TEFRON LTD

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2021

IN DOLLARS THOUSANDS

TEFRON LTD.

Consolidated Financial Statements as at December 31, 2021

In Dollars Thousands

TABLE OF CONTENTS

178146

Deloitte.

Date: March 14, 2022

To: The Management of Tefron Ltd.

Report of Factual Findings in Connection with the translated Financial Information as of December 31, 2021

As auditors of Tefron Ltd. (hereinafter – "the Company"), we have performed the procedures agreed with you and enumerated below with respect to the accompanying translation of the consolidated statement of financial position as of December 31, 2021 and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2021 (Hereinafter – the "Financial Information" – attached and stamped for identification purposes only).

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements.

The procedure was performed solely in connection with the reconciliation of the financial items in the accompanying translated Financial Information with the financial information that was included in the Consolidated Financial Statements of **Tefron Ltd.** as of December 31, 2021 and of the three years in the period ended December 31, 2021 that was published in Hebrew language, on which we have issued an audit report on March 14, 2022.

We have performed the reconciliation mentioned in the preceding paragraph and we report our findings below:

The financial items in the Financial Information (attached and stamped for identification purposes only) reconcile to the corresponding financial information that was included in the Consolidated Financial Statements of Tefron Ltd. as of December 31, 2021.

Because the aforementioned procedure does not constitute either an audit or a review made in accordance with International Standards applicable to audit or to review engagements, or Israeli national standards on audit or to review engagements, we do not provide any assurance or express an opinion on this Financial Information.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv - Main Office
1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593 Tel Aviv, 6116402 | Tel: +972 (3) 608 5555 | info@deloitte.co.il

Jerusalem	Haifa	Eilat	Nazareth
3 Kiryat Ha'Mada Har Hotzvim Tower Jerusalem, 914510 D. BOX 45396	5 Ma'aleh Hashichrur P.O.B. 5648 Haifa, 3105502	The City Center P.O.B. 583 Eilat, 8810402	9 Marj Ibn Amer St. Nazareth, 16100
Tel: +972 (2) 501 8888 Fax: +972 (2) 537 4173 info-jer@deloitte.co.il	Tel: +972 (4) 860 7333 Fax: +972 (4) 867 2528 info-haifa@deloitte.co.il	Tel: +972 (8) 637 5676 Fax: +972 (8) 637 1628 info-eilat@deloitte.co.il	Tel: +972 (73) 399 4455 Fax: +972 (73) 399 4455 info-nazareth@deloitte.co.il

Tefron Ltd.

Consolidated Balance Sheets

	Note	As at December 31 2021	2020
		US Dollars in thousands	
ASSETS			
CURRENT ASSETS			
Cash		3,501	8,279
Trade receivables, net	5	43,022	41,764
Other receivables	6	4,845	3,626
Inventory	7	70,963	33,759
		122,331	87,428
NON-CURRENT ASSETS			
Property, plant and equipment, net	8a	14,283	13,870
Right-of-use asset	8c	5,754	(*) 1,417
Goodwill and intangible assets, net	9a	127	123
Computer software, net	9b	2,623	2,312
Deferred taxes, net	18e	5,648	3,051
		28,435	20,773
		150,766	108,201

(*) Reclassified

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

Tefron Ltd.

Consolidated Balance Sheets

	Note	As at December 31 2021	2020
		US dollars in thousands	
LIABILITIES			
CURRENT LIABILITIES			
Bank credit	10	34,185	27,268
A loan from the controlling shareholders	25l	-	2,000
Trade payables	11	52,087	36,296
Other payables	12	9,394	6,602
		95,666	72,166
NON-CURRENT LIABILITIES			
Loans from banks	13	5,143	5,559
Liabilities for bank options	15	-	168
Liabilities for benefits to employees, net	16	1,301	1,368
Long term credit balance	17	4,653	1,551
		11,097	8,646
EQUITY			
Equity attributed to the Company's shareholders	20		
Share capital		34,402	33,617
Additional paid-in capital		101,352	99,967
Capital reserve for remeasurement of defined benefit plans		(2,340)	(2,260)
Accumulated deficit		(82,366)	(96,718)
Treasury shares		(7,408)	(7,408)
Capital reserve for hedging transactions		(246)	(381)
Other capital reserves		609	572
Total equity		44,003	27,389
		150,766	108,201

March 14, 2022			
Date of approval of the financial statements	**Arnon Tiberg Chairman of the Board**	**Ben Lieberman CEO**	**Gregory Davidson CFO**

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

Tefron Ltd.

Consolidated Statements of Income

	Note	2021	2020	2019
		For the year ended December 31		
		US dollars in thousands (Excluding data on earnings (loss) per share)		
Sales		261,346	180,000	155,383
Cost of sales	22a	207,564	(*)148,662	(*)129,670
Gross profit		53,782	(*)31,338	(*)25,713
Development expenses	22b	5,232	2,816	3,290
Selling and marketing expenses	22c	24,426	(*)16,022	(*)15,997
General and administrative expenses	22d	4,508	3,438	3,408
Other expenses	22e	739	451	1,854
Operating profit		18,877	8,611	1,164
Financing income	22f	197	380	436
Financing expenses	22f	(4,145)	(2,907)	(3,219)
Financing expenses, net		(3,948)	(2,527)	(2,783)
Income (loss) before taxes on income		14,929	6,084	(1,619)
Taxes on income	18	(577)	(1,524)	(91)
Net income (loss)		14,352	4,560	(1,710)
Income (loss) per share attributable to equity shareholders of the Company	23			
Basic income (loss) per share		1.18	0.38	(0.14)
Diluted income (loss) per share		1.11	0.38	(0.14)

(*) Reclassified, see Note 22g as follows

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

Tefron Ltd.

