TEFRON LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT SEPTEMBER 30, 2018

TEFRON LTD.

Interim Consolidated Financial Statements as at September 30, 2018

Unaudited

Contents

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, 2018, 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
Member of Deloitte Touche Tohmatsu Limited

Date: November 22, 2018

Tefron Ltd.

Consolidated Balance Sheets

	As at September 30, 2018	As at September 30, 2017	As at December 31, 2017
	Unaudited		Audited
	Dollars thousands		
Current assets			
Cash	2,407	1,687	1,220
Trade receivables, net	19,806	15,801	17,714
Other receivables	3,731	2,919	3,244
Inventory	29,276	21,024	25,684
	55,220	41,431	47,862
Non-current assets			
Property, plant and equipment, net	18,572	21,968	21,554
Goodwill and intangible assets, net	66	97	75
Software, net	1,581	1,512	1,612
Long-term receivables	29	-	118
Deferred taxes, net	2,890	2,890	2,890
	23,138	26,467	26,249
	78,358	67,898	74,111

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

Tefron Ltd.

Consolidated Balance Sheets

	As at September 30, 2018	As at September 30, 2017	As at December 31, 2017
	Unaudited	Unaudited	Audited
	Dollars thousands		
Current liabilities			
Bank credit	17,357	15,314	14,185
Loan from the controlling shareholders	1,962	-	-
Trade payables	23,311	14,499	21,854
Other payables	2,714	2,054	2,136
	45,344	31,867	38,175
Non-current liabilities			
Loans from banks	7,340	9,606	9,202
Loan from the controlling shareholders	-	926	1,852
Liabilities for bank options	62	65	20
Liabilities for benefits to employees, net	804	654	1,000
	8,206	11,251	12,074
Equity attributed to the Company's shareholders			
Share capital	33,617	33,617	33,617
Additional paid-in capital	99,686	99,686	99,686
Reserve for remeasurement of defined benefit plan	(1,541)	(1,259)	(1,541)
Accumulated deficit	(99,884)	(100,120)	(100,830)
Treasury shares	(7,408)	(7,408)	(7,408)
Other capital reserves	338	264	338
Total equity	24,808	24,780	23,862
	78,358	67,898	74,111

November 22, 2018			
Date of approval of the financial statements	**Arnon Tiberg Chairman of the Board**	**Ben Lieberman CEO**	**Eliezer Parnafes CFO**

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

Tefron Ltd.

Consolidated Statements of Income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	Dollars thousands (excluding data on income (loss) per share)				
Sales	103,840	95,433	29,116	30,223	121,499
Cost of sales	83,790	78,625	23,226	25,367	99,103
Gross profit	20,050	16,808	5,890	4,856	22,396
Development expenses, net	2,980	3,309	901	1,131	4,468
Selling and marketing expenses	13,636	11,213	4,363	3,889	15,479
General and administrative expenses	2,549	2,419	770	924	2,985
Other expenses (income)	34	-	-	-	(235)
Operating profit (loss)	851	(133)	(144)	(1,088)	(301)
Income from debt recycling, net	2,818	-	-	-	-
Financing income	89	30	-	60	75
Financing expenses	(2,543)	(2,223)	(743)	(695)	(2,892)
Financing income (expenses), net	364	(2,193)	(743)	(635)	(2,817)
Income (loss) before taxes on income	1,215	(2,326)	(887)	(1,723)	(3,118)
Tax expenses	(269)	(163)	(37)	(152)	(81)
Net profit (loss)	946	(2,489)	(924)	(1,875)	(3,199)
Income (loss) per share attributable to the Company's shareholders (in dollars)					
Basic and diluted income (loss) per share	0.08	(0.21)	(0.08)	(0.16)	(0.27)

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

Tefron Ltd.

