

TEFRON LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 2019

TEFRON LTD.

Interim Consolidated Financial Statements as at March 31, 2019

Unaudited

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Review Report of the Auditors to the Shareholders of Tefron Ltd.

Preface

We have reviewed the attached financial information of Tefron Ltd. and its subsidiaries (hereinafter: "the Group"), which includes the condensed consolidated balance sheet as at March 31, 2019, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the period of three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for this interim period, in accordance with International Accounting Standard IAS 34 - "Financial Reporting for Interim Periods", and are also responsible for the preparation of financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

Scope of the review

We have performed our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Information for Interim Periods Prepared by the Entity's Auditor". A review of financial information for interim periods consists of making inquiries, primarily with persons responsible for financial and accounting matters, and of applying analytical and other review procedures. A review is considerably more limited in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to obtain assurance that we will be aware of all significant matters which might have been identified in an audit. Consequently, we are not expressing an opinion of an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the above financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the aforesaid in the previous paragraph, based on our review, nothing has come to our attention which would cause us to believe that the above financial information does not comply, in all material respects, with the disclosure provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Date: May 15, 2019

Tefron Ltd.

Condensed Consolidated Balance Sheets

	As at March 31,		As at December 31,
	2019	2018	2018
	Unaudited		Audited
	Dollars thousands		
<u>Current assets</u>			
Cash	2,453	581	1,876
Trade receivables, net	24,517	17,619	20,915
Other receivables	5,225	3,350	3,827
Inventory	32,360	26,852	29,485
Total current assets	64,555	48,402	56,103
<u>Non-current assets</u>			
Property, plant and equipment, net	17,977	20,487	17,481
Goodwill and intangible assets, net	128	69	124
Software, net	1,739	1,630	1,722
Long-term receivables	-	90	-
Deferred taxes, net	2,890	2,890	2,890
Total non-current assets	22,734	25,166	22,217
Total assets	87,289	73,568	78,320

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Condensed Consolidated Balance Sheets

	As at March 31,		As at December 31,
	2019	2018	2018
	Unaudited		Audited
	Dollars thousands		
<u>Current Liabilities</u>			
Bank credit	21,662	11,581	18,908
A loan from the controlling shareholders	2,000	1,888	2,000
Trade payables	26,297	23,740	22,103
Other payables	3,440	3,415	2,736
Total current liabilities	53,399	40,624	45,747
<u>Non-current liabilities</u>			
Loans from banks	7,030	7,281	6,707
Liabilities for bank options	77	40	37
Liabilities for benefits to employees, net	1,267	892	1,296
Long-term payables	1,092	-	-
Total non-current liabilities	9,466	8,213	8,040
<u>Equity</u>			
Share capital	33,617	33,617	33,617
Additional paid-in capital	99,686	99,686	99,686
Capital reserve for remeasurement of defined benefit plan	(2,072)	(1,541)	(2,072)
Accumulated deficit	(99,907)	(99,961)	(99,568)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for hedging transactions	(142)	-	(144)
Other capital reserves	441	338	422
Equity attributed to the owners of the parent company	24,215	24,731	24,533
Non-controlling interest (see Note 4b)	209	-	-
Total equity	24,424	24,731	24,533
Total liabilities and equity	87,289	73,568	78,320

May 15, 2019			
Date of approval of the financial statements	Arnon Tiberg Chairman of the Board	Ben Lieberman CEO	Gregory Davidson CFO

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Condensed Consolidated Statements of Income

	For the three months ended March 31,		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
	Dollars thousands (excluding data on income (loss) per share)		
Sales	37,516	32,972	141,493
Cost of sales	29,374	28,124	113,204
Gross profit	8,142	4,848	28,289
Development expenses	1,121	1,093	3,897
Selling and marketing expenses	4,401	3,930	19,130
General and administrative expenses	858	858	3,373
Other expenses (see Note 4b)	1,018	-	34
Operating profit (loss)	744	(1,033)	1,855
Income from debt recycling, net	-	2,818	2,818
Financing income	65	-	113
Financing expenses	(939)	(896)	(3,411)
Financing income (expenses), net	(874)	1,922	(480)
Income (loss) before taxes on income	(130)	889	1,375
Tax expenses	-	(20)	(113)
Net income (loss)	(130)	869	1,262
Attributed to:			
Owners of the parent company	(339)	869	1,262
Non-controlling interest	209	-	-
	(130)	869	1,262
<u>Income (loss) per share (in dollars)</u>			
Basic and diluted income (loss) per share	(0.01)	0.07	0.11