Consolidated Statements of Comprehensive Income

	For the year ended December 31		
	2021	2020	2019
	US dollars in thousands		
Net income (loss)	14,352	4,560	(1,710)
Other comprehensive loss (after the effect of the tax):			
Amounts that will not be reclassified subsequently to the statements of income:			
Loss for re-measurement of defined benefit plans	(80)	(180)	(8)
Subtotal of items that will not be reclassified subsequently to the statements of income	(80)	(180)	(8)
Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met:			
Unrealized gain on cash flows hedge transaction	-	54	-
Realized gain on cash flows hedge transaction	(54)	-	-
Unrealized gain (loss) due to interest rate transaction (Swap)	189	(142)	(149)
Subtotal of items that will be reclassified or are reclassified to the statements of income	135	(88)	(149)
Total other comprehensive income (loss)	55	(268)	(157)
Total comprehensive income (loss) attributable to the Company's shareholders	14,407	4,292	(1,867)

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders							
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
	US dollars in thousands							
Balance as at January 1, 2021	33,617	99,967	(2,260)	(96,718)	(7,408)	(381)	572	27,389
Net income	-	-	-	14,352	-	-	-	14,352
Total other comprehensive income (loss)	-	-	(80)	-	-	135	-	55
Issue of shares	785	954	-	-	-	-	-	1,739
Share based payment to employees and consultants	-	431	-	-	-	-	-	431
Benefit from a controlling shareholder	-	-	-	-	-	-	37	37
Balance as at December 31 , 2021	34,402	101,352	(2,340)	(82,366)	(7,408)	(246)	609	44,003

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders							
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
	US dollars in thousands							
Balance as at January 1, 2020	33,617	99,866	(2,080)	(101,278)	(7,408)	(293)	497	22,921
Net income	-	-	-	4,560	-	-	-	4,560
Total other comprehensive loss	-	-	(180)	-	-	(88)	-	(268)
Share based payment to employees and consultants	-	101	-	-	-	-	-	101
Benefit from a controlling shareholder	-	-	-	-	-	-	75	75
Balance as at December 31 , 2020	33,617	99,967	(2,260)	(96,718)	(7,408)	(381)	572	27,389

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders							
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
	US dollars in thousands							
Balance as at January 1, 2019	33,617	99,686	(2,072)	(99,568)	(7,408)	(144)	422	24,533
Loss	-	-	-	(1,710)	-	-	-	(1,710)
Total other comprehensive loss	-	-	(8)	-	-	(149)	-	(157)
Share based payment to employees and consultants	-	180	-	-	-	-	-	180
Benefit from a controlling shareholder	-	-	-	-	-	-	75	75
Balance as at December 31 , 2019	33,617	99,866	(2,080)	(101,278)	(7,408)	(293)	497	22,921

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

Tefron Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2021	2020	2019
	US dollars in thousands		
Cash flows from operating activities			
Net income (loss)	14,352	4,560	(1,710)
Adjustments required to present cash flows from operating activities:			
Adjustments to the statement of income items:			
Depreciation and amortization:			
Depreciation and amortization of fixed and intangible assets	4,236	4,349	6,001
Capital loss (gain) on sale of fixed assets	31	(13)	(24)
Benefit from a controlling shareholder	37	75	75
Impairment of fixed assets	708	-	-
Cost of share-based payments	518	101	180
Loss due to impairment of slow inventory	569	761	472
	6,099	5,273	6,704
Change in deferred taxes, net	(2,597)	(297)	136
Change in liabilities for benefits to employees, net	(147)	-	(116)
Change in fair value for bank options	1,571	140	(9)
Taxes on income	2,205	82	(89)
Financing expenses, net	1,955	1,401	2,459
	2,987	1,326	2,381
Changes in assets and liabilities items:			
Increase in trade receivables	(1,258)	(11,923)	(8,926)
Decrease (increase) in other receivables	(1,273)	592	(337)
Increase in inventory	(37,773)	(4,552)	(955)
Increase in trade payables	15,895	7,387	6,163
Increase in other payables	1,665	2,391	563
	(22,744)	(6,105)	(3,492)
Cash paid and received during the year for:			
Interest paid	(1,658)	(1,320)	(2,356)
Taxes paid	(2,288)	(235)	(66)
Taxes received	83	153	155
	(3,863)	(1,402)	(2,267)
Net cash provided from (used for) operating activities	(3,169)	3,652	1,616

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

Tefron Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2021	2020	2019
	US dollars in thousands		
Cash flows from investing activities			
Purchase of fixed assets and intangible assets	(3,499)	(2,133)	(1,367)
Purchase of software	(844)	(721)	(745)
Proceeds from sale of fixed assets	939	17	31
Obtaining control (see Note 26a as follows)	-	102	-
Net cash used for investing activities	(3,404)	(2,735)	(2,081)
Cash flows from financing activities			
Short-term bank credit, net	8,215	4,196	4,444
Repayment of long-term loans	(1,715)	-	(1,428)
Repayment of loans from a controlling shareholder	(2,000)	-	-
Repayment of long-term credit for fixed assets	(812)	(75)	-
Repayment of lease liability	(1,893)	(613)	(573)
Net cash provided from financing activities	1,795	3,508	2,443
Increase (decrease) in cash and cash equivalents	(4,778)	4,425	1,978
Balance of cash and cash equivalents at beginning of year	8,279	3,854	1,876
Balance of cash and cash equivalents at end of year	3,501	8,279	3,854

Appendix a – Significant non-cash transactions

Purchase of fixed assets on credit	599	632	676

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

Note 1 - General

a. Tefron Ltd. (hereinafter: "the Company") is a company registered in Israel. The Company's production operations are carried out through subcontractors as well as by a self-production process in plants located in the Far East, Israel and Jordan. The Company and its subsidiaries focus on the development, production, marketing and sale of intimate apparel and activewear which are sold throughout the world to companies with leading brands. The Company operates in two operating business segments – brands and retail. For details regarding the business segments and operating markets, see Note 24 below.

