TEFRON LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT SEPTEMBER 30, 2019

TEFRON LTD.

Condensed Consolidated Financial Statements as at September 30, 2019

(Unaudited)

Contents

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Deloitte.

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 September 30, 2019, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the periods of nine months and three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods, in accordance with International Accounting Standard IAS 34, "Financial Reporting for Interim Periods", and are also responsible for the preparation of financial information for these interim periods 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 these interim periods 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
A Firm in the Deloitte Global Network

Date: November 20, 2019

Tefron Ltd.
Condensed Consolidated Balance Sheets

	As at September 30,		As at December 31,
	2019	2018	2018
	(Unaudited)		
	US dollars in thousands		
Current assets			
Cash	5,306	2,407	1,876
Trade receivables, net	19,151	19,806	20,915
Other receivables	4,759	3,731	3,827
Inventory	34,564	29,276	29,485
	63,780	55,220	56,103
Non-current assets			
Property, plant and equipment, net	16,858	18,572	17,481
Goodwill and intangible assets, net	125	66	124
Software, net	2,057	1,581	1,722
Long-term receivables	-	29	-
Deferred taxes, net	2,890	2,890	2,890
	21,930	23,138	22,217
	85,710	78,358	78,320

The notes to the condensed consolidated financial statements are an integral part thereof

Tefron Ltd.
Condensed Consolidated Balance Sheets

	As at September 30,		As at December 31,
	2019	2018	2018
	(Unaudited)		
	US dollars in thousands		
Current liabilities			
Bank credit	25,638	17,357	18,908
loan from the controlling shareholders	2,000	1,962	2,000
Trade payables	22,551	23,311	22,103
Other payables	3,513	2,714	2,736
	53,702	45,344	45,747
Non-current liabilities			
Long-term loans from banks	6,272	7,340	6,707
Liabilities for bank options	89	62	37
Liabilities for benefits to employees, net	1,297	804	1,296
Long-term payables	1,588	-	-
	9,246	8,206	8,040
Equity			
Share capital	33,617	33,617	33,617
Additional paid-in capital	99,806	99,686	99,686
Reserve for remeasurement of defined benefit plan	(2,072)	(1,541)	(2,072)
Accumulated deficit	(101,275)	(99,884)	(99,568)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for hedging transactions	(384)	-	(144)
Other capital reserves	478	338	422
Total equity	22,762	24,808	24,533
Total liabilities and equity	85,710	78,358	78,320

November 20, 2019			
Date of approval of the financial statements	**Arnon Tiberg Chairman of the Board**	**Ben Lieberman CEO**	**Gregory Davidson CFO**

The notes to the condensed consolidated financial statements are an integral part thereof

Tefron Ltd.
Condensed Consolidated Statements of Income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2019	2018	2019	2018	2018
	(Unaudited)				
	US dollars in thousands (excluding data on income (loss) per share)				
Sales	109,102	103,840	31,424	29,116	141,493
Cost of sales	89,973	83,790	26,941	23,226	113,204
Gross profit	19,129	20,050	4,483	5,890	28,289
Development expenses, net	2,486	2,980	823	901	3,897
Selling and marketing expenses	12,136	13,636	3,911	4,363	19,130
General and administrative expenses	2,421	2,549	698	770	3,373
Other expenses	1,629	34	219	-	34
Operating profit (loss)	457	851	(1,168)	(144)	1,855
Income from debt recycling, net	-	2,818	-	-	2,818
Financing income	182	89	-	-	113
Financing expenses	(2,458)	(2,543)	(755)	(743)	(3,411)
Financing income (expenses), net	(2,276)	364	(755)	(743)	(480)
Income (loss) before taxes on income	(1,819)	1,215	(1,923)	(887)	1,375
Tax income (expenses)	112	(269)	155	(37)	(113)
Net income (loss)	(1,707)	946	(1,768)	(924)	1,262
Income (loss) per share attributable to the Company’s shareholders (in dollars)					
Basic and diluted income (loss) per share	(0.14)	0.08	(0.15)	(0.08)	0.11

The notes to the condensed consolidated financial statements are an integral part thereof

Tefron Ltd.

