

Delta Galil Industries Ltd.

Quarterly Report as of March 31, 2008

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

For the period ended March 31, 2008

We hereby present to you the report of the Board of Directors of Delta Galil Industries Ltd. (hereinafter: “**the Company**”, “**Delta**”) and its subsidiaries in Israel and overseas (hereinafter: “**the Group**”) for the quarter ended March 31, 2008 pursuant to Securities Regulations (Periodic and Immediate Reports), 1970.

1. Summary description of the corporation and its business environment

1.1 Overview

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

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

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

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

In general, the Group markets its products in three ways: (a) Manufacturing for leading international brands (such as Tommy Hilfiger, Calvin Klein, Hugo Boss etc.) and for store brands of leading retail chains (such as Victoria's Secret, Target, Marks & Spencer, Wal-Mart etc.); (b) manufacturing and marketing under franchise agreements for which the Company is licensed (such as: Converse®, Wilson®, Nicole Miller®, Maidenform®, Tommy Hilfiger® etc.; and (c) marketing in Israel under its own “Delta” brand.

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

1.2 Material events in corporate operations during the reported period

1.2.1 On April 15, 2008, the Company filed a draft shelf prospectus with the Israel Securities Authority and with the Tel Aviv Stock Exchange Ltd. As of the date of this report, no date has been set yet for publishing the offering report based on the shelf prospectus, and the structure of the issuance, if any, has yet to be determined.

1.2.2 On May 11, 2008, the Company received notification of a special tender offer by GMM Capital LLC. The aforementioned tender offer proposes acquisition of up to 1,000,000 Company shares, comprising 4.97% of its issued and paid-up capital, and 5.34% of voting rights in the Company, as of that trading day (fully diluted, 4.55% and 4.85%, respectively), at a price of NIS 21.32 per share. The final acceptance

date is June 10, 2008 at 2pm. For further details of the aforementioned tender offer, see the Company's immediate report dated May 12, 2008 (reference: 2008-01-129417). For further details of the valuation of subsidiary Delta Galil USA Inc., see the Company's immediate report dated May 20, 2008 (reference: 2008-01-139338).

The Company Board of Directors, at its meeting on May 26, 2008, resolved in accordance with provisions of section 329 of the Corporate Act, that it refrain from providing its opinion with regard to the merit of the special tender offer, *inter alia*, due to the following: (1) GMM, the offeror in the tender offer, is a controlling shareholder of the Company and would continue to be thus if and when the tender offer is completed – whether or not the tender offer is successfully completed; (2) no economic valuation of the merit of the tender offer has been presented to the Company Board of Directors. The merit of the tender offer may differ for different holders of Company shares, based on the circumstances of their holding of Company shares; (3) furthermore, as of this date the Company Board of Directors has no valuation of the Company and/or of its shares at its disposal. Therefore, the Company Board of Directors is unable to provide its opinion with regard to valuation of the Company and/or of its shares.

1.2.3 On May 22, 2008, the Company's annual and special General Meeting resolved as follows: (1) Confirmation of re-appointment of incumbent Company Board members who are not independent Board members; (2) confirmation of re-appointment of Kesselman & Kesselman, CPAs as the Company's independent CPA for 2009; (3) adoption of a framework resolution whereby the Company may acquire from time to time liability insurance policies for Company Board members and officers, with the exception of Board members and officers who are considered controlling shareholders of the Company. Insurance coverage would not exceed twenty (20) million US Dollars for all Company officers, and the annual premium would not exceed one hundred thousand (100,000) US Dollars for a period of 5 years since the date of said resolution; (4) confirmation of consulting agreement with Mr. Israel Baum, a Company Board member; (5) confirmation of expense reimbursement to the controlling shareholder of the Company, Mr. Isaac Dabah, and to Mr. Itzhak Weinstock, a Company Board member.

1.2.4 At the General Meeting held on May 22, 2008, the replacement of Company bylaws by a new set of bylaws in Hebrew was not approved, hence the Company bylaws effective immediately prior to the General Meeting remain in effect as of this date. Furthermore, the General Meeting was not asked to approve the grant of new waiver letters in the Company. Therefore, the Company's liability for waiver and indemnification of Board members and officers, approved by the General Meeting on March 25, 2003, and which was effective prior to the General Meeting – remains in effect.

1.2.5 On May 26, 2008, the Company's Audit Committee and Board of Directors approved, pursuant to regulation 1b(5) of the Corporate Regulations (Easements for transactions with an interested party), 2000,

the inclusion of Mr. Isaac Dabah and Mr. Itzhak Weinstock in the Company's liability insurance policy for Board members and officers, under the same terms of said policy with regard to all Company Board members and officers who are not controlling shareholder there of. This approval follows the adoption by the Company General Meeting on May 22, 2008 of a framework resolution whereby the Company may acquire from time to time liability insurance policies for Company Board members and officers, with the exception of Board members and officers who are considered controlling shareholders of the Company, as set forth in section 1.2.3 above. The Audit Committee and Board of Directors also confirmed that terms of the insurance policy with regard to Board members Dabah and Weinstock are market conditions and would not materially impact Company profitability, assets or liabilities.

2. Analysis of financial standing

2.1 Balance sheet

The Group's consolidated balance sheet as of March 31, 2008 amounted to \$434.3 million, compared to \$433.8 million as of March 31, 2007.

The Group's consolidated current assets as of March 31, 2008 amounted to \$253.3 million, compared to \$251.1 million as of March 31, 2007.

The Group's consolidated current liabilities in its consolidated balance sheet as of March 31, 2008 amounted to \$232.2 million, compared to \$227.8 million as of March 31, 2007.

Group equity as of March 31, 2008 amounted to \$177.6 million, or 40.9% of the total balance sheet, compared to \$176.4 million, or 40.7% of total balance sheet as of March 31, 2007.

2.2 Operating results

In Q1 of 2008, the re-structuring process started by the Company at the end of Q1 of last year was concluded; this process contributed to improved profitability and to this being the third consecutive quarter in which the Company recorded net income.

2.2.1 Below are Group summary income statements for Q1 of 2008 and for 2007 by quarters, \$ in thousands:

<u>\$ in thousands, except for earnings per share</u>	<u>Q1</u> <u>2008</u>	<u>All of</u> <u>2007</u>	<u>Q4</u> <u>2007</u>	<u>Q3</u> <u>2007</u>	<u>Q2</u> <u>2007</u>	<u>Q1</u> <u>2007</u>
	<u>Un- audited</u>	<u>Audited</u>	<u>Un-audited</u>			
Sales	156,989	647,409	165,888	172,354	149,803	159,364
Cost of sales	125,925	534,662	135,562	140,638	125,995	132,467
Gross profit	31,064	112,747	30,326	31,716	23,808	26,897
Selling and marketing expenses	20,566	71,923	18,384	17,569	17,922	18,048
General and administrative expenses	6,442	25,186	6,960	5,769	5,794	6,663
Capital (gain) loss from realized assets	(356)	(784)	4	(265)	(197)	(326)
Amortization of intangible asset	185	739	185	185	184	185
Operating income before re-structuring expenses	4,227	15,683	4,793	8,458	105	2,327
Restructuring expenses		11,060	260			10,800
Operating income (loss)	4,227	4,623	4,533	8,458	105	(8,473)
Finance expenses, net	2,454	12,999	2,921	3,191	3,319	3,568
Company share of loss of associate		(33)	(33)			
Income (loss) before taxes on income	1,773	(8,409)	1,579	5,267	(3,214)	(12,041)
Taxes on income	878	4,126	434	1,884	326	1,482
Net income (loss) for period	895	(12,535)	1,145	3,383	(3,540)	(13,523)
Attribution of net income (loss) for the period:						
To Company shareholders	776	(12,951)	934	3,348	(3,616)	(13,617)
To minority interest	119	416	211	35	76	94
	895	(12,535)	1,145	3,383	(3,540)	(13,523)
Net earnings (loss) per share attributed to Company shareholders:						
Basic and diluted	0.04	(0.69)	0.05	0.18	(0.19)	(0.73)