The Company’s shares are traded on the Tel Aviv Stock Exchange. For additional details, see also Note 20.

The Company's head offices are located in the "Misgav Industrial Park”, Israel.

b. Definitions

In these financial statements:

The Company	-	Tefron Ltd.
The Group	-	Tefron Ltd. and its consolidated subsidiaries as detailed in the attached list.
Consolidated subsidiaries	-	Companies in which the Company has control of (as defined in IFRS 10) and whose statements are consolidated with those of the Company.
Related parties	-	As defined in IAS 24.
Interested parties and controlling shareholder	-	As defined in the Securities Regulations (Annual Financial Statements), 2010.

Note 2 - Significant accounting principles

The accounting principles as detailed as follows were used consistently throughout the financial statements, throughout all the periods presented, unless it is noted otherwise.

a. Basis of presentation of the financial statements

The financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter: "IFRS").
Furthermore, the financial statements are prepared in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements are prepared on the basis of cost, excluding derivatives and financial assets available for sale; financial assets and liabilities (including derivative instruments) which are presented at fair value through profit and loss which are measured according to their fair value and excluding liabilities for employee benefits.
The Company has chosen to present profit or loss items according to the nature-of-expense method.

Note 2 - Significant accounting principles (Cont.)

b. Consolidated financial statements

The consolidated financial statements include the statements of companies controlled by the Company (subsidiaries). Control exists when the Company has influence on the investee entity, exposure or rights to variable returns as a result of its involvement in the investee entity, as well as the ability to use its power to influence the sum of returns that shall derive from the investee entity. While assessing control, one takes into account the influence of the potential voting rights, only if they are substantive. The consolidation of the financial statements commences as of the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and its subsidiaries are prepared for identical dates and periods. The Company's accounting policy in the financial statements of its subsidiaries was implemented uniformly and consistently with the one implemented in the Company's own financial statements. Significant intra-group balances and transactions, and any profits and losses resulting from intra-group transactions were eliminated in full in the consolidated financial statements.

c. Functional, presentation and foreign currency

1. Functional and presentation currency

The presentation currency of the financial statements is the US dollar.

The functional currency which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is determined separately for each entity in the Group, and according to this functional currency its financial position and operating results are measured.
The Group determines for each entity of the Group what is the functional currency of each company.
The functional currency of the Company is the US dollar.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded initially at the exchange rate on the date of the transaction. After the initial recognition, monetary assets and liabilities that are denominated in foreign currency are translated on each balance sheet date into the functional currency, at the exchange rate on that date. Exchange rate differences, other than those that are discounted to qualifying assets or are recognized in equity in hedging transactions, are recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currency and presented by cost are translated according to the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the functional currency, in accordance with the exchange rate on the date on which the fair value is determined.

Note 2 - Significant accounting principles (Cont.)

d. Exclusion of separate financial information in the framework of the periodic reports

In the framework of the periodic reports for 2021 the Company did not include separate financial information in accordance with Regulation 9c and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports -1970) since the Company believes the information contained in it is negligible from a qualitative standpoint, in spite of its quantitative scope, the reason for which is mainly due to the fact that as stated in Note 13(2), the Group’s credit agreement with the lending bank refers to Tefron Group as a whole with cross-guarantees between the entities of the Group and providing information regarding separate financial statements will not carry with it any additional material information to the reasonable investor (shareholder) or to the creditors regarding the liquidity risk of the parent company, that is not already included in the framework of the consolidated financial statements of the Company.

e. Allowance for doubtful accounts

The allowance for doubtful accounts is determined specifically in respect of trade receivables whose collection, in the opinion of the Company's management, is doubtful. Impaired trade receivables will be withdrawn once they are assessed as uncollectible. The Company does not carry out any further review at the level of the customer groups for those for which no allowance for impairment has been made separately, as aforementioned, since it believes that it has no material impact on the financial statements.

f. Inventory

Inventory is measured at the lower of cost or net realizable value. The cost of inventory includes the expenses for purchasing the inventory as well as other costs incurred in bringing it to its current location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to carry out the sale. The Company periodically evaluates the condition and age of inventory and records provisions for slow-moving inventory accordingly.

The cost of inventory is determined as follows:

Raw materials	-	Based on cost by the weighted average method.
Work in progress and finished goods	-	Based on average cost including material, labor and other direct and indirect manufacturing costs.

g. Revenue recognition

Revenue is measured and recognized at 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 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.

The Group sells intimate apparel and activewear products which are sold to customers in the brands and retail segments worldwide.

Note 2 - Significant accounting principles (Cont.)

g. Revenue recognition (Cont.)

Revenue from the sale of goods

While selling the products, the revenue is recognized when control of the goods is transferred to the customer. Usually, the delivery date is the date on which the control over the goods is transferred.

h. Government grants

Government grants relating to assets such as fixed assets are presented as a deduction from the assets for which the grants were received.

i. Taxes on income

Taxes on income in the statements of income include deferred taxes. The tax results in respect of deferred taxes are recorded to the statement of income except to the extent that the tax arises from items which are recognized directly to shareholders’ equity. In such cases, the tax effect is also recorded to the relevant item in shareholders' equity.