Consolidated Statements of Comprehensive Income

	For the nine months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	Dollars thousands				
Net income (loss)	946	(2,489)	(924)	(1,875)	(3,199)
Other comprehensive income (loss) (after the effect of the tax):					
Amounts that will not be reclassified subsequently to the statements of income:					
Loss from remeasurement of defined benefit plans	-	-	-	-	(282)
Subtotal of items that will not be reclassified subsequently to the statements of income	-	-	-	-	(282)
Total other comprehensive loss	-	-	-	-	(282)
Total comprehensive income (loss) attributable to the Company's shareholders	946	(2,489)	(924)	(1,875)	(3,481)

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

Tefron Ltd.

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						
	Dollars 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	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	Other capital reserves	Total equity
	Unaudited						
	Dollars thousands						
Balance as at January 1, 2017 (audited)	33,617	99,686	(1,259)	(97,631)	(7,408)	190	27,195
Loss	-	-	-	(2,489)	-	-	(2,489)
Loan from the controlling shareholders	-	-	-	-	-	74	74
Balance as at September 30, 2017	33,617	99,686	(1,259)	(100,120)	(7,408)	264	24,780

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

Tefron Ltd.

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						
	Dollars 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	Other capital reserves	Total equity
	Unaudited						
	Dollars thousands						
Balance as at July 1, 2017	33,617	99,686	(1,259)	(98,245)	(7,408)	190	26,581
Loss	-	-	-	(1875)	-	-	(1875)
Loan from the controlling shareholders	-	-	-	-	-	74	74
Balance as at September 30, 2017	33,617	99,686	(1,259)	(100,120)	(7,408)	264	24,780

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

Tefron Ltd.

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
	Audited						
	Dollars thousands						
Balance as at January 1, 2017	33,617	99,686	(1,259)	(97,631)	(7,408)	190	27,195
Loss	-	-	-	(3,199)	-	-	(3,199)
Total other comprehensive loss	-	-	(282)	-	-	-	(282)
Loan from the controlling shareholders	-	-	-	-	-	148	148
Balance as at December 31, 2017	33,617	99,686	(1,541)	(100,830)	(7,408)	338	23,862

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

Tefron Ltd.

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
	2018	2017	2018	2017	2017
	Unaudited				Audited
	Dollars thousands				
Cash flows from operating activities					
Net income (loss)	946	(2,489)	(924)	(1,875)	(3,199)
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	3,866	3,685	1,253	1,302	4,940
Capital gain on sale of fixed assets	(2)	-	-	-	-
Gain due to the cancellation of a provision for impairment	-	-	-	-	(351)
Income from debt recycling, net	(2,818)	-	-	-	-
Loss from impairment of slow inventory	735	449	65	193	627
	1,781	4,134	1,318	1,495	5,216
Change in liabilities for benefits to employees, net	(196)	(143)	20	(122)	(79)
Change in fair value liabilities for bank options	26	(30)	34	(59)	(75)
Taxes on income	398	333	215	202	415
Financing expenses, net	1,655	1,319	450	547	1,998
	1,883	1,479	719	568	2,259
Changes in assets and liabilities items:					
Decrease (increase) in trade receivables	(2,092)	880	6,242	640	(1,033)
Decrease (increase) in other receivables	(398)	1,210	685	386	767
Decrease (increase) in inventory	(4,327)	3,101	(10,030)	5,547	(1,737)
Increase (decrease) in trade payables	2,158	(3,594)	3,487	(5,707)	4,124
Decrease in other payables	(567)	(492)	(141)	(33)	(410)
	(5,226)	1,105	243	833	1,711
Cash paid and received during the period for:					
Interest paid	(1,545)	(1,301)	(413)	(539)	(1,972)
Taxes paid	(398)	(333)	(215)	(202)	(415)
	(1,943)	(1,634)	(628)	(741)	(2,387)
Net cash provided from operating activities	(2,559)	2,595	728	280	3,600

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

Tefron Ltd.