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Condensed Consolidated Statements of Comprehensive Income

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
	Dollars thousands		
Net income (loss)	(130)	869	1,262
Other comprehensive loss (after the effect of the tax):			
<u>Amounts that will not be reclassified thereafter to the statements of income:</u>			
Loss from remeasurement of a defined benefit plan	-	-	(531)
Subtotal of items that will not be reclassified thereafter to the statements of income	-	-	(531)
<u>Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met:</u>			
Unrealized gain on cash flows hedge transaction	83	-	-
Unrealized loss due to interest rate swap transaction	(81)	-	(144)
Total items that shall be reclassified or are reclassified to the statements of income	2	-	(144)
Total other comprehensive loss	2	-	(675)
Total comprehensive income (loss)	(128)	869	587
Attributed to:			
Owners of the parent company	(337)	869	587
Non-controlling interest	209	-	-
	(128)	869	587

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Attributed to the sharehol- ders of the parent company in total	Non- controlling interest	Total Equity
Unaudited										
Dollars thousands										
<u>Balance as at January 1, 2019</u> <u>(audited)</u>	33,617	99,686	(2,072)	(99,568)	(7,408)	(144)	422	24,533	-	24,533
Net income (loss)	-	-	-	(339)	-	-	-	(339)	209	(130)
Total other comprehensive income	-	-	-	-	-	2	-	2	-	2
A financial benefit from a controlling shareholder	-	-	-	-	-	-	19	19	-	19
<u>Balance as at March 31, 2019</u>	<u>33,617</u>	<u>99,686</u>	<u>(2,072)</u>	<u>(99,907)</u>	<u>(7,408)</u>	<u>(142)</u>	<u>441</u>	<u>24,215</u>	<u>209</u>	<u>24,424</u>

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total Equity
Unaudited							
Dollars thousands							
<u>Balance as at January 1, 2018 (audited)</u>	33,617	99,686	(1,541)	(100,830)	(7,408)	338	23,862
Net income	-	-	-	869	-	-	869
<u>Balance as at March 31, 2018</u>	<u>33,617</u>	<u>99,686</u>	<u>(1,541)</u>	<u>(99,961)</u>	<u>(7,408)</u>	<u>338</u>	<u>24,731</u>

Relating to the Company's shareholders

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
Unaudited								
Dollars thousands								
<u>Balance as at January 1, 2018 (audited)</u>	33,617	99,686	(1,541)	(100,830)	(7,408)	-	338	23,862
Net income	-	-	-	1,262	-	-	-	1,262
Total other comprehensive loss	-	-	(531)	-	-	(144)	-	(675)
A loan from shareholders	-	-	-	-	-	-	84	84
<u>Balance as at December 31, 2018</u>	<u>33,617</u>	<u>99,686</u>	<u>(2,072)</u>	<u>(99,568)</u>	<u>(7,408)</u>	<u>(144)</u>	<u>422</u>	<u>24,533</u>

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Condensed Consolidated Statements of Cash Flows

	For the three months ended March 31,		For the year ended December 31
	2019	2018	2018
	Unaudited	Unaudited	Audited
	Dollars thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	(130)	869	1,262
Adjustments required to present cash flows from operating activities:			
Adjustments to statement of income items:			
Depreciation and amortization of fixed assets and intangible assets	1,358	1,263	5,041
Capital gain on sale of fixed assets	-	-	(2)
A financial benefit from a controlling shareholder	19	-	84
Net profit due to debt recycling	-	(2,818)	(2,818)
Loss due to impairment of slow inventory	160	380	907
	1,537	(1,175)	3,212
Change in liabilities for benefits to employees, net	(29)	(108)	(235)
Change in fair value of a liability for bank options	40	4	1
Taxes on income	2	71	415
Financing expenses, net	693	612	2,022
	706	579	2,203
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables	(3,602)	95	(3,201)
Increase in other receivables	(1,193)	(78)	(465)
Increase in inventory	(3,035)	(1,548)	(4,708)
Increase in trade payables	4,194	2,039	1,325
Increase (decrease) in other payables	182	134	(689)
	(3,454)	642	(7,738)
Cash paid and received during the period for:			
Interest paid	(675)	(576)	(1,874)
Taxes paid	(2)	(71)	(415)
	(677)	(647)	(2,289)
Net cash provided from (used for) operating activities	(2,018)	268	(3,350)