Deferred taxes

Deferred taxes are computed for temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.
Deferred tax balances are measured at the tax rate that is expected to apply once the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted until the balance sheet date.
Deferred tax assets are reviewed on each balance sheet date and reduced to the extent that it is not probable that they will be utilized, temporary differences therefor have not been recognized, deferred tax assets are reassessed on each balance sheet date and if the utilization thereof has become probable, an appropriate deferred tax asset is recognized.

When computing deferred taxes, taxes that would have applied in the event of the sale of investments in investee companies have not been taken into account, as long as it is probable that the sale of the investments in investee companies is not expected in the foreseeable future. Moreover, deferred taxes that would have applied in the event of distribution of earnings by investee companies as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company’s policy not to initiate distribution of dividends by a subsidiary since it involves an additional tax liability.
Deferred tax assets and deferred tax liabilities are presented in the balance sheet as non-current assets and non-current liabilities, respectively. Deferred taxes are offset if there is a legally enforceable right to set off a current tax asset against a current tax liability and the deferred taxes relate to the same taxable entity and the same tax authority.

j. Classification of costs

The Company classifies all the costs it bears until the delivery of the inventory to the warehouses as part of the sales costs because these are costs involved in bringing the inventory to the point of sale.

Note 2 - Significant accounting principles (Cont.)

j. Classification of costs (Cont.)

Expenses incurred after the inventory is delivered to the warehouses are selling and marketing costs. See also Note 22g regarding the reclassification carried out by the Company during the reporting period

k. Leasing

The Group as a lessee

The Group assesses at the inception of a contract, whether it is a lease (or contains a lease). The Group recognizes a right-of-use asset on the one hand and a lease liability on the other hand, in respect of all of the leases in which it is the lessee, excluding short-term leases (whose term is up to 12 months) and leases for which the underlying asset is of low value. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the Group's pattern of consumption of economic benefits from the leased assets.

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

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

In determining the lease term, the Company has taken into account extension options which as at the date of commencement of the lease are likely to be exercised by it. The likelihood of exercising the extension options has been examined while taking into account, *inter alia*, lease fees during the extension periods in relation to market prices, significant leasehold improvements carried out by the Company which are expected to have a significant economic benefit to the Company during the extension period, costs relating to the lease termination (carrying out negotiation, evacuating the existing property and finding an alternative property), the importance of the property to the Company's activities, the location of the leased property and the availability of suitable alternatives.

The lease liability is initially measured according to the existing interest rate of the lease payments that are not paid on the commencement date, discounted at the interest rate implicit in the lease, if that rate can not be readily determined, the Group uses its incremental borrowing 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:

Note 2 - Significant accounting principles (Cont.)

k. Leasing (Cont.)

The Group as a lessee (Cont.)

- 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 discounting 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 accounted for 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.

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 useful lifespan of the Right-of-use assets is as follows:

	%
Vehicles	33
Land and buildings	20-25

l. Fixed assets

Items of fixed assets are presented at cost plus direct acquisition costs less any accumulated depreciation, less accumulated impairment losses and less related investment grants and excluding day-to-day maintenance expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with machinery and equipment:

	%
Land and buildings	2
Machinery and equipment (mainly 6.67%)	5-15
Office furniture and equipment (mainly 10%)	6-10
Leasehold improvements	20

Leasehold improvements are depreciated using the straight-line method over the lease period or over

Note 2 - Significant accounting principles (Cont.)

l. Fixed assets (Cont.)

the expected useful life of the improvement, whichever is shorter.

The useful life, depreciation method and residual value of an asset are reviewed at least at the end of each year and the changes are accounted for as a change in accounting estimate in way of prospective application. As for testing the impairment of fixed assets, see Clause o, as follows.

The depreciation of assets is discontinued on the earlier of the date when the asset is classified as held for sale and the date on which the asset is withdrawn.

m. Investment Property:

Investment property comprises real estate (land or building) held by the Group for the purpose of earning rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, or for administrative purposes or sale in the ordinary course of business.

The investment property of the Group includes buildings and land that are owned or leased under a finance lease. Investment property is initially recognized at cost which includes transaction costs, as well as costs which can be directly attributed to bringing the asset to the condition necessary for it to be used in the manner intended by the management. In the periods subsequent to the initial recognition, the investment property is presented in the balance sheets at cost less accumulated depreciation and less accumulated impairment losses.

Depreciation of investment property is carried out by using the straight-line method over its estimated useful life from the date on which the asset is ready for its intended use. The depreciation expenses are recognized in profit or loss.

n. Computer software

The Group's assets include computer systems that are comprised of software and licenses. Software forming an integral part of the hardware to the extent that the hardware cannot function without the software installed on it, is classified as fixed assets. In contrast, stand-alone software licenses that add additional functionality to the hardware are classified as computer software.

Cost of software is measured on initial recognition at cost with the addition of costs directly attributable to the acquisition and capitalization of the expenses related to their cost.
The useful lifespan of the software is as follows:

	%
Computer software	25-33
ERP system	10

o. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost with the addition of costs directly attributable to the acquisition. Intangible assets acquired in a business combination are included at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

Note 2 - Significant accounting principles (Cont.)

o. Intangible assets (Cont.)

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The period of amortization and method of amortization of an intangible asset is examined at least at the end of each year.