Condensed Consolidated Statements of Comprehensive Income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2019	2018	2019	2018	2018
	(Unaudited)				
	US dollars in thousands				
Net income (loss)	(1,707)	946	(1,768)	(924)	1.262
Other comprehensive income (loss) (after the effect of the tax):					
<u>Amounts that will not be reclassified subsequently to the statements of income:</u>					
Loss from remeasurement of defined benefit plans	-	-	-	-	(531)
Subtotal of items that will not be reclassified subsequently to the statements of income	-	-	-	-	(531)
Unrealized loss due to interest rate swap transaction	(240)	-	(21)	-	(144)
Total items that shall be reclassified or are reclassified to the statements of income	(240)	-	(21)	-	(144)
Total other comprehensive loss	(240)	-	(21)	-	(675)
Total comprehensive income (loss)	(1,947)	946	(1,789)	(924)	587

The notes to the condensed consolidated financial statements are an integral part thereof

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Relating to the Company's shareholders							
	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transacti-ons	Other capital reserves	Total Equity
	US dollars in thousands							
Balance as at January 1, 2019 (Audited)	33,617	99,686	(2,072)	(99,568)	(7,408)	(144)	422	24,533
Loss	-	-	-	(1,707)	-	-	-	(1,707)
Total other comprehensive loss	-	-	-	-	-	(240)	-	(240)
Share based payment to employees and consultants	-	120	-	-	-	-	-	120
A benefit from a controlling shareholder	-	-	-	-	-	-	56	56
Balance as at September 30, 2019 (Unaudited)	33,617	99,806	(2,072)	(101,275)	(7,408)	(384)	478	22,762

	Relating to the Company's shareholders						
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	US dollars in thousands						
Balance as at January 1, 2018 (Audited)	33,617	99,686	(1,541)	(100,830)	(7,408)	338	23,862
Net income	-	-	-	946	-	-	946
Balance as at September 30, 2018 (Unaudited)	33,617	99,686	(1,541)	(99,884)	(7,408)	338	24,808

The notes to the condensed consolidated financial statements are an integral part thereof

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	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							
	US dollars in thousands							
Balance as at July 1, 2019 (*)	33,617	99,746	(2,072)	(99,507)	(7,408)	(363)	460	24,473
loss	-	-	-	(1,768)	-	-	-	(1,768)
Total other comprehensive loss	-	-	-	-	-	(21)	-	(21)
Share based payment to employees and consultants	-	60	-	-	-	-	-	60
A benefit from a controlling shareholder	-	-	-	-	-	-	18	18
Balance as at September 30, 2019	33,617	99,806	(2,072)	(101,275)	(7,408)	(384)	478	22,762

(*) See Note 4b(2) - An immaterial adjustment of the comparison figures.

The notes to the condensed consolidated financial statements are an integral part thereof

Tefron Ltd.
Condensed Consolidated Statements of Changes in Shareholders' Equity

	Relating to the Company's shareholders						
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	Unaudited						
	US dollars in thousands						
Balance as at July 1, 2018	33,617	99,686	(1,541)	(98,960)	(7,408)	338	25,732
Loss	-	-	-	(924)	-	-	(924)
Balance as at September 30, 2018	33,617	99,686	(1,541)	(99,884)	(7,408)	338	24,808

	Relating to the Company's shareholders							
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transacti-ons	Other capital reserves	Total equity
	Audited							
	US dollars in thousands							
Balance as at January 1, 2018	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 benefit from a controlling shareholder	-	-	-	-	-	-	84	84
Balance as at December 31, 2018	33,617	99,686	(2,072)	(99,568)	(7,408)	(144)	422	24,533

The notes to the condensed consolidated financial statements are an integral part thereof

