 (ref. no. 2016-01-092952).

On December 5<sup>th</sup> 2018, the terms of employment of Mr. Isaac Dabah as CEO of the Company were approved for a period of three years from January 1<sup>st</sup> 2019, which include the granting of letters of indemnification. On January 28<sup>th</sup>, 2021, the terms of employment of Mr. Isaac Dabah as CEO of the Company were approved until December 31<sup>st</sup>, 2022, which include the granting of letters of commitment for indemnification (for further details, see Regulation 21 above).

On January 28<sup>th</sup>, 2021, the Company's general meeting approved, after approval by the Compensation Committee and the Board of Directors, to grant letters of exemption to the Company's directors and officers, including the controlling shareholder in the Company, in the form of the letters of indemnification attached to the immediate report on the convening of the meeting of December 23<sup>rd</sup>, 2020 (reference: 2020-01-131575).