The useful lifespan of the intangible assets is as follows:

	Years
Customer lists	8

Goodwill is not amortized methodically and is subject to consideration of its loss of impairment on a yearly basis, as well as any time there is an indication that there might be a loss from impairment (see also Note 9a, as follows).

Gains or losses arising from the derecognition of an intangible asset are measured by the difference between the proceeds from the realization, net and the cost of the asset, and are recorded in the statement of income.

p. Impairment of non-financial assets

The Company examines the need to record an impairment of the carrying amount of non-financial assets whenever there are indications resulting from events or changes in circumstances which indicate that the carrying amount in the financial statements is not recoverable. In cases where the carrying amount of non-financial assets in the financial statements exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of the fair value less costs for sale and the value of its use. In evaluating the value of use, the expected cash flows are discounted according to the discounting rate before tax, which reflects the specific risks of every asset. For an asset that does not create independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recorded in the statement of income in accordance with the nature of the item whose value declines.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last date on which the impairment loss was recognized. Reversal of an impairment loss, as aforementioned, is limited to the lower of the amount of impairment recognized in the past (less depreciation or amortization) or the asset’s recoverable amount. A reversal of that impairment loss, as aforementioned, is recognized in the statement of income in the same section in which the impairment was recognized.

The following unique criteria are applied in assessing the impairment of the goodwill:

<u>Goodwill</u>

The Company reviews goodwill for impairment once a year on December 31, or more frequently if events or changes in circumstances indicate that impairment can be recognized.
Impairment is recognized for goodwill by reviewing the recoverable amount of the cash-generating unit (or a group of cash-generating units) to which the goodwill has been allocated.

Note 2 - Significant accounting principles (Cont.)

p. Impairment of non-financial assets (Cont.)

When the recoverable amount of the cash-generating unit (or a group of cash-generating units) is lower than the carrying amount in the financial statements of the cash-generating unit (or a group of cash-generating units), to which the goodwill has been allocated, it is recognized as a loss from impairment initially related to goodwill. Losses recognized for goodwill are not reversed in consecutive periods.

q. Financial assets

Financial assets are recognized in the balance sheets when the Group becomes a party to the contractual terms of the instrument. Where the purchase or sale of an investment is under a contract whose terms require the transfer of the investment within the time limit accepted by the relevant market, the investment is sold or deducted on the trading date (the date on which the Group undertook to purchase or sell the property).

Investments in financial assets are initially recognized at fair value, plus transaction costs, except for those financial assets that are classified at fair value through profit or loss, which are initially recognized at fair value. Transaction costs in respect of financial assets at fair value through profit or loss are recognized as an immediate expense in profit or loss.

After the initial recognition, financial assets will be measured at amortized cost or fair value depending on their classification.

(1) Classification of financial assets:

The Company classifies its financial assets into the following categories: "financial assets at fair value through profit or loss" and "financial assets at amortized cost". The classification depends on the business model within which the financial assets are held and on the contractual terms of the cash flows in respect thereof.

The Company reclassifies its financial assets which are debt instruments only, and only when a change occurs in its business model for the management of the financial assets

a. <u>Financial assets at amortized cost</u>

Financial assets at amortized cost are financial assets held within the framework of a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
These assets are classified as current assets, except for maturities in respect of a period longer than 12 months after the date of the balance sheet statement, which are classified as non-current assets

b. <u>Financial assets at fair value through profit or loss</u>

These assets are classified as non-current assets unless the management intends to realize the investment therein within a period of up to 12 months after the date of the balance sheet statement or whose redemption date does not exceed 12 months after the date of the balance sheet statement and then they are classified as current assets.

Note 2 - Significant accounting principles (Cont.)

q. Financial assets (Cont.)

(2) Recognition and measurement:

Financial assets are recognized in the balance sheet statement when the Group becomes a party to the contractual terms of the instrument. Financial assets at amortized cost are initially recognized at fair value plus transaction costs and are measured in subsequent periods at amortized cost, based on the effective interest method. Financial assets that are presented at fair value through profit or loss are initially recognized at fair value and transaction costs are charged to the statements of income. Financial assets at fair value through profit or loss are presented in subsequent periods at fair value. Any gain or loss arising from changes in fair value, including those arising from changes in exchange rates, is recognized in profit or loss in the period in which the change occurs (except for those used in hedging relationships). Regarding the method of measuring the fair value of the Group's financial instruments, see Note 14.

(3) Impairment of financial assets:

The Company evaluates at the end of each reporting period whether there has been a significant increase in the credit risk of the financial asset since its initial recognition, either on an individual basis or on a group basis. For this purpose, the Company compares the risk of a default in the financial instrument at the reporting date with the risk of a default in the financial instrument on the initial recognition date, while considering all reasonable and supportable information, including forward-looking information. For financial assets with a significant increase in credit risk as of the date of initial recognition thereof, the Company measures the provision for loss in an amount equal to the expected credit losses throughout the lifetime of the instrument. Otherwise, the provision for loss will be measured in an amount equal to expected credit losses in a period of 12 months. The amount of the expected credit differentials (or cancellation thereof) is recognized in profit or loss as part of "gains (losses) from impairment of financial assets and assets in respect of contracts with customers, net". For financial instruments with low credit risk, the Company assumes that the credit risk did not increase significantly from the date of initial recognition thereof.