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Condensed Consolidated Statements of Cash Flows

	For the three months ended March 31,		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
	Dollars thousands		
<u>Cash flows from investing activities</u>			
Purchase of property, plant and equipment	(283)	(128)	(738)
Purchase of software	(89)	(80)	(422)
Proceeds from disposal of fixed assets	-	-	35
Net cash used for investing activities	(372)	(208)	(1,125)
<u>Cash flows from financing activities:</u>			
Short term bank credit, net	3,077	(236)	5,551
Repayment of long-term loans	-	(310)	(9,344)
Receiving a long-term loan	-	-	10,000
Repayment of long-term credit for fixed assets	-	(153)	(1,076)
Repayment of lease liability	(110)	-	-
Net cash provided from (used for) financing activities	2,967	(699)	5,131
<u>Increase (decrease) in cash and cash equivalents</u>	577	(639)	656
Cash and cash equivalents at beginning of period	1,876	1,220	1,220
<u>Cash and cash equivalents at end of period</u>	2,453	581	1,876

The accompanying notes are an integral part of the interim consolidated financial statements

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 1 - General

- a. These financial statements were prepared in a condensed form as at March 31, 2019 and for the three months period then ended (hereinafter - "interim consolidated financial statements"). These statements should be read together with Tefron Ltd.'s (hereinafter- "the Company") annual financial statements as at December 31, 2018 and for the year then ended, and the notes accompanying them (hereinafter -"annual financial statements").
- b. The Company did not include separate financial information in the interim financial statements in accordance with Regulation 38d of the Securities Regulations ("Periodic and Immediate Reports"), 1970, since it believes that including such information shall not carry with it any additional material information to the investor.

Note 2 - Significant accounting principles

a. Basis for the preparation of the financial statements

The interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - "Financial Reporting for Interim Periods", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The accounting policy used in preparing the interim consolidated financial statements is consistent with the one used in preparing the consolidated annual financial statements, apart for changes in the accounting policy that resulted from the implementation of new standards, amendments to standards and interpretations thereof which took effect in respect of annual reporting periods commencing on January 1, 2019 or thereafter, as detailed in Notes 3b to the annual consolidated financial statements, and as detailed as follows:

IFRS 16 – "Leases"

The Group assesses whether a contract is a lease (or includes a lease) on the date of entering into a contract. The Group recognizes the asset as a right-of-use on the one hand and as a lease liability on the other hand in respect of all lease agreements in which it is the lessee, except for short-term leases (for a period of up to 12 months) and leases of assets of low value. In these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the lease period, unless another systematic basis better represents the pattern of consumption of economic benefits by the Group from the leased assets.

The lease term is the non-cancellable period for which the lessee has the right to use the leased asset together with:

- Periods covered by an option to extend the lease if it is reasonably certain that the lessee will exercise that option, and
- Periods covered by an option to terminate the lease if it is reasonably certain that the lessee will not exercise that option.

In determining the lease term, the Company has considered extension options which, as of January 1, 2019, are reasonably certain to be exercised by it. The likelihood of exercising the extension options has been examined while taking into consideration, among other things, the lease payments during the extension periods in relation to market prices, significant improvements in the leased properties carried out by the Company which are likely to have a significant economic benefit for

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 2 - Significant accounting principles (cont.)

a. Basis for the preparation of the financial statements (cont.)

IFRS 16 – “Leases” (cont.)

the Company during the extension period, costs relating to the termination of the lease (negotiation, evacuation costs and locating an alternative asset in its place), the importance of the asset to the Company's operations, location of the leased asset and the availability of suitable alternatives.

The lease liability is initially measured at the present value of the lease payments that are not paid at the inception date, discounted using the interest rate implicit in the lease. If this rate cannot be easily determined, the Group uses its incremental interest rate.