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

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
Sales	157.0	159.4	647.4
Operating income before re-structuring expenses	4.2	2.3	15.7
Restructuring expenses		10.8	11.1
Operating income (loss)	4.2	(8.5)	4.6
Adjusted EBITDA (*)	7.4	5.8	29.0
Net income (loss) attributed to Company shareholders, before re-structuring expenses	0.8	(2.8)	(1.9)
Net income (loss) attributed to Company shareholders	0.8	(13.6)	(13.0)
Operating cash flow	(3.4)	0.8	10.4

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

	<u>Q1 2008</u>	<u>Q1 2007</u>	<u>2007</u>
Net income (loss) for period – as reported	0.9	(13.5)	(12.5)
Taxes on income	0.9	1.5	4.1
Finance expenses, net	2.5	3.6	13.0
Restructuring expenses		10.8	11.1
Depreciation and amortization	<u>3.1</u>	<u>3.4</u>	<u>13.3</u>
EBITDA	<u>7.4</u>	<u>5.8</u>	<u>29.0</u>

(*) Adjusted EBITDA is calculated as follows: Net income (loss) plus taxes on income, finance expenses, amortization, depreciation and re-structuring expenses.

2.3 Analysis of operating results

2.3.1 Overview

Group sales in Q1 of 2008 amounted to \$157.0 million, compared to \$159.4 million in Q1 of 2007 – a 1.5% decrease.

The decrease in sales in Q1 this year over the same period last year was due to decreased sales in the Intimate Apparel – US Upper Market and Europe segment, partially offset by an increase in sales of the Delta Marketing Israel and Seamless operating segments – see section 2.3.3 below.

Gross profit in Q1 of 2008 amounted to \$31.1 million, or 19.8% of sales, compared to \$26.9 million in Q1 of 2007, or 16.9% of sales – a 15.5% increase.

The improvement in gross profit and gross margin in Q1 of 2008 over the same period last year was achieved despite a \$2.4 million decrease in sales, due to the fact that the Company continued deliberate reduction of non-profitable sales, amounting to \$8.8 million, where the gross margin was lower – as part of the re-structuring process, as well as to higher margins in the Delta Marketing Israel operating segment; see section 2.3.3 below.

Selling and marketing expenses increased by 14.0%, amounting to \$20.6 million in Q1 of 2008 (13.1% of total sales), compared to \$18.0 million in Q1 of 2007 (11.3% of total sales).

The table below shows the breakdown of sales and selling and marketing expenses for the Delta Marketing Israel operating segment, which has a high percentage of expenses out of total sales, vs. other Group operating segments, \$ in millions:

Operating segment	Selling and marketing expenses				Growth in selling and marketing expenses in Q1 of 2008 over 2007	Increase (decrease) in sales in Q1 of 2008 over 2007
	Q1 2008	% of total selling expenses	Q1 2007	% of total selling expenses		
Delta Marketing Israel	7.1	35%	5.2	29%	35.6%	25.2%
Others	13.5	65%	12.8	71%	5.0%	(4.2%)
	<u>20.6</u>		<u>18.0</u>		14.0%	(1.5%)

The above data show that growth in selling and marketing expenses is primarily due to growth of the Delta Marketing Israel operating segment as well as to the retail chain expansion. Growth in selling and marketing expenses in the other operating segments in Q1 of 2008 over the same period last year was primarily due to the evaluation of the NIS vs. the USD.

The Delta Marketing Israel operating segment has higher selling and marketing expenses, relative to sales, compared to other operating segments; it accounts for 35% of all selling and marketing expenses in Q1 of 2008, compared to 29% in the same period last year, due to increased sales in this segment and decreased sales in the other segments.

Operating income in Q1 of 2008 amounted to \$4.2 million, compared to an operating loss of \$8.5 million in Q1 of 2007.

Operating income before re-structuring expenses in Q1 of 2008 amounted to \$4.2 million (2.7% of total sales), compared to \$2.3 million (1.5% of total sales) in Q1 of 2007.

The improvement in operating income before re-structuring expenses was primarily due to implementation of the re-structuring plan and to higher sales and margin of the Delta Marketing Israel operating segment; see section 2.3.3 below.

Finance expenses declined by 31.2% in Q1 of 2008, amounting to \$2.5 million – compared to \$3.6 million in the same period last year.

The decrease in finance expenses in Q1 this year, compared to the same period last year, was due to a decrease in interest expenses due to lower interest rates and due to exchange rate differential revenues – primarily due to the stronger Euro vs. the USD.

Net income attributed to Company shareholders in Q1 of this year amounted to \$0.8 million, compared to a loss of \$13.6 million, or \$2.8 million before re-structuring expenses, in Q1 of 2007.

The transition from loss before re-structuring expenses in Q1 last year, to net income in Q1 of 2008 was due to improved operating income and decreased finance expenses, as set forth above.

2.3.2 Below is a summary of the Company's consolidated business results, by the five accounting segments included in its financial statements, for Q1 of 2008 and 2007 and for all of 2007, \$ in thousands:

	Q1 ended March 31					All of 2007	
	(Un-audited)					(Audited)	
	Sales			Operating income (loss)		Sales	Operating income (loss)
	2008	2007	% Change	Before re-structuring expenses			
			2008	2007			
Delta USA – mass market	63,958	65,271	(2.0)	2,388	3,133	262,722	10,702
Intimate Apparel – US Upper Market and Europe	43,817	49,917	(12.2)	(1,206)	(2,495)	194,994	(7,489)
Socks – USA and Europe	28,090	29,403	(4.5)	1,071	1,173	121,751	5,882
Seamless knitwear	6,996	3,738	87.2	(10)	(518)	16,705	(1,296)
Delta Marketing Israel	18,152	14,497	25.2	2,899	1,679	64,003	9,851
Adjustments	(4,024)	(3,462)		(915)	(645)	(12,766)	(1,967)
Total	<u>156,989</u>	<u>159,364</u>	<u>(1.5)</u>	<u>4,227</u>	<u>2,327</u>	<u>647,409</u>	<u>15,683</u>
Restructuring expenses					10,800		11,060
Total in consolidated report				<u>4,227</u>	<u>(8,473)</u>		<u>4,623</u>

2.3.3 Analysis of business results by operating segment

Operating segment: Delta USA mass market

Sales in Q1 of 2008 amounted to \$64.0 million, compared to \$65.3 million in Q1 of 2007 – a 2% decrease.

Operating income in Q1 of 2008 amounted to \$2.4 million, compared to \$3.1 million in Q1 of 2007 – a 24% decrease.

The decrease in operating income in Q1 of 2008 compared to the same period last year was due to decreased sales and higher cost of goods purchased from sub-contractors in the Far East.

Operating segment: Intimate Apparel – US Upper Market and Europe

Sales in Q1 of 2008 amounted to \$43.8 million, compared to \$49.9 million in Q1 of 2007 – a 12% decrease.

The decrease in sales of the operating segment in Q1 of this year over the same period last year was due to a deliberate decrease in sales of non-profitable products amounting to \$8.8 million, in conjunction with the re-structuring process, which was partially offset by an increase in sales to other customers.

Operating loss in Q1 of 2008 amounted to \$1.2 million, compared to an operating loss of \$2.5 million in Q1 of 2007 – a 52% decrease.

The decrease in operating loss in Q1 of 2008 compared to the same period last year was due to continued implementation of the re-structuring plan and due to exiting non-profitable categories, as set forth above.

Operating segment: Socks – USA and Europe

Sales in Q1 of 2008 amounted to \$28.1 million, compared to \$29.4 million in Q1 of 2007 – a 4% decrease.

Operating income in Q1 of 2008 amounted to \$1.1 million, compared to \$1.2 million in Q1 of 2007.

Operating segment: Seamless knitwear

Sales in Q1 of 2008 amounted to \$7.0 million, compared to \$3.7 million in Q1 of 2007 – an increase of 87%.