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
	2018	2017	2018	2017	2017
	Unaudited				Audited
	Dollars thousands				
Cash flows from investing activities					
Purchase of property, plant and equipment	(576)	(969)	(326)	(132)	(1,491)
Purchase of software	(301)	(365)	(94)	(98)	(411)
Proceeds from sale of fixed assets	35	-	-	-	-
Net cash used for investing activities	(842)	(1,334)	(420)	(230)	(1,902)
Cash flows from financing activities					
Short-term bank credit, net	4,633	55	315	1	(971)
Repayment of long-term loans	(9,344)	(1,135)	-	(310)	(1,650)
Receiving a long-term loan	10,000	-	-	-	-
Repayment of long-term credit for property, plant and equipment	(701)	(848)	(144)	(260)	(1,211)
Loan from the controlling shareholders	-	1,000	-	1,000	2,000
Net cash provided from (used for) financing activities	4,588	(928)	171	431	(1,832)
Increase (decrease) in cash	1,187	333	479	481	(134)
Balance of cash at beginning of period	1,220	1,354	1,928	1,206	1,354
Balance of cash at end of period	2,407	1,687	2,407	1,687	1,220

Note 1 - General

a. These financial statements were prepared in a condensed format, as at September 30, 2018 and for the periods of nine months and three months 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, 2017 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 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 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, 2018 or thereafter, as detailed in Notes 4a and 4b to the annual consolidated financial statements, and as detailed as follows:

IFRS 9 – "Financial Instruments"

International Financial Reporting Standard (IFRS 9) "Financial Instruments" (hereinafter: the "standard") is the final standard of the financial instruments project. The standard presents a new model to examine a forecasted loss from impairment in value as detailed as follows.

The new model for impairment which is based on expected credit losses is applied to debt instruments measured at amortized cost or at fair value through other comprehensive income, receivables in respect of lease, contract assets recognized under IFRS 15 and written obligations to provide loans and financial guarantee contracts. The provision for impairment is for expected losses according to the probability of default in the following 12 months (the coming year), or according to the probability of default throughout the lifetime of the instrument. Examination over the lifetime of the instrument is required if the credit risk has increased significantly from the initial recognition date of the asset. Another approach applies with originated credit-impaired financial assets. The standard adds presentation guidelines and disclosures relating to the impairment of financial instruments.

The effect of the initial implementation of this standard on the Group's financial statements is not material.

Note 2 – Significant accounting principles (cont.)

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

IFRS 15 – "Revenue from Contracts with Customers"

The standard replaced the directives regarding the recognition of revenue from contracts with customers and presented a new model for recognition of this revenue. According to the standard, revenue from contracts is recognized in the statement of income when the control of the asset is transferred to the customer.

In order to determine the point in time at which the customer obtains control over a promised asset and the Group satisfies a performance obligation, the Group considers indicators of the transfer of control, which mainly include the following:

- The Group has a present right to payment for the asset;
- The customer has legal title to the asset;
- The Group has transferred physical possession of the asset;
- The customer has the significant risks and rewards of ownership of the asset;
- The customer has approved the acceptance of the asset;

Revenue is measured and recognized according to the fair value of the consideration expected to be received in accordance with the terms of the contract, net of the amounts collected in favor of third parties (such as taxes). Revenue is recognized in the consolidated statements of income to the extent that the economic benefits are expected to flow to the Group, and the revenue and costs, if relevant, can be measured reliably.

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 Note 5, below.

The effect of the initial implementation of this standard on the Group's financial statements is not material.

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 - Standards, interpretations and amendments thereto which have been published and are not in effect, and were not adopted early by the Group, which are expected or likely to have an effect on future periods

IFRS 16 – "Leases"

The new standard replaces IAS 17 "Leases" and the related interpretations, 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').

Note 3 - Standards, interpretations and amendments thereto which have been published and are not in effect, and were not adopted early by the Group, which are expected or likely to have an effect on future periods (cont.)

IFRS 16 – "Leases" (cont.)

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 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).

Accordingly, leases of real estate and vehicles within the Group that are currently treated as operating leases will be recognized as assets and liabilities in the Group's balance sheets statements once the standard is applied.