The lease liability is presented under long-term payables in the balance sheet statements. A lease liability is measured subsequently by increasing the book value to reflect interest on the lease liability using the effective interest method and by reducing the book value to reflect the lease payments made.

The Company remeasures the lease liability (against adjustment to the right-of-use asset) when:

- There has been a change in the lease period or when there has been a change in the valuation of an option to purchase the underlying asset. In this case the lease liability is measured by discounting the revised lease payments while using a revised capitalization rate.
- There has been a change in future lease payments resulting from a change in the index or the rate used to determine these payments (for example, lease payments linked to the consumer price index) or when there has been a change in the amounts expected to be paid in accordance with the residual value guarantee. In this case, the lease liability is measured by discounting the revised lease payments while using the original discount rate (unless the change in the lease payments is due to a change in variable interest rates, in which case a revised discount rate is used).
- A revision of the lease was carried out that is not treated as a separate lease. In this case, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments in the presented reporting periods.

The cost of the right-of-use asset consists of the initial measurement amount of the lease liability, any lease payments made on or before the effective date and initial direct costs. Subsequently, a right-of-use is measured at cost less accumulated depreciation and impairment losses.

The right-of-use asset is measured at cost and depreciated on a straight line over the shorter period of the lease term and the useful life of the underlying asset. If the lease transfers to the Company ownership of the underlying asset or if the cost of a right-of-use asset reflects the exercise of a purchase option by the Company, the right-of-use asset is depreciated on a straight line over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies the provisions of IAS 36 Impairment of Assets in order to determine whether the asset has been impaired and to treat such an identified impairment loss.

The right-of-use asset is presented in the fixed assets item in the balance sheets statements.

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Notes to the Condensed Consolidated Financial Statements

Note 2 - Significant accounting principles (cont.)

b. Taxes on income in interim financial reports

The tax expenses (income) for the presented periods include the total current taxes, taxes in respect of previous years as well as the total change in the balances of deferred taxes.

Current tax expenses (income) in interim periods are accrued using the average effective annual income tax rate. For the purpose of calculating the effective income tax rate, tax losses for which deferred tax assets were not recognized, which are expected to reduce the tax liability in the reporting year are deducted.

Note 3 – New standards and amendments to standards that have an effect on the current period and/or previous reporting periods

IFRS 16 – "Leases"

The new standard which took effect as of January 1, 2019 ('the initial implementation date') replaces IAS 17 "Leases" and the related interpretations thereto, and sets out the principles for the recognition, measurement, presentation and disclosure of leases in relation to both parties of a transaction, meaning the customer ('lessee') and the supplier ('lessor'). The standard does not change the current accounting treatment of the books of the lessor.

The new standard eliminates the existing distinction regarding lessee, between finance leases and operating leases and determines a uniform accounting model in relation to all types of leases. In accordance with the new model, for every leased asset, the lessee is required to recognize the asset for right-of-use on the one hand, and on the other hand, the financial liability for the present value of the leasing fees.

The provisions for recognizing the asset and liability, as aforementioned, shall not apply in respect of assets leased for a period of up to 12 months and in relation to leases of low-value assets (for example, personal computers).

The Company chose not to retroactively adjust the comparative data.

As a result of implementing the standard, the balance of assets and liabilities in the balance sheet as at January 1, 2019, increased by 1,625 thousand dollars. The main effects on the statement of income for the first quarter of 2019 are a decrease in lease expenses in the amount of 110 thousand dollars and an increase in depreciation expenses and financing expenses in the amount of 100 thousand dollars and 18 thousand dollars, respectively. The cash flow from operating activities for the first quarter of 2019 increased by a sum of 118 thousand dollars and the cash flow from financing activities decreased by a sum of 110 thousand dollars.

The range of nominal discount rates used to measure the liabilities for a lease ranges from 3% to 5%.