Growth in sales in Q1 of 2008 over the same period last year was due to increased sales of shapers and sports products.

Operating income was zero in Q1 of 2008, compared to an operating loss of \$0.5 million in Q1 of 2007.

The decrease in operating loss in Q1 of 2008 over the same period last year was

due to increased sales as well as improved mix of products sold, and was achieved despite the evaluation of the NIS vs. the USD.

Operating segment: Delta Marketing Israel

Sales in Q1 of 2008 amounted to \$18.2 million, compared to \$14.5 million in Q1 of 2007 – an increase of 25%. Sales in NIS in Q1 of 2008 amounted to NIS 66.1 million, compared to NIS 61.7 million in Q1 of 2007 – a 7% increase.

The increase in sales in Q1 of 2008 over the same period last year was due to product line expansion and store chain expansion.

Operating income in Q1 of 2008 amounted to \$2.9 million, compared to \$1.7 million in Q1 of 2007 – a 73% increase.

The improved operating income in Q1 of 2008 over the same period last year was due to increased sales and lower product purchasing cost due to a stronger NIS/USD exchange rate.

3. Liquidity and financing sources

Summary cash flow statement (consolidated) \$ in millions:

	Q1 ended March 31		The year ended 31 December
	2008	2007	2007
Net cash provided by (used in) current operations	(3.4)	0.8	10.4
Net cash used in investing activities	(1.5)	(0.3)	(4.9)
Net cash provided by (used in) financing operations	(1.4)	(2.7)	0.6
Increase (decrease) in cash and cash equivalents	(6.4)	(2.2)	6.1

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

The cash flow used for current operations in Q1 of 2008 was negative, amounting to \$3.4 million, compared to a positive cash flow from current operations in Q1 of 2007 amounting to \$0.8 million.

The decrease in cash flow from current operations in Q1 of 2008 over the same period last year was due to increased working capital and mostly due to increase in trade receivables.

Total bank debt, net as of March 31, 2008 amounted to \$146.0 million, compared to \$145.6 million as of March 31, 2007.

The Company's current ratio as of March 31, 2008 was 1.09, compared to 1.10 as of March 31, 2007.

The Company's quick ratio as of March 31, 2008 was 0.58, compared to 0.57 as of March 31, 2007.

4. Exposure to market risk, risk factors and management there of

4.1 The person responsible for management of market risk for the company

Mr. Aviram Lahav, Company CEO.

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

4.2 Description of market risk to which the Group is exposed

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

4.3 Group policy with regard to market risk management

The aforementioned persons responsible for management of market risk for the Company, review from time to time and as needed the Company's exposure to market risk; *inter alia*, the Group strives to maintain the minimum balance sheet exposure and to hedge its cash flow exposure to changes in exchange rates.

Since Company sales in European currencies (Pound Sterling and Euro) exceed its expenses in these currencies, the Company is exposed to weaker exchange rates of these currencies to the US \$.

Since Company expenses in NIS exceed its NIS revenues, the Company is exposed to stronger exchange rates of the NIS vs. the USD.

In order to minimize its balance sheet currency exposure, the Company obtains short-term loans in currencies to which it is exposed. The loans obtained by the Company are primarily intended to finance working capital.

The Company reviews from time to time its cash flow exposure to the Pound Sterling and Euro. The Company acts to hedge these exposures by purchasing products in the currency in which these products would be sold to Company customers, and sometimes invests in forward contracts to hedge the risk to the cash flow from product sales due to exchange rate fluctuations. The term of these contracts is very short – usually up to 3 months.

In order to reduce its exposure to NIS/USD exchange rate fluctuations, the Company strives to reduce its NIS-denominated expenses and to increase in as much as possible its NIS-denominated sales in the Israeli market.

The Group also purchases from time to time a raw material inventory, primarily basic cotton yarns, for a 3-6 month period in order to reduce exposure to significant price fluctuations.

4.4 Financial instruments

On March 31, 2008, the Company was involved in forward transactions intended for hedging against a weaker GBP/USD exchange rate, as set forth below:

Repayment Date	Amount, \$ in thousands	Transaction exchange rate
April 7, 2008	2,000	2.0267
April 14, 2008	2,000	2.0256
April 21, 2008	<u>2,000</u>	2.0307
	<u>6,000</u>	

The impact of these transactions on the Company's financial results is not material, and would be recognized in financial statements for Q2 of 2008.

4.5 Linkage basis report, \$ in thousands

	As of March 31, 2008						
	Un-audited						
	<u>In USD</u>	<u>In GBP</u>	<u>In Euro</u>	<u>NIS</u>	<u>In other currencies</u>	<u>Non-monetary balances</u>	<u>Total</u>
Assets:							
Cash and cash equivalents	3,581	3,635	925	49	2,213		10,403
Trade receivables	64,016	9,858	16,732	16,036	1,386		108,028
Other accounts receivable	666	730	554	1,536	949	5,537	9,972
Inventory						119,441	119,441
Assets classified as held for sale						5,410	5,410
Long-term debit balances	979			74		1,055	2,108
Deferred tax assets						5,748	5,748
Excess plan assets over liabilities due to employment termination						47	47
Fixes assets, net of accumulated depreciation						83,711	83,711
Intangible assets, net of accumulated amortization						89,449	89,449
Total assets	69,242	14,223	18,211	17,695	4,548	310,398	434,317
Liabilities:							
Short term credit from banks	145,772	25	3,112	95			149,004
Trade payables	27,291	4,475	3,452	10,867	1,831		47,916
Other accounts payable	12,621	3,006	517	15,946	2,975	227	35,292
Long-term loans from banking corporations	7,400						7,400
Liabilities for employment termination, net of deposits to severance pay funds						631	631
Long-term loans and other liabilities	15,988	333		197			16,518
Total liabilities	209,072	7,839	7,081	27,105	4,806	858	256,761
Balance sheet total, net	(139,830)	6,384	11,130	(9,410)	(258)	309,540	177,556

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

Sensitivity to GBP/USD exchange rate fluctuations:

	Gain (Loss) from Changes		Fair value	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
Expected exchange rate	\$2.19 = 1£	\$2.09 = 1£	\$1.99 = 1£	\$1.89 = 1£	\$1.79 = 1£
Cash and cash equivalents	364	182	3,635	(182)	(364)
Trade receivables ⁵	986	493	9,858	(493)	(986)
Other accounts receivable	73	37	730	(37)	(73)
Short-term credit from banks	(3)	(2)	(25)	2	3
Trade payables	(448)	(224)	(4,475)	224	448
Other accounts payable	(301)	(150)	(3,006)	150	301
Long-term loans and other liabilities	(33)	(17)	(333)	17	33
Off-balance-sheet loans in respect of rental agreements	(292)	(146)	(2,920)	146	292
Total	346	173	3,464	(173)	(346)

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

	<u>10% increase</u> ₁	<u>5% increase</u> ²	<u>Discount rate</u> <u>of 12%</u>	<u>5% Decrease</u> ³	<u>10% Decrease</u> ₄
<u>Pre-tax gain (loss) due to change</u>	<u>138</u>	<u>71</u>	<u>(3,592)</u>	<u>(73)</u>	<u>(150)</u>

Sensitivity to change in EUR/USD exchange rate:

	Gain (Loss) from Changes		Fair value	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
Expected exchange rate	\$1.74 = 1€	\$1.66 = 1€	\$1.58 = 1€	\$1.50 = 1€	\$1.42 = 1€
Cash and cash equivalents	93	47	925	(47)	(93)
Trade receivables ⁵	1,673	837	16,732	(837)	(1,673)
Other accounts receivable	55	28	554	(28)	(55)
Short-term credit from banks	(311)	(156)	(3,112)	156	311
Trade payables	(345)	(173)	(3,452)	173	345
Other accounts payable	(52)	(26)	(517)	26	52
Total	1,113	557	11,130	(557)	(1,113)

Sensitivity to change in NIS/USD exchange rate:

Expected exchange rate	Gain (Loss) from Changes		Fair value	Gain (Loss) from Changes	
	10% Increase	5% Increase		5% Decrease	10% Decrease
	NIS 3.91 = \$1	NIS 3.73 = \$1	NIS 3.55 = \$1	NIS 3.33 = \$1	NIS 3.20 = \$1
Cash and cash equivalents	(5)	(2)	49	2	5
Trade receivables ⁵	(1,604)	(802)	16,036	802	1,604
Other accounts receivable	(154)	(77)	1,536	77	154
Long-term debit balances	(7)	(4)	74	4	7
Short-term credit from banks	9	5	(95)	(5)	(9)
Trade payables	1,087	544	(10,867)	(544)	(1,087)
Other accounts payable	1,595	797	(15,946)	(797)	(1,595)
Long-term loans and other liabilities	20	10	(197)	(10)	(20)
Off-balance-sheet loans in respect of rental agreements	1,071	536	(10,705)	(536)	(1,071)
Total	2,012	1,006	(20,115)	(1,006)	(20,012)

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

	<u>10% increase</u> ₁	<u>5% increase</u> ²	<u>Discount rate of</u> <u>12%</u>	<u>5% Decrease</u> ₃	<u>10% Decrease</u> ₄
<u>Pre-tax gain (loss) due to change</u>	<u>254</u>	<u>128</u>	<u>(11,079)</u>	<u>(131)</u>	<u>(264)</u>

Sensitivity to change in 3-month LIBOR interest rate: The following calculation relates to cash flow exposure and not to change in fair value to a loan portfolio amounting to \$156 million (\$ in thousands):

Change in interest rate	10% Increase	5% Increase	5% Decrease	10% Decrease
Expected interest rate after the change	4.7%	4.5%	4.1%	3.9%
Pre-tax gain (loss) due to changes	(625)	(312)	312	625

¹ For a 13.2% discount rate.

² For a 12.6% discount rate.

³ For a 11.4% discount rate.

⁴ For a 10.9% discount rate.

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

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

5. Disclosure with regard to critical accounting estimates

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

For complete details of accounting estimates and assumptions, see Note 4 to the 2007 financial statements.

6. Disclosure regarding approval process of financial statements

The Company Board of Directors has decided that the Company's Audit Committee, which also serves as the Balance Sheet Committee, is the organ in charge of overall supervision of the Company's financial statements.

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

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

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

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

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

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

Names of the Audit Committee members who attended the meeting on May 21, 2008, at which the Audit Committee recommended that the Company Board of Directors approve the financial statements as of March 31, 2008: Amnon Neubach (Chairman), Dr. Gideon Chitayat and Giora Morag.

Names of Board members who attended the Board of Directors' meeting on May 26, 2008 at which the financial statements as of March 31, 2008 were approved: Isaac Dabah (Chairman), Itzhak Weinstock, Israel Baum, Noam Lautman, Leora Meridor, Amnon Neubach, Dr. Gideon Chitayat and Giora Morag.

Names of Board members who attended the Board of Directors' meeting on May 27, 2008, at which the revised financial statements as of March 31, 2008 were approved, which included a note on transition to IFRS-based financial reporting in Israel: Isaac Dabah (Chairman), Itzhak Weinstock, Israel Baum, Noam Lautman, Leora Meridor, Amnon Neubach and Giora Morag.

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

Isaac Dabah
Chairman of the Board
of Directors

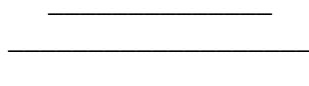
Aviram Lahav
CEO

Delta Galil Industries Ltd.
Interim Report
(Un-audited)
As of March 31, 2008

Delta Galil Industries Ltd.
Interim Report
(Un-audited)
As of March 31, 2008

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May 27, 2008

To:
The Board of Directors,
Delta Galil Industries Ltd.
Tel Aviv

Dear Sir,

Re: Review of summary consolidated un-audited
 financial statements for the 3-month period ended
 March 31, 2008

As commissioned by you, we have reviewed the summary interim balance sheet of Delta Galil Industries Ltd. ("the Company") and its consolidated companies as of March 31, 2008, as well as the summary consolidated income statement, summary consolidated statement of recognized revenues and expenses and summary consolidated cash flow statement for the 3-month period then ended. Our review was conducted as per the procedures established by the Israeli CPA Association. These procedures included, inter alia: Reading the aforementioned financial statements; reading minutes of shareholder meetings and of meetings of the board of directors and its committees; and clarification sessions with people in charge of financial and accounting issues.

We have been provided with reports of another CPA with regard to review of interim financial statements of consolidated companies, whose assets as of March 31, 2008 constituted 9% of all assets included in the summary interim consolidated balance sheet.

Since the review performed is of limited scope, and does not constitute a check under commonly accepted audit standards, we do not express our opinion of the interim summary consolidated financial statements.

In the course of our review, including review of reports by other accountants, as set forth above, we have not been aware of any issue indicating that material changes would be required to the aforementioned statements in order for them to be deemed as proper interim consolidated statements compiled in accordance with provisions of International Accounting Standard 34 "Interim Financial Reporting" and in accordance with requirements pursuant to Securities Regulations (Periodic and Immediate Reports), 1970.

We wish to draw your attention, as set forth in Note 2, that starting with its 2007 financial statements, the Company has adopted international financial reporting standards ("IFRS standards"). The comparative figures shown in these interim financial statements as of March 31, 2007 and for the 3-month period then ended, originally compiled in accordance with US GAAP, have been re-stated in order to retroactively reflect application of IFRS standards starting on January 1, 2006, which

is the transition date to IFRS-based reporting applicable for the Company, in accordance with provisions of IFRS 1 "Initial adoption of IFRS" – see also Note 3.

This review report is based on our review report for the aforementioned period, issued by us on May 26, 2008.

Sincerely yours,

Kesselman & Kesselman
CPAs

Delta Galil Industries Ltd.
Summary consolidated balance sheet as of March 31, 2008

	March 31		December 31
	2008	2007	2007
	(Un-audited)	(Audited)	
	\$ in thousands		
Assets			
Current assets:			
Cash and cash equivalents	10,403	8,130	16,676
Other accounts receivable:			
Trade receivables	108,028	110,238	103,052
Taxes on revenue - receivable	469	752	630
Other	9,503	7,462	7,775
Inventory	119,441	120,234	137,506
Assets classified as held for sale	5,410	4,260	5,410
Total current assets	253,254	251,076	271,049
Non-current assets:			
Long-term pre-paid expenses	554	620	521
Long-term debit balances	1,554	773	1,578
Deferred tax assets	5,748	3,489	5,557
Excess plan assets over liabilities due to employment termination	47	1,012	47
Fixes assets, net of accumulated depreciation	83,711	91,543	84,947
Intangible assets, net of accumulated amortization	89,449	85,253	86,262
Total non-current assets	181,063	182,690	178,912
Total assets	434,317	433,766	449,961

Isaac Dabah
Chairman of the Board of Directors

Aviram Lahav
CEO

Yossi Hajaj
CFO

Date of approval of financial statements by the Company Board of Directors:
May 27, 2008