Tefron Ltd.
Condensed Consolidated Statements of Cash Flows

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)				
	US dollars in thousands				
Cash flows from operating activities					
Net income (loss)	(1,707)	946	(1,768)	(924)	1,262
Adjustments required to present cash flows from operating activities:					
Adjustments to the statement of income items:					
Depreciation and amortization of fixed assets and intangible assets	4,422	3,866	1,480	1,253	5,041
Capital gain on sale of fixed assets	-	(2)	-	-	(2)
Cost of share-based payment	120	-	60	-	-
A benefit from a controlling shareholder	56	-	18	-	84
Income from debt recycling, net	-	(2,818)	-	-	(2,818)
Loss from impairment of slow inventory	323	735	81	65	907
	4,921	1,781	1,639	1,318	3,212
Change in liabilities for benefits to employees, net	1	(196)	50	20	(235)
Change in fair value liabilities for bank options	52	26	(32)	34	1
Taxes on income	(91)	398	(153)	215	415
Financing expenses, net	1,993	1,655	567	450	2,022
	1,955	1,883	432	719	2,203
Changes in assets and liabilities items:					
Decrease (increase) in trade receivables	1,764	(2,092)	6,897	6,242	(3,201)
Decrease (increase) in other receivables	(932)	(398)	(560)	685	(465)
Increase in inventory	(5,402)	(4,327)	(2,204)	(10,030)	(4,708)
Increase (decrease) in trade payables	118	2,158	(1,290)	3,487	1,325
Increase (decrease) in other payables	89	(567)	166	(141)	(689)
	(4,363)	(5,226)	3,009	243	(7,738)
Cash paid and received during the period for:					
Interest paid	(1,933)	(1,545)	(544)	(413)	(1,874)
Taxes paid	(64)	(398)	(2)	(215)	(415)
Taxes received	155	-	155	-	-
	(1,842)	(1,943)	(391)	(628)	(2,289)
Net cash provided from (used for) operating activities	(1,036)	(2,559)	2,921	728	(3,350)

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

Tefron Ltd.
Condensed Consolidated Statements of Cash Flows

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)				
	US dollars in thousands				
Cash flows from investing activities					
Purchase of fixed assets	(798)	(576)	(157)	(326)	(738)
Purchase of software	(697)	(301)	(280)	(94)	(422)
Proceeds from sale of fixed assets	-	35	-	-	35
Net cash used for investing activities	(1,495)	(842)	(437)	(420)	(1,125)
Cash flows from financing activities					
Short-term bank credit, net	7,723	4,633	(2,467)	315	5,551
Repayment of long-term loans	(1,428)	(9,344)	-	-	(9,344)
Receiving a long-term loan	-	10,000	-	-	10,000
Repayment of long-term credit for fixed assets	-	(701)	-	(144)	(1,076)
Repayment of lease liability	(334)	-	(113)	-	-
Net cash provided from (used for) financing activities	5,961	4,588	(2,580)	171	5,131
Increase (decrease) in cash	3,430	1,187	(96)	479	656
Balance of cash at beginning of period	1,876	1,220	5,402	1,928	1,220
Balance of cash at end of period	5,306	2,407	5,306	2,407	1,876

	For the nine-month period ended September 30,		For the three-month period ended September 30,		For the year ended December 31
	2019	2018	2019	2018	2018
	(Unaudited)				
	US dollars in thousands				
Appendix a – Significant non-cash transactions					
Purchase of fixed assets on credit	915	-	-	-	-

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

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 1 - General

a. These financial statements were prepared in a condensed format, as at September 30, 2019 and for the periods of nine months and three months then ended (hereinafter – “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 – the "annual consolidated 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 the Company believes that the inclusion of such information shall not constitute as additional significant information to the investor.

Note 2 – Significant accounting principles

a. Basis for the preparation of the financial statements

The 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 annual consolidated 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 from the leased assets by the Group.

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.

Note 2 – Significant accounting principles (cont.)

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

IFRS 16 – "Leases" (cont.)

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 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 has not made 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 asset is measured at cost less accumulated depreciation and impairment losses.

Note 2 – Significant accounting principles (cont.)

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

IFRS 16 – “Leases” (cont.)

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.

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 past 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.

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

IFRS 16 – "Leases" (cont.)

The main effects on the statement of income for the nine-month period ended September 30, 2019 are a decrease in lease expenses in the amount of 335 thousand dollars and an increase in depreciation expenses and financing expenses in the amount of 303 thousand dollars and 61 thousand dollars, respectively.
The main effects on the statement of income for the three-month period ended September 30, 2019 are a decrease in lease expenses in the amount of 113 thousand dollars and an increase in depreciation expenses and financing expenses in the amount of 101 thousand dollars and 23 thousand dollars, respectively.
The cash flow from operating activities for the nine-month and three-month periods ended September 30, 2019 increased by a sum of 364 thousand dollars and 123 thousand dollars respectively. The cash flow from financing activities for the nine-month and three-month periods ended September 30, 2019 decreased by a sum of 335 thousand dollars and 113 thousand dollars respectively.
The range of nominal discount rates used to measure the liabilities for a lease is 3% to 5%.

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.