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Notes to the Condensed Consolidated Financial Statements

Note 4 – Significant events during the period of the report

- a. On January 16, 2019, the Company's Remuneration Committee and the Board of Directors approved the allocation of 700,000 non-tradeable options (hereinafter: "the options"), exercisable for up to 700,000 ordinary shares of NIS 10 par value each (hereinafter: "the exercise shares"). The offeree is Mr. Michael Goldenblatt (or a corporation under his control through which he provides management services to the Company), who is the CEO of the Company's subsidiary, Tefron USA, Inc. (Hereinafter: "the offeree"). The options will be allocated to the offeree for no consideration as part of the offeree's remuneration in respect of his position in the Company. The exercise price of each option determined by the Company's Board is NIS 4.18 for each ordinary share of NIS 10 par value each, which was determined according to the average price of the Company's share on the Tel Aviv Stock Exchange Ltd. (hereinafter: "the Stock Exchange") during the 90 (ninety) trading days preceding the date of the resolution of the Board of Directors regarding the allocation, plus a premium of 5% (hereinafter: "the exercise price"). The options will be exercised using the "cashless" method. The economic value of each option offered to the offeree (in an average calculation of the three series) is NIS 1.72. As at the date of the publication of the report the options have not been allocated in practice.
- b. An agreement for the purpose of establishing a joint company in Jordan

On January 17, 2019, the Company engaged in an agreement to establish a jointly owned company in Jordan (through a wholly owned subsidiary of the Company), for the purpose of local production in Jordan, exclusively for Tefron (at this stage for the brands segment), of products made by the seamless technology (hereinafter: "the agreement"). The other party to the agreement is a company incorporated in Jordan (which is not related to the Company and/or its controlling shareholders), which engages in the local manufacturing of textile products for international brands and to customers in the retail market while using cut & sew technology (hereinafter: "the partner").

In accordance with the agreement, the parties will work to establish a jointly owned company in equal shares in Jordan, while the Company itself appointing the chairman of the board of directors of the joint company, and he shall have a decisive vote in any case of equality of votes on the board of directors of the joint company. As part of the agreement, arrangements were set in all matters relating to the management and operation of the joint company and in all matters pertaining to the rights and obligations of the parties as shareholders therein. Including with regard to the right of first refusal and the right to participate in the sale of shares, as well as instructions regarding non-competition of the partner in the Company in all matters relating to the manufacturing of seamless technology products. For the purpose of its operations, the joint company will lease an industrial building from the partner and knitting machines from the Company. The parties have commenced the joint operations in the first quarter of 2019.

The entry into force of the agreement is subject to the approval of the bank that finances Tefron's operations (HSBC) within 30 days as of the signing date of the agreement. On February 7, 2019, the approval of the bank that finances Tefron's operations (HSBC) was received for the said agreement.

In light of the establishment of the joint company, as aforementioned, as at March 31, 2019, the Company incurred reorganization expenses in the sum of 1 million dollars which were included in other expenses.

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Notes to the Condensed Consolidated Financial Statements

Note 4 – Significant events during the period of the report (cont.)

c. Signing a collective agreement with the General Federation of Labor and the Employee Association

On February 20, 2019, the Company signed a collective agreement with the new General Federation of Labor and the Company's Employee Association (hereinafter: "the agreement"), whose main points are detailed as follows: The agreement applies to employees of the Company's production, development, maintenance and technical departments (hereinafter: "the employees"). The agreement stipulates a one-time salary increment to the employees at a rate of 2.5%, to be paid as of October 2018. In addition, the agreement stipulates entitlement of employees to seniority increment, which will be paid to employees employed by the Company for at least 5 years and up to over 16 years at a gradual rate of 0.5% to 3.5%, not on a cumulative basis. The seniority increment will be paid as of January 1, 2020. The agreement regulates the practice of the Company in all matters relating to pension insurance, including the regulation of pension fees' components, severance pay, vacation days, sick leave, other related working conditions, procedures and rules of conduct. In addition, the agreement regulates the dismissal proceedings of the employees, as applicable. The employees will be entitled, each and every one, to a grant concerning the signing of the agreement in the amount of NIS 1,000. The agreement guarantees industrial quiet throughout the period of the agreement in all matters relating to the issues settled in the agreement. The agreement period is for three years as of the date of signing thereof, with the Company having the option to extend it by one additional year against a one-time salary increment to the employees at a rate of 2.5%. The Company believes that the estimate of the increase in the total cost of manpower in the Company for 2019, based on the manpower data on the signing date of the agreement (consists of the cost of the signing grants only, since the one-time increase of 2.5% was paid in 2018, as aforesaid) is US 40 thousand dollars and for the year 2020 and until the end of the period of the agreement US 110 thousand dollars.