	<u>March 31</u>		<u>December 31</u>
	<u>2008</u>	<u>2007</u>	<u>2007</u>
	<u>(Un-audited)</u>		<u>(Audited)</u>
	<u>\$ in thousands</u>		
Liabilities and Equity			
Current liabilities:			
Short-term loans from banks	140,804	127,952	141,345
Current maturities of long-term loans			
From banks	8,200	9,149	8,200
Other payables:			
Trade payables	47,916	47,603	60,886
Tax on income - payable	1,107	1,083	1,460
Liability for adjustment of acquisition cost	2,117	2,000	1,977
Other	32,068	39,989	37,534
Total current liabilities	<u>232,212</u>	<u>227,776</u>	<u>251,402</u>
Non-current liabilities:			
Liabilities from banks, net of current maturities	7,400	16,604	8,200
Liabilities for employment termination, net of deposits to severance pay funds	631	282	197
Deferred tax liabilities		250	7
Liability for adjustment of acquisition cost	7,472	6,186	7,600
Other non-current liabilities	9,046	6,226	6,123
Total non-current liabilities	<u>24,549</u>	<u>29,548</u>	<u>22,127</u>
Total liabilities	<u>256,761</u>	<u>257,324</u>	<u>273,529</u>
Equity:			
Equity attributable to Company shareholders:			
Share capital	21,851	21,851	21,851
Share premium	101,114	101,114	101,114
Unassigned income balance	61,472	60,506	60,596
Other accumulated loss, total	(37)	(109)	(166)
Treasury shares	(9,700)	(9,700)	(9,700)
	<u>174,700</u>	<u>173,662</u>	<u>173,695</u>
Minority interest	2,856	2,780	2,737
Total equity	<u>177,556</u>	<u>176,442</u>	<u>176,432</u>
Total liabilities and equity	<u>434,317</u>	<u>433,766</u>	<u>449,961</u>

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

Delta Galil Industries Ltd.
Summary consolidated income statement for the
3-month period ended March 31, 2008

	3-month period ended		Year ended
	March 31		December 31,
	2008	2007	2007
	(Un-audited)		(Audited)
	\$ in thousands		
Sales	156,989	159,364	647,409
Cost of sales	125,925	132,467	534,662
Gross profit	31,064	26,897	112,747
Selling and marketing expenses	20,566	18,048	71,923
General and administrative expenses	6,442	6,663	25,186
Capital gain from realized assets	356	326	784
Amortization of intangible asset	185	185	739
Restructuring expenses		10,800	11,060
Operating income (loss)	4,227	(8,473)	4,623
Finance expenses, net	2,454	3,568	12,999
Company share of loss of associate			33
Income (loss) before taxes on income	1,773	(12,041)	(8,409)
Taxes on income	878	1,482	4,126
Net income (loss) for period	895	(13,523)	(12,535)
Attribution of net income (loss) for the period:			
To Company shareholders	776	(13,617)	(12,951)
To minority interest	119	94	416
	895	(13,523)	(12,535)
	\$ in thousands		
Net earnings (loss) per share attributed to Company shareholders:			
Basic and diluted	0.04	(0.73)	(0.69)

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

Delta Galil Industries Ltd.
Summary consolidated statement of recognized revenues and expenses for the
3-month period ended March 31, 2008

	3-month period ended		Year ended
	March 31		December 31,
	2008	2007	2007
	(Un-audited)		(Audited)
	\$ in thousands		
Actuarial loss – defined benefit plan for employees			(1,330)
Income tax on income and expense recognized directly in equity			356
Net change in cash flow hedging transactions	129	326	275
Net change in differentials from translation of financial statements compiled in foreign currency			(6)
Revenues and expenses recognized directly in equity	129	326	(705)
Net income (loss) for period	895	(13,523)	(12,535)
Total recognized revenues and expenses	1,024	(13,197)	(13,240)
Attribution of total recognized revenues and expenses:			
To Company shareholders	905	(13,291)	(13,656)
To minority interest	119	94	416
Total recognized revenues and expenses	1,024	(13,197)	(13,240)

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

Delta Galil Industries Ltd.
Summary consolidated cash flow statement for the
3-month period ended March 31, 2008

	3-month period ended		Year ended
	March 31		December 31,
	2008	2007	2007
	(Un-audited)		(Audited)
	\$ in thousands		
Cash flows from operating activities:			
Net income (loss) for period	895	(13,523)	(12,535)
Adjustments required to reflect cash flows from operating activities	(1,777)	17,098	38,484
Interest paid in cash	(1,641)	(1,679)	(10,470)
Taxes on revenue paid in cash	(922)	(1,065)	(5,082)
Net cash provided by (used in) operating activities	<u>(3,445)</u>	<u>831</u>	<u>10,397</u>
Cash flows from investing activities			
Additional payments for adjustment of acquisition cost		(2,400)	(2,400)
Acquisition of fixed and other assets	(1,926)	(2,581)	(8,181)
Proceeds from sale of fixed assets	485	430	1,393
Proceeds from realized assets classified as held for sale		302	302
Repayment of long-term receivables and Loan granted to associate	(81)		20
Loans granted to employees	(42)	(32)	(31)
Loan repayment by employees	23	21	73
Change to restricted cash		4,000	4,000
Long-term deposits	4	(31)	15
Net cash used in investing activities	<u>(1,537)</u>	<u>(291)</u>	<u>(4,898)</u>
Cash flows from financing activities:			
Dividend to minority interest		(160)	(525)
Repayment of loans and other long-term liabilities	(800)	(1,037)	(10,470)
Short-term credit from banks, net	(417)	(1,363)	11,804
Amounts charged for deferred expenses	(164)	(157)	(213)
Net cash from (used in) financing activities	<u>(1,381)</u>	<u>(2,717)</u>	<u>596</u>
Net increase (decrease) in cash and cash equivalents	(6,363)	(2,177)	6,095
Translation differentials for cash and cash equivalent balances	90	(35)	239
Cash and cash equivalents balance at start of period	16,676	10,342	10,342
Cash and cash equivalents balance at end of	10,403	8,130	16,676

Delta Galil Industries Ltd.
Summary consolidated cash flow statement for the
3-month period ended March 31, 2008

	3-month period ended		Year ended
	March 31		December 31,
	2008	2007	2007
	(Un-audited)		(Audited)
	\$ in thousands		
Adjustments required to reflect cash flows from current activities			
Adjustments:			
Depreciation	2,747	3,056	12,142
Amortization	328	300	1,137
Company share of loss of associate			33
Cash erosion	(90)	35	(113)
Interest paid in cash	1,641	1,679	10,470
Taxes on revenue paid in cash, net	922	1,065	5,082
Interest component of liability for adjustment of acquisition cost	212	296	1,077
Erosion of loans to employees	(3)	(10)	4
Deferred income tax, net	(198)	422	(1,533)
Liabilities due to employment termination, net	434	(96)	(546)
Restructuring expenses		10,800	8,569
Capital gain from realized assets	(356)	(326)	(784)
Benefit component of options granted to employees	100	146	544
Interest component of cash flow hedging transaction	3		
Erosion of loan granted to associate	(5)		
Interest component of long-term debit balances	(12)		
Long-term pre-paid expenses	(37)	(4)	(26)
	<u>5,686</u>	<u>17,363</u>	<u>36,056</u>
Changes to operating assets and liabilities:			
Decrease (increase) in trade receivables	(4,976)	(528)	6,951
Increase in other accounts receivable	(1,257)	(537)	(652)
Increase (decrease) in trade payables	(12,951)	(11,185)	1,316
Increase (decrease) in other payables	(6,344)	663	735
Decrease (increase) in inventory	18,065	11,322	(5,922)
	<u>(7,463)</u>	<u>(265)</u>	<u>2,428</u>
	<u>(1,777)</u>	<u>17,098</u>	<u>38,484</u>
Further information on investment and finance operations not involving cash flows:			
Trade payables for non-cash acquisition of fixed and other assets	(253)	250	167
Receivables for non-cash sale of fixed assets	44		(979)
Liability for minimum royalties payments	5,214	5,540	9,657
Liability payable for acquisition of a consolidated company	(200)		610

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

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 1 – Overview

Delta Galil Industries Ltd. (hereinafter: “the Company”) is an Israeli corporation which, together with its subsidiaries (hereinafter: “the Group”) is primarily engaged in manufacturing and marketing of underwear in 5 major operating segments – USA mass market, Intimate Apparel – US Upper Market and Europe, Socks, Delta Marketing Israel and Seamless knitwear. Information on major operating segments is presented in Note 3.