The offeree will be entitled to exercise the options in 3 series, exercisable for a period of five years each one (hereinafter: the "exercise period"), as of the following dates and in accordance with the principles set out below:

(a) First series – 233,333 options exercisable for up to 233,333 ordinary shares of the Company of NIS 10 par value each as of February 1, 2020 and until January 31, 2025.

(b) Second series – 233,333 options exercisable for up to 233,333 ordinary shares of the Company of NIS 10 par value each as of February 1, 2021 and until January 31, 2026.

(c) Third series – 233,334 options exercisable for up to 233,334 ordinary shares of the Company of NIS 10 par value each as of February 1, 2022 and until January 31, 2027.

On May 22, 2019, these options were allocated to the offeree.

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

b. An agreement for the purpose of establishing a joint company in Jordan

(1) 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 was subject to the approval of the bank that finances Tefron’s operations (HSBC) within 30 days as of the signing date of the agreement. The approval for the said agreement from the financing bank was received on February 7, 2019.

On August 1, 2019, the joint company was established under the name of C&T FOR PIECE WORKS PRIVATE SHAREHOLDING COMPANY Ltd. (hereinafter: “C&T”).

In light of the establishment of the joint company, C&T, as aforementioned, as at September 30, 2019, the Company incurred restructuring expenses in the sum of 1.6 million dollars which were included in other expenses.

(2) An immaterial adjustment of the comparison figures was carried out due to the presentation of the investment in C&T as joint operation in lieu of its integration.

The impact of the immaterial adjustment on the balance sheets items is as follows:

	As at July 1, 2019		
	As reported in the past	**The change**	**As reported in these financial statements**
	US Dollars in Thousands		
Equity:			
Non-controlling interest	(115)	115	-

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 September 30, 2019, the Company met the financial covenants that were determined in the financing agreement, as detailed above, according to the following:

Debt service cover ratio of at least 1.25 times, was 2.27.
Debt to EBITDA ratio of no more than 3.50 times was 2.92.

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.

f. On September 5, 2019, an extraordinary shareholders' general meeting was convened during which the appointment of Prof. Shoshana Anily as an external director of the Company was approved, and this following the completion of the term of service of Mr. Aviram Lahav as an external director of the Company on August 25, 2019, after he had served in this position for 3 terms.

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 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.

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 5 – Operating segments (cont.)

b. Reporting in respect of operating segments

	For the nine-month period ended September 30, 2019			For the nine-month period ended September 30, 2018		
	Brands	Retail	Total	Brands	Retail	Total
	(Unaudited)					
	US dollars in thousands					
Total segment revenues	38,574	70,528	109,102	29,937	73,903	103,840
Direct profit (loss)	(3,998)	7,081	3,083	(3,974)	7,985	4,011
Indirect costs	(927)	(1,699)	(2,626)	(907)	(2,253)	(3,160)
Segment results	(4,925)	5,382	457	(4,881)	5,732	851
Financing income (expenses), net			(2,276)			364
Tax income (expenses)			112			(269)
Net profit (loss)			(1,707)			946

	For the three-month period ended September 30, 2019			For the three-month period ended September 30, 2018		
	Brands	Retail	Total	Brands	Retail	Total
	(Unaudited)					
	US dollars in thousands					
Total segment revenues	10,282	21,142	31,424	7,461	21,655	29,116
Direct profit (loss)	(2,022)	1,592	(430)	(1,602)	2,512	910
Indirect costs	(241)	(497)	(738)	(270)	(784)	(1,054)
Segment results	(2,263)	1,095	(1,168)	(1,872)	1,728	(144)
Financing expenses, net			(755)			(743)
Tax income (expenses)			155			(37)
Loss			(1,768)			(924)

Note 5 – Operating segments (cont.)

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

	For the year ended December 31, 2018		
	Brands	**Retail**	**Total**
	US dollars in thousands		
Total segment revenues	45,264	96,229	141,493
Direct profit (loss)	(3,452)	9,518	6,066
Indirect costs	(1,337)	(2,874)	(4,211)
Segment results	(4,789)	6,644	1,855
Financing expenses, net			(480)
Tax expenses			(113)
Net profit			1,262

Note 6 – Financial instruments

a. Fair value

The carrying amounts in the financial statements of the cash, trade receivables, other receivables, bank credit and long-term loans, trade payables and other payables match or approximate their fair value.