(4) Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or been transferred, and the Company has transferred all risks and rewards of ownership of these assets. During the derecognition of a financial asset that is measured at amortized cost, the difference between the carrying amount of the asset and the consideration received or that is supposed to be received is recognized in profit or loss

r. Financial liabilities and equity instruments issued by the Group

Classification as a financial liability or an equity instrument:

Liabilities and equity instruments issued by the Group are classified as financial liabilities or as equity instruments in accordance with the nature of the contractual arrangements and the definition of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group

Note 2 - Significant accounting principles (Cont.)

r. Financial liabilities and equity instruments issued by the Group (Cont.)

after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of costs directly related to the issuance of these instruments.

Financial liabilities are presented and measured in accordance with the following classification:

- Financial liabilities at fair value through profit or loss.
- Other financial liabilities at amortized cost.

Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit and loss are presented at fair value with any gains or losses arising from changes in fair value recognized in profit or loss.

Financial liabilities at amortized cost:

Financial liabilities at amortized cost are recognized initially at fair value after deducting transaction costs. After the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the flow of estimated future cash flows over the expected life of the financial liability to the carrying amount thereof, or, where appropriate, over a shorter period.

Derecognition of financial liabilities:

The Group derecognizes a financial liability only when the financial liability is discharged, canceled or expires. The difference between the book value of the financial liability settled and between the consideration paid is recognized in profit or loss.

s. Derivative financial instruments and hedging accounting

The Group sometimes carries out engagements in derivative financial instruments such as forward contracts and trading in foreign currency options in order to hedge itself against the risks connected with fluctuations in the rates of exchange of foreign currency. These financial derivatives are first recognized at fair value. After the initial recognition, the financial derivatives are measured at fair value. Derivatives are recognized in the consolidated balance sheets as assets when their fair value is positive and as liabilities when their fair value is negative.

Gains or losses resulting from changes in the fair value of derivatives which are not used for hedging purposes are immediately recorded to profit or loss.

Hedging transactions which meet the criteria of hedging transactions (hedging) are treated as follows:

Note 2 - Significant accounting principles (Cont.)

s. Derivative financial instruments and hedging accounting (Cont.)

Hedging fair value

A change in the fair value of the derivative (the hedging item) and the hedged item are recognized in profit or loss. In the events of hedging fair value which relates to the hedged item presented at amortized cost, the adjustments to the carrying amount in the financial statements are recognized in profit or loss over the remaining period until repayment. Adjustments to hedged financial instruments presented using the effective interest method, are recognized in profit or loss. When the hedged item is derecognized, the balance of the adjustments of fair value not yet amortized is recognized in profit or loss at that time.

Hedging cash flows

The effective part of a gain or a loss from the hedging instrument is recognized in equity as other comprehensive income (loss) while the ineffective part is immediately recognized in profit or loss.

Other comprehensive income (loss) is transferred to profit or loss when the results of the hedging transaction are recorded to profit or loss; for example, when the hedged revenue or expense is recognized in profit or loss or when a forecasted transaction occurs. When the hedged item is the cost of a non- financial asset or liability, this cost also includes the amount of the related other relative comprehensive income (loss) which is transferred from shareholders' equity on the date of the recognition of the asset or liability.

In those cases where a forecast transaction or a firm commitment are no longer expected to occur, the amounts recognized in shareholder' equity in the past, are transferred to profit or loss. Once the hedging instrument expires or is sold, terminated or exercised, or when it is no longer designated as a hedging instrument, the amounts recognized in shareholders' equity in the past, remain in shareholders' equity until the date on which the forecasted transaction or the firm commitment occur.

t. Fair value measurement

Fair value is the price that would have been received for selling an asset or the price that would have been paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction takes place in the principal market of the asset or liability, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured while using the assumptions that market participants would use while pricing the asset or liability, assuming that market participants operate for the benefit of their own economic interests.

Fair value measurement for a non-financial asset takes into account the ability of a market participant to produce economic benefits by using the asset in its highest and best use or by selling it to another market participant who would use the asset in its highest and best use.

Note 2 - Significant accounting principles (Cont.)

t. Fair value measurement (Cont.)

The Group uses valuation techniques that are appropriate under the circumstances, and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
All of the assets and liabilities that are measured at fair value or that a disclosure related to their fair value has been provided, are categorized within the fair value hierarchy, based on the lowest source of input significant to the measurement of the fair value as a whole:

Level 1:	Quoted prices (unadjusted) in an active market for identical assets and liabilities.
Level 2:	Data other than quoted prices included within Level 1 that are observable either directly or indirectly.
Level 3:	Data that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

u. Treasury shares

The shares of the Company which are held by a consolidated subsidiary are measured at their acquisition cost and are presented as a deduction in shareholders' equity. Any gain or loss resulting from the acquisition, sell, issue or cancellation of treasury shares is recorded directly to shareholders' equity.

v. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense shall be recognized in the statement of income less the reimbursement of the expense.

The following are the types of provisions included in the financial statements:

Legal claims

Provision for claims is recognized when the Group has a legal obligation in the present or an implied obligation as a result of a past event, and it is more likely than not that the Group will require its financial resources to settle the obligation and it can be estimated reliably.

Restructuring costs

Provisions for restructuring costs are recognized when the Group has formulated a detailed formal plan for restructuring and has created a valid expectation among those affected by it for the execution of the plan by way of commencing the implementation of the plan or by way of giving notice to those affected by it.
The provision for restructuring costs includes the costs that are directly associated with the restructuring. The costs which are needed for the execution of the restructuring and which are unrelated to the Group's continuing operations, are included in the provision.