d. On February 21, 2019, an addendum to the financing agreement with the Company's financing bank (HSBC) was signed, whose main principals are:

- (1) the provision of an additional line of credit of up to US 5 million dollars to finance advances of payments to be received from Walmart. It should be noted that the Company executes the sales to Walmart through its wholly owned subsidiary Hosiery Lamour Inc. ("Lamour"). Lamour is able to advance payments from Walmart through Walmart's special plan to advance payments to suppliers that is used by Walmart and the bank Wells Fargo Bank ("Wells"). The additional credit line is intended to advance the payments received by Lamour from Wells.
- (2) The amendment of the commitment to comply with the financial covenant of the debt to EBITDA ratio, which according to the financing agreement was 3.5 times as of the third quarter of 2018, to no more than: (a) 4.00 times for the quarter ending December 31, 2018 (b) 4.00 times for the quarter ending March 31, 2019 (c) 3.50 any time thereafter.

As at March 31, 2019, the Company met the financial covenants that were determined in the financing agreement, as detailed above.

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Notes to the Condensed Consolidated Financial Statements

Note 4 – Significant events during the period of the report (cont.)

- e. On March 6, 2019, an extraordinary general meeting of the Company was held, which approved the renewal of letters of indemnity to Messrs. Ben Lieberman and Martin Lieberman, directors and officers who are the controlling shareholders of the Company, and this as of February 11, 2019.

Note 5 - Operating segments

a. General

The information that the Company provides in accordance with the IFRS 8 definitions is based on the available financial information which is reviewed regularly and is used by the Company's CEO who is the Company's chief operating decision maker (CODM), for the purpose of making decisions regarding the resources to be allocated to the segment and in order to evaluate the segment's performance.

Based on the criteria in IFRS 8 for determining reportable operating segments, and the available financial information, which is reviewed regularly by the Company's CEO, the Company has determined that it operates in two reportable operating segments:

- (a) Brands – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear, which are manufactured in the Company's plants and through subcontractors and are sold to customers with leading brands.
- (b) Retail – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear which are sold worldwide to customers in the retail market and are characterized by purchasing large quantities of less complex products compared to the products of the brands segment.

b. Reporting in respect of operating segments

	For the three-month period ended March 31, 2019			For the three-month period ended March 31, 2018		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited			Unaudited		
	Dollars thousand			Dollars thousand		
Total segment revenues	<u>12,984</u>	<u>24,532</u>	<u>37,516</u>	<u>10,553</u>	<u>22,419</u>	<u>32,972</u>
Direct profit (loss)	(820)	2,504	1,684	(1,368)	1,390	22
Indirect costs	(325)	(615)	(940)	(337)	(718)	(1,055)
Segment results	<u>(1,145)</u>	<u>1,889</u>	<u>744</u>	<u>(1,705)</u>	<u>672</u>	<u>(1,033)</u>
Financing income (expenses), net			<u>(874)</u>			<u>1,922</u>
Tax expenses			<u>-</u>			<u>(20)</u>
Net profit (loss)			<u>(130)</u>			<u>869</u>

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 5 - Operating segments (cont.)

b. Reporting in respect of operating segments (cont.)

	<u>For the year ended December 31, 2018</u>		
	<u>Brands</u>	<u>Retail</u>	<u>Total</u>
	<u>Audited</u>		
	<u>Dollars thousand</u>		
Total segment revenues	<u>45,264</u>	<u>96,229</u>	<u>141,493</u>
Direct profit (loss)	(3,452)	9,518	6,066
Indirect costs	(1,337)	(2,874)	(4,211)
Segment results	<u>(4,789)</u>	<u>6,644</u>	<u>1,855</u>
Financing expenses, net			<u>(480)</u>
Tax expenses			<u>(113)</u>
Loss			<u>1,262</u>

- c. Regarding the disaggregation of revenue from contracts with customers into groups that depict the manner in which the nature of the amount, timing and uncertainty of revenue and cash flows are affected by economic factors, see operating segments note above.

Note 6 - Financial instruments

Fair Value

The carrying amount of cash, trade receivables, other receivables, banks' credit and long-term loans, trade payables and other payables matches or approximates their fair value.