Company shares were traded through March 2008 on the NASDAQ Global Market (“NASDAQ”) and on the Tel Aviv Stock Exchange Ltd. (“the stock exchange”). Since it was a dual-listed corporation, the Company previously reported to the stock exchange pursuant to Chapter E3 of the Securities Act, 1968 (“the Securities Act”) and its consolidated financial statements were compiled in accordance with US generally accepted accounting principles (hereinafter: “US GAAP”).

In March 2008 the Company applied to de-list its shares from trading and to discontinue its registration in the USA; see Note 2a. On March 27, 2008, Company shares were de-listed from NASDAQ.

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

Note 2 – Significant Accounting Policies

a. Overview

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

b. Transition to financial reporting in Israel based on international financial reporting standards (IFRS) and basis of preparation of the financial statements

In July 2006, the Israeli Accounting Standards Board issued Accounting Standard no. 29 “Adoption of IFRS” (hereinafter – “Standard 29”).

Pursuant to provisions of Standard 29, entities subject to the Securities Act, 1968 may adopt the standard early, compiling their financial statements based on IFRS standards starting with financial statements published after July 31, 2006.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 2 – Significant Accounting Policies

The Group has elected to compile its financial statements in accordance with IFRS standards starting with the 2007 financial statements, hence the transition date to IFRS is January 1, 2006. Consequently, the 2007 financial statements have been compiled based on IFRS and on clarifications of the interpretation committee (hereinafter together - "IFRS standards") which have been published and have become effective (including IFRS 8 "Operating Segments", which has been published and may be adopted early as of the date of compiling these financial statements), and in accordance with provisions of IFRS 1 "Initial Adoption of IFRS Standards".

c. Compilation of financial statements

The Group's summary consolidated interim financial statements have been compiled in accordance with IAS 34 "Interim financial statements" and in accordance with Securities Regulations (Periodic and immediate reports), 1970. These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2007.

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS)

- a. As set forth in the 2007 financial statements, the Group has adopted IFRS standards starting with the 2007 financial statements. Below are highlight explanations of the impact of transition from US GAAP to IFRS standards on the Group's financial standing and operating results as of March 31, 2007 and for the 3-month period then ended. For a full explanation with regard to transition from US GAAP to IFRS standards as of the transition date and to retained earnings as of January 1, 2007 – see Note 5 to the 2007 financial statements.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS)

b. Impact of the transition from US GAAP to IFRS standards on financial statements as of March 31, 2007:

1) Impact of the transition on consolidated balance sheet as of March 31, 2007:

Note	According to US GAAP	Impact of transition to IFRS	According to IFRS
<u>\$ in thousands</u>			
Assets			
Current assets:			
	8,130		8,130
Cash and cash equivalents			
Other accounts receivable:			
	110,238		110,238
Trade receivables			
3e		752	752
Taxes on income - receivable			
3e, 3g	8,188	(726)	7,462
Other			
	120,234		120,234
Inventory			
	4,260		4,260
Assets classified as held for sale			
3d	4,628	(4,628)	
Deferred tax assets			
	255,678	(4,602)	251,076
Total current assets			
Non-current assets:			
3g, 3i	270	350	620
Long-term pre-paid expenses			
	1,056	(283)	773
Long-term debit balances			
3d	316	3,173	3,489
Deferred tax assets			
3b	7,028	(6,016)	1,012
Excess plan assets over liabilities due to employment termination, net			
3f, 3g	92,746	(1,203)	91,543
Fixes assets, net of accumulated depreciation			
3a	57,334	5,264	62,598
Goodwill			
3c, 3f	13,074	9,581	22,655
Intangible assets, net of accumulated amortization			
	171,824	10,866	182,690
Total non-current assets			
Total assets			
	427,502	6,264	433,766

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS) (cont.)

<u>Note</u>	<u>According to US GAAP</u>	<u>Impact of transition to IFRS</u>	<u>According to IFRS</u>
		<u>\$ in thousands</u>	
Liabilities and Equity			
Current liabilities:			
Short-term credit from banks	3i 128,194	(242)	127,952
Current maturities of long-term loans	(*)9,149		9,149
Other accounts payable:			
Trade payables	47,603		47,603
Taxes on income - payable	3e	1,083	1,083
Liability for adjustment of acquisition cost	3a	2,000	2,000
Other	3b, 3c, 3e (*)37,737	2,252	39,989
Total current liabilities	<u>222,683</u>	<u>5,093</u>	<u>227,776</u>
Non-current liabilities:			
Liabilities from banks, net of current maturities	(*)16,604		16,604
Liabilities for employment termination, net of deposits to severance pay funds	3b 6,760	(6,478)	282
Deferred tax liabilities	3d 2,363	(2,113)	250
Liability for adjustment of acquisition cost	3a	6,186	6,186
Other non-current liabilities	3c (*)805	5,421	6,226
Total non-current liabilities	<u>26,532</u>	<u>3,016</u>	<u>29,548</u>
Total liabilities	<u>249,215</u>	<u>8,109</u>	<u>257,324</u>
Minority interest	3h 2,780	(2,780)	
Equity:			
Equity attributable to Company shareholders:			
Share capital	21,851		21,851
Share premium	3j 101,708	(594)	101,114
Unassigned income balance	3a, 3b 62,598	(2,092)	60,506
Other accumulated loss	3b (950)	841	(109)
Treasury shares	(9,700)		(9,700)
	<u>175,507</u>	<u>(1,845)</u>	<u>173,662</u>
Minority interest	3h 2,780	2,780	2,780
Total equity	<u>175,507</u>	<u>935</u>	<u>176,442</u>
Total liabilities and equity	<u>427,502</u>	<u>6,264</u>	<u>433,766</u>

(*) Re-classified.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS) (Cont.)

2) Impact on income statement for the period ended March 31, 2007:

	<u>Note</u>	<u>According to US GAAP</u>	<u>Impact of transition to IFRS</u>	<u>According to IFRS</u>
<u>\$ in thousands (except for earnings per share)</u>				
Sales		159,364		159,364
Cost of sales	3b, 3c	(*)130,129	2,338	132,467
Gross profit		29,235	(2,338)	26,897
Selling and marketing expenses	3b, 3c	(*)20,482	(2,434)	18,048
General and administrative expenses	3b	(*)6,639	24	6,663
Capital gain from realized assets		326		326
Amortization of intangible asset		185		185
Restructuring expenses		10,800		10,800
Operating loss		(8,545)	72	(8,473)
Finance expenses, net	3a, 3b, 3c	3,125	443	3,568
Loss before taxes on income		(11,670)	(371)	(12,041)
Taxes on income	3a, 3b	1,419	63	1,482
Loss after taxes on income		(13,089)	(434)	(13,523)
Minority rights in gains of consolidated companies, net	3h	94	(94)	
Net loss per year		(13,183)	(340)	(13,523)
Attribution of loss for the period:				
To Company shareholders				(13,617)
To minority interest			94	94

(*) Re-classified.

Loss per share, attributed to Company shareholders

In USD

Basic and diluted

(0.70)

(0.03)

(0.73)

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS) (cont.)

3) Notes to adjustments:

a. Adjustment of acquisition price in business combination

According to US GAAP, contingent proceeds in a business combination transaction is part of the acquisition cost only when its disposal is certain (usually, upon occurrence of the contingent event).

According to provisions of IFRS 3 "Business combination", the acquisition cost of a business combination should be adjusted for contingent proceeds when it may be reliably estimated and its payment is expected.

Changes in liability for contingent proceeds, which are due to updates to anticipated disposal of the liability are charged against goodwill. Updates to the liability over time are recognized as financing expense.

On March 31, 2007, goodwill was adjusted by \$5,264 thousand, and the liability in respect of acquisition cost - by \$8,186 thousand. In addition, finance expenses were recognized in the 3 months ended March 31, 2007 due to elapsed time, amounting to \$296 thousand and tax expenses amounting to \$45 thousand.

b. Liabilities due to employment termination

According to US GAAP, liability for employment termination with regard to employees in Israel is measured by multiplying the number of years of service by the employee's last monthly salary (one month's salary for each year of service) at each balance sheet date, and deposits for severance pay accumulated against such liability are measured by their redemption values at each balance sheet date. Furthermore, for the pension plan in the USA the Company charged the actuarial gain (loss) to shareholders' equity under the "minimum pension liability" item.