Note 2 - Significant accounting principles (Cont.)

w. Liabilities for benefits to employees

The Group has several employee benefits:

1. Short-term employee benefits:

Short-term employee benefits are benefits which are expected to be fully paid, up to 12 months after the end of the annual reporting period during which the employees provide the relating services. These benefits include salaries, leave pay, paid sick leave, paid annual leave and social security contributions and are recognized as expenses as the services are rendered. Liability for a cash grant is recognized when the Group has a legal or implied obligation to pay the aforesaid amount for a service that was provided by the employee in the past and the amount can be estimated in a reliable fashion.

2. Post-employment benefits

The plans are usually fund by contributions to insurance companies and they are classified as defined contribution plans and defined benefit plans.

The Group in Israel has defined contribution plans pursuant to Section 14 of the Israeli Severance Pay Law under which the Group pays fixed contributions and without having legal or implied obligation to pay further contributions even if the fund does not hold sufficient amounts to pay all employee benefits relating to the employee service in the current period and prior periods.

Contributions in the defined contribution plan in respect of severance pay or remuneration are recognized as an expense when contributed to the plan simultaneously with receiving the employee's services.
In addition, the Group also has a defined benefit plan with regard to severance pay pursuant to the Israeli Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability in regards with termination of employment is determined using the actuarial value of the projected entitlement unit method. The actuarial calculation takes into account future salary increases and rates of employee turnover based on the estimated time of payment. The amounts are presented based on discounted expected future cash flows, at interest rates in accordance with the expected yield at the reporting date of index-linked high-quality corporate bonds with maturity dates that are close to the liability period in respect of the severance pay.

The Company makes current deposits in respect of its liabilities to pay severance pay to certain of its employees regularly in pension funds and insurance companies (hereinafter: “the plan’s assets"). The plan’s assets consist of assets held in eligible insurance policies. The plan’s assets are not available to the Group's own creditors and cannot be paid directly to the Group.

The liability for employee benefits which is presented in the balance sheet represents the present value of the defined contribution plan liability less the fair value of the plan’s assets.

Remeasurement of the liability net is recorded as other comprehensive income in the period in which they occur.

Note 2 - Significant accounting principles (Cont.)

x. Share-based payment transactions

The Company's employees, directors and service providers are entitled to benefits in the form of share-based payment which are settled with equity instruments and paid in cash.

Transactions settled with equity instruments

The cost of transactions settled with equity instruments with employees, directors and service providers is measured at the fair value of the equity instruments on the granting date. Fair value is determined using an appropriate pricing model, for additional details see Note 21, as follows.

The cost of transactions to service providers is measured at the fair value on the granting date, and subsequently, at the date of providing the service, it is revalued to fair value with the changes being recorded to profit or loss.

The cost of transactions settled with equity instruments is recognized in profit and loss, together with a corresponding increase in equity, over the period in which the performance conditions exist, and ends on the date on which the relevant employees and directors become entitled to the benefit (hereinafter – “the vesting period"). The cumulative expense recognized for transactions settled with equity instruments at the end of each reporting date until the vesting date, reflects the extent to which the vesting period has expired, and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit and loss represents the change in cumulative expense recognized at the beginning and end of that reporting period.

No expense is recognized for grants that do not ultimately vest, except for grants where vesting is dependent on market conditions, which are treated as grants which vested irrespective of whether the market conditions are met, provided that all other vesting conditions (service and/or performance) were fulfilled.

When the Company modifies the conditions of a grant settled with equity instruments, the additional expense is recognized in addition to the original expense that was calculated for any modification that increases the total fair value of the benefit granted or is otherwise beneficial to the employee or director according to the fair value on the modification date.

Cancellation of the grant settled with an equity instrument is handled as if it vested on the date of the cancellation and the expense not yet recognized for the grant is immediately recognized. Nevertheless, if the grant that was cancelled is replaced by a new grant which is designated as an alternative grant on the date on which it is granted, the cancelled grant and the new grant will both be handled as a change in the original grant as described above.

Transactions settled in cash

The fair value of share-based payment grants to employees, in respect of share appreciation rights, which are settled in cash, is recognized as an expense, against a corresponding increase in liability, over the period in which unconditional entitlement to payment is achieved. The liability is remeasured at fair value at each reporting date, until the date of settlement and the change is recognized as an expense in profit and loss. The fair value of the liability is measured by using the binomial model.

Note 2 - Significant accounting principles (Cont.)

y. Earnings (loss) per share

Earnings (loss) per share are calculated by dividing the net income (loss) attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.
Potential ordinary shares are included in the computation of diluted earnings per share only if they result in diluted earnings per share from continuing operations. Potential ordinary shares that have been converted during the period are included in diluted earnings per share only until the conversion date and as of that date they are included in basic earnings per share.

z. Joint arrangements

A "joint arrangement" is a contractual agreement whereby the Group and other parties carry out economic activities subject to joint control. Joint control exists when the contractual agreement demands the unanimous consent of the parties who are sharing control regarding decisions relating to the financial and operational strategy of the transaction. There are two types of joint arrangements. The type of arrangement depends on the rights and obligations of the parties to the arrangement: "joint venture" is a joint arrangement where the parties have rights to the net assets attributable to the arrangement. In joint arrangements that constitute as a joint venture, the Group recognizes the joint venture as an investment and handles it using the equity method. "Joint operation" is a joint arrangement where the parties have rights to particular assets, and obligations for particular liabilities, attributable to the arrangement. In joint arrangements which constitute as a joint operation, the Group recognizes in the Group’s balance sheets its proportionate share of the joint operation’s assets and liabilities, including held assets and liabilities jointly formed. The statement of income includes the Group's proportionate share of the revenues and expenses of the joint operation, including revenues generated and costs incurred arising from the joint arrangement. When the Group is a party to a joint operation and has rights to assets, and obligations for liabilities attributable to the same operation, however it does not have joint control, the Group's rights in such joint operation are presented in the financial statements in a similar manner to the joint operation for which the Company has joint control. Transactions between the Group’s companies to joint operations held by the Company are recognized only at the level of the other parties’ share in the joint operation.