The standard shall take effect regarding annual reporting periods beginning on January 1, 2019 or thereafter. Earlier application is permitted; however, this provided that IFRS 15 "Revenue from Contracts with Customers" is also applied.

The Group estimates that it will choose not to retroactively adjust the comparative data.

The management of the Group estimates that the main effects expected at the date of the initial application of the standard, are as follows:

The main effects expected on the balance sheets of the Group as at January 1, 2019 (in thousands of dollars) (*):

The leased asset	Asset in respect of right-of-use	Liability in respect of leasing
Real estate	1,175	(1,175)
Vehicles	339	(339)
Total	1,514	(1,514)

The discount rates used for the above calculations are based on the price of the Group's incremental debt regarding each lease, depending on the amount of the lease, its average life span, the quality of the leased asset, etc. The range of the discount rate is primarily between 4% and 5% in respect of real estate and 3% in respect of vehicles.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 3 - Standards, interpretations and amendments thereto which have been published and are not in effect, and were not adopted early by the Group, which are expected or likely to have an effect on future periods (cont.)

IFRS 16 – "Leases" (cont.)

The expected main effects on the statements of income for the year 2019 (in thousands of dollars) (*):

The leased asset	Decrease in lease expenses under IAS 17	Increase in depreciation expenses under IFRS 16	Total increase in profit from ordinary operations	Increase in financing expenses under IFRS 16	Decrease in tax expenses under IFRS 16	Total decrease in revenue for the year
Real estate	(271)	235	36	59	(5)	(18)
Vehicles	(160)	152	8	10	(1)	(1)
Total	(431)	387	44	69	(6)	(19)

The expected main effects on the statements of cash flows for the year 2019 (in thousands of dollars) (*):

The leased asset	Increase in the cash flow from operating activities	Decrease in the cash flow from financing activities
Real estate	213	(213)
Vehicles	150	(150)
Total	363	(363)

(*) The above estimates are based on the balance of the relevant leased assets that exist within the Group as at the date of the financial statements, according to the expected manner of implementation thereof

The Group intends to improve its understanding of the standard's directives as the application date approaches and accordingly to formulate a policy regarding the implementation issues arising from them and to improve its ability to estimate the quantitative impact of its implementation more accurately. Once relevant, the Group will update the disclosures regarding the effects of the implementation in the quarterly statements and the financial statements for 2018 accordingly.

It should be emphasized that the information presented in this Note above regarding the estimated effects of initial implementation of the standard constitutes as a preliminary estimate of the Group and may differ from the quantitative data that will be included in the financial statements for the initial implementation period, which is, as aforesaid, for the reporting periods commencing January 1, 2019 and thereafter.

Note 4 – Significant events during and after the period of the report

a. On March 22, 2018, the Company received the consent of the banks which finance the Company's operations, Bank Leumi Le-Israel Ltd., Israel Discount Bank Ltd. and Bank Hapoalim Ltd. (hereinafter: the "banks") according to which for the purpose of replacing the financing of the Company's operations in financing led by a foreign bank and/or banks (if and to the extent that such financing is received), the banks agree that the Company will repay its debts to the banks in an early repayment in such a manner that 82% of the debts will be repaid and the remaining 18% will be forgiven by the banks (hereinafter: the "early repayment"). A condition for the early repayment is a change in the exercise price of 300,000 options allocated by the Company to the banks, so the exercise price shall be US 1 dollar instead of US 1.43 dollars. The aforesaid consent is subject to the early repayment being made no later than April 26, 2018. If such repayment as aforesaid is not carried out, the existing debt arrangement between the Company and the banks will remain in effect. The total debt of the Company to the banks as at March 20, 2018 amounted to US 23.6 million dollars. The early repayment, if carried out, will include a payment to the banks of an estimated early repayment fee of approximately US 160,000 dollar.