According to IFRS, the liability for employment termination is calculated using provisions of IAS 19 "Employee benefits" ("IAS 19"). Pursuant to provisions of IAS 19, the Group's severance pay plans are classified as "defined benefit plans". Therefore, the liability for employment termination arising from the plan is measured on an actuarial basis which accounts for, inter alia, future salary increases and employee departure rate. The liability for employees in Israel is measured based on discounting of expected future cash flows, using the interest rate of government bonds in Israel whose maturity is close to the term of the liability for severance pay.

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Notes to summary financial statements
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Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS) (cont.)

According to IAS 19, the discount rate to be used for calculating the actuarial obligation is determined by use of market yield as of the balance sheet date on corporate bonds having a high rating. However, IAS 19 notes that in countries where a deep market for such bonds does not exist, the market yield of government bonds as of the balance sheet date should be used.

The interest rate used by the Company to discount expected future cash flows for calculation of the actuarial liability in conjunction with severance pay plans in Israel is based on interest rates of government bonds, since Company management considers that there is no market in Israel with large trading volumes of corporate bonds.

To the best of Company management knowledge, the issue whether a deep market for corporate bonds exists in Israel is under review by the Israeli Accounting Standards Board / Israel Securities Authority, assisted by the Bank of Israel. Reserves for severance pay are measured at fair value. The aforementioned deposits constitute “plan assets” as defined in IAS 19, and have therefore been offset against the balance of liability for employment termination for presentation in the balance sheet.

The Group has selected, as its accounting policy, to charge to excess on a regular basis the actuarial gain (loss) from revaluation of the plan according to IAS 19. Upon the transition to IFRS-based reporting, the Group charged to excess all net actuarial gain or loss arising from the pension plan in the USA as of January 1, 2006. Therefore, the Group presents, according to IFRS, as of January 1, 2006 the full actuarial liability / excess plan assets, net.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS) (cont.)

As of March 31, 2007, the net decrease in excess plan assets over liability for employment termination of one plan amounts to \$6,016 thousand. Thus, the net decrease in liability for employment termination less plan assets of another plan amounts to \$6,478 thousand. Furthermore, the Company classified as of March 31, 2007 an amount of \$43 thousand under other accounts payable.

The increase in expense charged in the income statement for the 3 months ended March 31, 2007 for employment termination, due to the transition to IFRS-based reporting, as set forth above, amounts to \$90 thousand (\$53 thousand were charged to cost of sales, \$13 thousand - to selling and marketing expenses, and \$24 thousand – to general & administrative expenses). The increase in taxes on revenue charged to the income statement in the 3 months ended March 31, 2007 consequently to the aforementioned increase in expense amounted to \$18 thousand.

c. Right to use trademarks

According to US GAAP, no minimum liability for royalties is recorded for use of trademarks as an asset and liability.

According to IFRS, the right to use trademarks is recognized as an intangible asset in the amount of the discounted value of the minimum liability for royalty payments against the liability. The trademark asset is amortized over the contract period.

On March 31, 2007, the Company recognized an intangible asset for trademarks amounting to \$8,713 thousand, against other non-current liabilities amounting to \$5,421 thousand and other accounts payable amounting to \$3,292 thousand.

Furthermore, the Company re-classified in the 3 months ended March 31, 2007 royalty expenses amounting to \$2,285 thousand from selling and marketing expenses to cost of sales, and an amount of \$162 thousand for passage of time - from selling and marketing expenses to financing expenses.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS) (cont.)

d. Deferred taxes

According to US GAAP, deferred taxes are classified as current or non-current assets and liabilities, based on the balance sheet classification of the asset or liabilities for which deferred taxes have been created, except for deferred taxes for carry-forward loss, which are presented according to the expected timing of their utilization. IAS 12 prohibits classification of deferred taxes as current assets or liabilities. Consequently, the following changes have occurred as of March 31, 2007: A decrease of \$4,628 thousand in current assets; an increase of \$3,125 in non-current deferred tax assets; a decrease of \$2,161 in deferred tax liabilities.

Furthermore, due to impact of transition to IFRS and the change in assets and liabilities on the balance sheet, deferred tax assets have increased by \$48 thousand, and deferred tax liabilities have increased by \$48 thousand.

e. Classification of taxes on income receivable / payable

According to US GAAP, taxes on income receivable / payable have been presented under "other receivables" / "other payables".

According to provisions of IAS 1 "Presentation of financial statements", taxes on income receivable / payable are presented separately in the balance sheet. Accordingly, on March 31, 2007 the Company re-classified \$1,083 thousand from other accounts payable to taxes on income payable. The Company has also re-classified \$752 thousand from other accounts receivable to taxes on income receivable.

f. Computer software

According to US GAAP, investment in computer software have been classified as fixed assets in the balance sheet.

According to provisions of IAS 38 "Intangible assets", investment in computer software is presented as an intangible asset.

Accordingly, the plant, property & equipment balance has been decreased, and the intangible asset balance has been increased, by \$868 thousand as of March 31, 2007.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS) (cont.)

g. Rights in land leased from Israel Land Administration

Pursuant to lease agreements with Israel Land Administration (“ILA”), the Company received leasing rights in land for terms of 22-45 years each ending in 2016, 2018 and 2025 for which the Company paid to ILA capitalized leasing fees amounting to \$776 thousand. The lease agreements give the Company the right to extend the lease agreements for a further 49 year term.

According to US GAAP, the amounts thus paid for said leasing rights were presented as “land” under the Company’s fixed assets.

According to IFRS, the aforementioned lease is classified, pursuant to provisions of IAS 17 "Leases" as an operating lease. The balance of paid amounts (not yet recognized as expenses in the income statement) are listed separately from the fixed asset item, and are presented as pre-paid expenses in the balance sheet.

As of March 31, 2007, the balance of “land” included for the aforementioned lease agreements under fixed assets, amounting to \$335 thousand, was classified against an increase in long-term pre-paid expenses amounting to \$309 thousand, and against an increase in other receivables amounting to \$26 thousand.

h. Presentation of minority interest and minority interest share of income (loss) of consolidated companies

According to US GAAP, minority interest is presented on Group consolidated balance sheets after liability items and before equity items; on the consolidated income statements, minority share of net income of consolidated companies is recognized as an expense for determining the Group's consolidated net income. According to provisions of IAS 1 “Presentation of financial statements”, the Group presents minority interest in consolidated balance sheets under equity, and does not deduct from Group net income the share of minority interest, but rather presents separately in the income statement income attributed to minority interest and income attributed to Company shareholders.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 3 – Transition to financial reporting in Israel based on International Financial Reporting Standards (IFRS) (cont.)

i. Deferred expenses for cost of raising credit

According to US GAAP, the cost of raising credit were deferred and recognized as deferred expenses under non-current assets in the balance sheet.

According to provisions of IAS 39 “Financial instruments: Recognition and measurement”, such cost is presented as a decrease in liability and are an integral part of application of the amortized cost method and calculation of the effective interest there for.

Upon transition to IFRS-based reporting on March 31, 2007, such deferred expenses amounting to \$242 thousand have been re-classified from deferred expenses to short-term loans from banks under current liabilities.

Transition to IFRS-based reporting had no impact on the effective interest inherent in the aforementioned credit.

j. Benefit for share-based payment

According to US GAAP, the Company charged in the 3-month period ended March 31, 2007 the benefit component recognized as salary expenses for share-based payment against share premium, amounting to \$146 thousand.

As allowed by provisions of IFRS 2, the Company elected to charge the benefit for share-based payment to equity, against unassigned income balance.