On March 29, 2018, a financing agreement was signed (for details see Clause b as follows) which enabled the execution of the early repayment. Immediately following the Passover holiday, on April 10, 2018, the early repayment to the financing banks was carried out in accordance with the conditions detailed above.

b. On March 29, 2018, the financing agreement was signed with the following parties: Tefron Canada Inc., a private Canadian subsidiary wholly-owned by the Company, as the borrower (hereinafter: "Tefron Canada"), the Company, as the parent company (hereinafter: "Tefron Israel") and the bank HSBC Canada (hereinafter: "the bank") as the lender, for the purpose of providing alternative financing to the current bank financing (hereinafter: the "agreement") whose principal terms are as follows:

1. The financing that will be provided will amount to a total cumulative fund of up to US 38 million dollars (hereinafter: "**dollars**") which will be divided as follows:

   (1) Credit to Tefron Canada in the amount of 13 million dollars by means of a bank guarantee that shall guarantee credit to Tefron Israel, through HSBC Israel (hereinafter: the "**bank in Israel**"), as follows: (a) a long-term loan in the principal amount of US 10 million dollars (hereinafter: the "**long-term loan**"), and (b) credit for working capital in the principal amount of 3 million dollars. It should be noted that any repayment of the long-term loan, in whole or in part, as applicable, will reduce the amount of the credit line in the sum of 13 million dollars, respectively;

   (2) Credit up to an amount of 25 million dollars that shall be provided to Tefron Canada by the bank on the basis of volume of collateral, which will be examined monthly. The eligibility for credit withdrawals will be based on the following eligibility amounts:

      a. Cumulative debt amounts of the trade receivables of Tefron Canada and the trade receivables of Tefron Israel's subsidiary, Tefron USA Inc. (hereinafter: "**Tefron USA**"), all in accordance with the terms of the agreement (with a multiplier of 75% - 90% according to the type of customer); plus;

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

b. (cont.)

b. The lower of: (1) 50% of the inventory value of the finished goods of Tefron Canada and Tefron USA, subject to pledges under the agreement; and (2) US 10 million dollars; plus;

c. 100% of the value of the cash in the bank accounts of Tefron Canada and Tefron USA; plus;

d. 50% of the appraised value of 2 real estate properties owned by Tefron USA in North Carolina, USA, after these properties are pledged in accordance with the provisions of the agreement;

Less amounts secured by a pledge which has priority or may have priority over the collateral given to the bank pursuant to the agreement.

2. In addition to the financing mentioned in Clause 1 above, the bank will provide, at its discretion, a facility for the execution of hedging transactions on interest differentials in the amount of 4 million dollars and a facility for the execution of hedging transactions on currency exchange differences in the amount of 2.3 million dollars.

3. The long-term loan will be repaid in seven equal annual payments, when in any case there is free cash flow, the repayment will be accelerated (within 120 days as of the end of the calendar year) at a rate of one percent of the free cash flow determined by Tefron Israel's annual EBITDA (on a consolidated basis), based on the ratio of debt to EBITDA[1] of Tefron Israel, on a consolidated basis, as follows:

When R represents the ratio of debt to EBITDA:	Percentage of repayment out of the free cash flow
$R \leq 1.00$	0%
$1.00 < R \leq 2.00$	15%
$2.00 < R \leq 3.00$	25%
$R > 3.00$	40%

When for this purpose the "free cash flow" is the amount of EBITDA less interest payments, tax payments, unfinanced investments and principal payments of the long-term loan according to its amortization schedule.

4. The interest on the financing will be variable interest, which will include a margin above the base interest rate, such as LIBOR or prime as detailed as follows:

When R represents the ratio of debt to EBITDA:	Percentage of margin
$R \leq 1.50$	1.25% - 2.25%
$1.50 < R \leq 2.00$	1.5% - 2.5%
$2.00 < R \leq 3.00$	1.75% - 2.75%
$R > 3.00$	2% - 3%

[1] In the framework of the agreement, it was agreed upon that in respect of the period of up to September 30, 2018, to the calculation of EBITDA according to the financial statements and in accordance with the terms of the agreement, will be added an amount of 2 million dollars.

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

b. (cont.)

5. The collateral for the financing will be as follows:

   a. First ranking charge in Canada by Tefron Canada on all its assets.
   b. Floating and fixed charge first in rank in Israel on all assets of Tefron Israel.
   c. First ranking charge on all shares held by Tefron Israel in Tefron Canada Inc. and Tefron US Holdings Inc. (a subsidiary holding Tefron USA).
   d. First ranking charge on the bank accounts of Tefron Israel and its subsidiaries.
   e. Tefron Israel and its subsidiaries' guarantee to the debts of Tefron Canada to the bank.
   f. The guarantee of EDC - Export Development Canada, which assists the Canadian government in financing the export activities of Canadian companies hereinafter: "**EDC**"), in an amount equal to 75% of the credit line on the sum of 13 million dollars given to the bank in Israel by the bank.

6. The financing is subject to the fulfillment of the financial covenants which will be examined on a quarterly basis based on the financial statements of Tefron Israel, on a consolidated basis, as follows:
   a. Debt service cover ratio of at least 1.25 times.
   "Debt service cover ratio" means - for the last consecutive twelve months preceding the calculation date, the ratio between the total payments to the bank (principal and interest) and net EBITDA (as defined in the agreement).
   b. Debt to EBITDA ratio of no more than:
      (1) 6.00 times for the quarter ending March 31, 2018.
      (2) 4.00 times for the quarter ending June 30, 2018.
      (3) 3.50 times at any time thereafter.

7. In accordance with the agreement, Tefron Israel and its subsidiaries in connection with the financing are subject, *inter alia*, to the following restrictions:
   a. A negative pledge by Tefron Israel and its subsidiaries (excluding pledges permitted under the agreement);
   b. Until full repayment of the provided credit, Tefron Israel will continue to hold, directly or indirectly, full ownership of each of its subsidiaries;
   c. The Lieberman family will continue to hold the control of the Company;
   d. The total amount of annual investments of the Group shall not exceed 2 million dollars;
   e. Prohibition on taking loans as defined in the agreement;
   f. Prohibition of dividend distribution.

8. The agreement determines that the financing is at the bank's full discretion at any time, and in addition, in the framework of the agreement accepted grounds for immediate repayment were determined, granting the bank the right to call for an immediate repayment of Tefron Canada's liabilities to it, including upon the occurrence of a breach of Tefron Israel's loan agreements with HSBC Israel and/or a breach by any party of Tefron Group of the agreements or other documents relating to the provision of the credit and/or in an amount exceeding 750,000 dollars.

The financing was provided immediately after Passover, on April 10, 2018.

As at September 30, 2018, the Company met the financial covenants set in the financing agreement, as detailed above.

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

c. On March 29, 2018, the Company's Board approved the updating of the terms of the 300,000 options allocated on July 9, 2014, to Bank Leumi Le-Israel Ltd., Israel Discount Bank Ltd. and Bank Hapoalim Ltd., in such a manner that the exercise price of each option shall be US 1 dollars (instead of US 1.43 dollars). The other terms of the options remained unchanged.

d. On November 5, 2018, an additional line of credit was granted by the Bank to Tefron Canada, according to the general terms of the financing agreement as detailed in clause b above, which is intended to issue documentary letters of credit up to a total amount of 3 million dollars, when each letter of credit, as aforementioned, is given for a period of up to 12 months (hereinafter: the “additional financing"). The additional financing is secured by a guarantee of EDC, as well as by the Company's guarantee, in the full amount of the additional financing.

e. On May 31, 2018, the Company's Audit Committee and Board of Directors approved a transaction between the Company and its controlling shareholders, which does not require the approval of the general meeting of the Company pursuant to Regulation 1(2) of the Companies Regulations (Relief for Transactions with Interested Parties), 2000, whereby the subsidiary of the Company in the United States, which is wholly owned by the Company, Tefron USA Inc. (hereinafter: the "subsidiary"), shall engage in an agreement for the purpose of purchasing shares of the company Lamour Hosiery, Inc. (hereinafter: "Lamour"), a private company incorporated in Delaware state and owned by the Lieberman family, whose members are the controlling shareholders of the Company (hereinafter: the "agreement") with the Lieberman family members (hereinafter: the "sellers"). The subsidiary carries out all the Group's sales in the United States, and for which Lamour executes the transactions opposite Walmart. The acquisition of Lamour, which has a manufacturer’s identification number with Walmart, will enable the Company to directly engage in negotiations with Walmart.