Accordingly, the Company classified on March 31, 2007 a premium amounting to \$594 thousand as unassigned income balance.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 4 – Segment reporting

	<u>Delta USA</u> – mass market	<u>Intimate Apparel –</u> <u>US Upper Market</u> <u>and Europe</u>	<u>Socks</u>	<u>Seamless</u> <u>knitwear</u>	<u>Delta</u> <u>Marketing</u> <u>Israel</u>	<u>Adjustments</u> <u>for</u> <u>Consolidated</u>	<u>Total</u>
			\$ in thousands				
For the period ended March 31, 2008:							
(Un-audited)							
Sales to external customers	63,958	42,397	28,090	3,602	18,152	790	156,989
Inter-segment		1,420		3,394		(4,814)	
Total sales, net	<u>63,958</u>	<u>43,817</u>	<u>28,090</u>	<u>6,996</u>	<u>18,152</u>	<u>(4,024)</u>	<u>156,989</u>
Operating income (loss) before re- structuring expenses	<u>2,388</u>	<u>(1,206)</u>	<u>1,071</u>	<u>(10)</u>	<u>2,899</u>	<u>(915)</u>	<u>4,227</u>
For the period ended March 31, 2007:							
(Un-audited)							
Sales to external customers	65,271	48,530	29,304	986	14,497	776	159,364
Inter-segment		1,387	99	2,752		(4,238)	
Total sales, net	<u>65,271</u>	<u>49,917</u>	<u>29,403</u>	<u>3,738</u>	<u>14,497</u>	<u>(3,462)</u>	<u>159,364</u>
Operating income (loss) before re- structuring expenses	<u>3,133</u>	<u>(2,495)</u>	<u>1,173</u>	<u>(518)</u>	<u>1,679</u>	<u>(645)</u>	<u>2,327</u>
Re-structuring expenses		<u>8,112</u>	<u>1,988</u>	<u>305</u>		<u>395</u>	<u>10,800</u>

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 4 – Segment reporting (cont.)

	<u>Delta USA – mass market</u>	<u>Intimate Apparel – US Upper Market and Europe</u>	<u>Socks</u>	<u>Seamless knitwear</u>	<u>Delta Marketing Israel</u>	<u>Adjustments for Consolidated</u>	<u>Total</u>
	\$ in thousands						
For the year ended December 31, 2007 (audited):							
Sales to external customers	262,722	185,720	121,574	10,649	663,87	2,868	647,409
Inter-segment	<u> </u>	<u>9,274</u>	<u>177</u>	<u>6,056</u>	<u>127</u>	<u>(15,634)</u>	<u> </u>
Total sales, net	<u>262,722</u>	<u>194,994</u>	<u>121,751</u>	<u>16,705</u>	<u>64,003</u>	<u>(12,766)</u>	<u>647,409</u>
Operating income (loss) before re- structuring expenses	<u>10,702</u>	<u>(7,489)</u>	<u>5,882</u>	<u>(1,296)</u>	<u>9,851</u>	<u>(1,967)</u>	<u>15,683</u>
Re-structuring expenses		<u>9,052</u>	<u>782</u>	<u>256</u>		<u>970</u>	<u>11,060</u>

Note 5 – Capital

Employee stock options:

On March 27, 2008, the Company Board of Directors resolved to allot, out of the options available for allotment in the 2006 plan, 185,000 stock options to 3 senior employees, at an exercise price equal to the share price at close of the trading day, which was \$5.13 per option. The value of said options using the Black & Scholes model is \$1.87 per option.

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 5 – Capital (cont.)

Details of additional capital transactions:

Attributed to Company shareholders

	<u>Ordinary share capital</u>									
	Number of shares	Amount	Share premium	Differences from translation of foreign operations	Unrealized gain (loss) from cash flow hedge	Unassigned income balance	Treasury shares	Total	Minority interest	Total equity
Balance as of January 1, 2007 (audited)	19,948	21,851	101,114	(160)	(275)	73,977	(9,700)	186,807	2,846	189,653
Transactions for the period ended March 31, 2007:										
Total recognized revenues and expenses					326	(13,617)		(13,291)	94	(13,197)
Dividend to minority interest									(160)	(160)
Benefit component for employee stock options						146		146		146
Balance as of March 31, 2007 (un-audited)	<u>19,948</u>	<u>21,851</u>	<u>101,114</u>	<u>(160)</u>	<u>51</u>	<u>60,506</u>	<u>(9,700)</u>	<u>173,662</u>	<u>2,780</u>	<u>176,442</u>
Balance as of December 31, 2006 (audited)	19,948	21,851	101,114	(160)	(275)	73,977	(9,700)	186,807	2,846	189,653
Transactions in 2007:										
Total recognized revenues and expenses				(6)	275	(13,925)		(13,656)	416	(13,240)
Dividend to minority interest									(525)	(525)
Benefit component of options granted to employees						544		544		544
Balance As of December 31, 2007 (audited)	<u>19,948</u>	<u>21,851</u>	<u>101,114</u>	<u>(166)</u>	<u>51</u>	<u>60,596</u>	<u>(9,700)</u>	<u>173,695</u>	<u>2,737</u>	<u>176,432</u>
Balance As of January 1, 2008 (audited)	19,948	21,851	101,114	(166)		60,596	(9,700)	173,695	2,737	176,432
Transactions in the period ended March 31, 2008:										
Total recognized revenues and expenses					129	776		905	119	1,024
Benefit component of options granted to employees						100		100		100
Balance as of March 31, 2008 (un-audited)	<u>19,948</u>	<u>21,851</u>	<u>101,114</u>	<u>(166)</u>	<u>129</u>	<u>61,472</u>	<u>(9,700)</u>	<u>174,700</u>	<u>2,856</u>	<u>177,556</u>

Delta Galil Industries Ltd.
Notes to summary financial statements
As of March 31, 2008 (un-audited)

Note 6 – Taxes on income

Merger

On March 2, 2008, the Tax Authority approved an application for restructuring of the Delta Group, effective from December 31, 2007, as follows:

Initially, shares of the subsidiary – Delta Textile Marketing Ltd. (“Delta Marketing”) held by D.G.T Holdings Ltd. were transferred to the Company pursuant to section 104c of the Ordinance, such that after the first stage, the Company would hold all rights in Delta Marketing. In the second stage, the Company merged Delta Marketing into the Company, such that Delta Marketing transferred all its assets and liabilities to the Company at no charge, thereby eliminating Delta Marketing without dissolution.

In the third stage, the Company merged with Tag-Li Ltd. (“Tag Li”), such that Tag Li transferred all its assets and liabilities to the Company at no charge, thereby eliminating Tag Li without dissolution.

In conjunction with the confirmation received, some restrictions were imposed on offsetting loss, such that the amount that may be offset each year would not exceed 1/12 of total loss, or 50% of taxable Company revenues in the year – whichever is lower – as well as with regard to future sale or allotment of shares.

Note 7 – Short-term loans from banks

In February 2008, the Company agreed on renewal of the agreement with banks in the USA, as follows:

- a. Increase in interest rate to LIBOR + 1.75%.
- b. Reduction of total credit facility from \$90 million to \$80 million, at the Company's request.
- c. Extension of the agreement through March 31, 2009.
- d. Elimination of a financial covenant with regard to minimum annual income and unchanged financial covenants compared to 2007, as follows:
 1. The ratio of net value (shareholders' equity) to total Delta USA assets shall not be less than 0.3 as of December 31, 2007, March 31, June 30, September 30 and December 31, 2008.
 2. Net value (shareholders' equity) of Delta USA shall not be less than USD 65 million as of December 31, 2007, March 31, June 30, September 30 and December 31, 2008.

Note 8 – Events subsequent to the balance sheet date

On May 11, 2008, the Company received notification of a special tender offer by GMM Capital LLC, a company controlled by an interested party of the Company. The aforementioned tender offer proposes acquisition of up to 1,000,000 Company shares, comprising 4.97% of its issued and paid-up capital, and 5.34% of voting rights in the Company, as of that trading day (fully diluted, 4.55% and 4.85%, respectively), at a price of NIS 21.32 per share. The final acceptance date is June 10, 2008.