The purchase of the shares has been carried out according to the following terms:

1. The transaction's price is US 1 dollar.
2. The transfer of shares to the subsidiary was carried out concurrently with the signing of the agreement
3. The agreement includes accepted representations in share purchase transactions, including a representation stating that the financial statements of Lamour as at March 31, 2018 are accurate and reflect the Company's financial position as at that date, and that Lamour is not exposed to any claims by any party, and that any third party has no demands and/or claims against Lamour and/or the sellers.
4. In the agreement, the sellers gave the subsidiary a representation, according to which all of Lamour's interests had been managed in the ordinary course of business as of the date of the previous said financial statements until the signing of the agreement (this representation does not refer to the operations opposite Walmart, since this aspect is already managed by the subsidiary, and in practice, this is the sole operation which is conducted at Lamour). As at the signing date of the agreement, Lamour has no obligation other than the liabilities relating to the Company's operations opposite Walmart
5. The sellers, together with Mr. Martin Lieberman (one of the shareholders and a director) have provided in the agreement a commitment to indemnify the subsidiary for any damage that might be caused to it due to any breach of the representations detailed in the agreement, except for any matter arising out of being a "channel" for the operations of the subsidiary opposite Walmart, and all whether the events are known or not. The period of indemnification shall be equivalent to the statutory limitation period during which a claim can be filed, as applicable, in accordance with the relevant law.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

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.

b. Reporting in respect of operating segments

	For the nine-month period ended September 30, 2018			For the nine-month period ended September 30, 2017		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	Dollars thousand					
Total segment revenues	29,937	73,903	103,840	30,219	65,214	95,433
Direct profit (loss)	(3,974)	7,985	4,011	(6,884)	9,905	3,021
Indirect costs	(907)	(2,253)	(3,160)	(998)	(2,156)	(3,154)
Segment results	(4,881)	5,732	851	(7,882)	7,749	(133)
Financing income (expenses), net			364			(2,193)
Tax expenses			(269)			(163)
Net profit (loss)			946			(2,489)

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 5 – Operating segments (cont.)

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

	For the three-month period ended September 30, 2018			For the three-month period ended September 30, 2017		
	Brands	**Retail**	**Total**	**Brands**	**Retail**	**Total**
	Unaudited					
	Dollars thousand					
Total segment revenues	7,461	21,655	29,116	7,263	22,960	30,223
Direct profit (loss)	(1,602)	2,512	910	(2,761)	2,725	(36)
Indirect costs	(270)	(784)	(1,054)	(253)	(799)	(1,052)
Segment results	(1,872)	1,728	(144)	(3,014)	1,926	(1,088)
Financing expenses, net			(743)			(635)
Tax expenses			(37)			(152)
Loss			(924)			(1,875)

	For the year ended December 31, 2017		
	Brands	**Retail**	**Total**
	Audited		
	Dollars thousand		
Total segment revenues	38,926	82,573	121,499
Direct profit (loss)	(8,642)	12,548	3,906
Indirect costs	(1,349)	(2,858)	(4,207)
Segment results	(9,991)	9,690	(301)
Financing expenses, net			(2,817)
Tax expenses			(81)
Loss			(3,199)

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

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.

b. Cash Flow Hedging

On June 29, 2018, the Company executed a swap transaction (interest swap) with the bank in order to fix the LIBOR interest at 3.03% on the long-term loan received from the bank. (The Libor interest on the date of the swap transaction was 2.33%). As at the date of the report, the value of the instrument is negligible.