Note 3 – Amendments to standards 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

Amendment IAS 1 "Presentation of Financial Statements" (concerning the classification of liabilities as current or non-current)

The amendment clarifies that the classification of liabilities as current or non-current is based on the existing rights at the end of the reporting period and is not affected by the entity's estimation concerning the exercise of this right.
The amendment removed the reference to the existence of an unconditional right and clarified that if the right to defer the settlement is contingent on financial covenants, the right exists if the entity meets the criteria set at the end of the reporting period, even if the examination of whether the covenants are met, is done by the lender at a later date.
In addition, as part of the amendment, a definition has been added to the term "disposal" in order to clarify that disposal can be a transfer of cash, goods and services or equity instruments of the entity itself to the opposite party. In this context, it has been clarified that if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the entity's own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32 “Financial Instruments: Presentation”, the aforementioned terms would not affect the classification of the liability as current or non-current.
The amendment only affects the classification of liabilities as current or non-current in the balance sheet and not on the amount or timing of the recognition of those liabilities or the income and expenses related thereto.

The amendment will be applied retrospectively for annual reporting periods beginning on or after January 1, 2023. Early application is possible.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets—Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 8 Accounting Policies Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

Note 3 – Amendments to standards 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.)

Amendments to IAS 8 Accounting Policies Changes in Accounting Estimates and Errors—Definition of Accounting Estimates (Cont.)

- a change in accounting estimate that results from new information or new developments is not the correction of an error; and
- the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The Board added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the
Standard. The Board has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Interest Rate Benchmark Reform— Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The Group has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of equity as at 1 January 2021. See Note 14e regarding the reform impact.

Note 4 – Considerations in applying accounting policies and key factors of uncertainty in an estimate

While implementing the Group's accounting policies, as described in Note 2 above, the Company's management is required, in some cases, to exercise comprehensive accounting discretion concerning the accounting estimates and assumptions regarding the carrying amounts of assets and liabilities that are not necessarily available from other sources. The related estimates and assumptions are based on past experience as well as other relevant factors. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly by the management. Revisions to the accounting estimates are recognized only at the period of time in which a change in the estimate was carried out, provided that the change has an impact only on that period of time or are recognized at the aforementioned period of time and in future periods of time, provided that the change has an impact on both the current period and future periods.

The following are the key assumptions made in the financial statements concerning uncertainties on the balance sheet date, and the critical estimates computed by the Group and that a significant adjustment in the estimates and assumptions is likely to change the value of the assets and liabilities in the financial statements in the consecutive reporting year:

Deferred tax assets

Deferred tax assets are recognized for carry forward tax losses and deductible temporary differences not yet utilized to the extent that it is probable that future taxable income will be available against which the losses could be utilized. The management's careful consideration is required to determine the amount of deferred tax assets that can be recognized, based upon the timing, the amount of future taxable income expected, its origin and the tax planning strategies.

Note 5 - Trade receivables, net

	As at December 31, 2021	As at December 31, 2020
	Dollars thousands	
Open receivables	43,066	41,808
Less - provision for doubtful debts	(44)	(44)
Trade receivables, net	43,022	41,764

Out of the total balance of trade receivables as at December 31, 2021, US 4.3 million dollars (2020: US 3.8 million dollars) are in respect of a debt of customer A.

Trade receivables whose collection is in doubt are accounted for through recording a provision for doubtful debts.

The following is the analysis of the balance of trade receivables for which no impairment was recorded (provision for doubtful debts), trade receivables net, according to the period of delay in collection in relation to the reporting date:

	Trade receivables whose debts have not yet fallen due (no delay in collection)	Past due trade receivables and the delay in their collection is					
		Under 30 days	30 – 60 days	60 – 90 days	90 – 120 days	Over 120 days	Total
	US dollars in thousands						
December 31, 2021	40,008	2,130	299	420	59	106	43,022
December 31, 2020	37,408	3,604	441	139	7	165	41,764

Note 6 - Other receivables

	December 31, 2021	December 31, 2020
	US dollars in thousands	
Prepaid expenses	840	1,216
Advances to suppliers	1,336	641
Deposits	2,077	875
Institutions	430	752
Other receivables	162	142
	4,845	3,626

Note 7 – Inventories

	December 31, 2021	December 31, 2020
	US dollars in thousands	
Raw Materials	4,673	5,414
Work in process	4,205	5,761
Finished goods	62,085	22,584
	70,963	33,759

(*) An impairment of slow inventory recognized as part of cost of sales amounted to 569 thousand dollars (2020 – 761 thousand dollars).

Note 8 – Fixed assets and Right-of-use asset

Fixed assets

a. Composition and movement in assets used by the Group:

For the year of 2021

	Land and buildings (**)	Machinery and equipment (*)	Office furniture and equipment	Vehicles	Leasehold improve-ments	Total
	US dollars in thousands					
Cost						
Balance as at January 1, 2021	3,863	130,963	3,896	-	8,086	146,808
Additions during the year	-	2,857	309	49	873	4,088
Disposals during the year	(3,863)	(6,092)	-	-	-	(9,955)
Balance as at December 31, 2021	-	127,728	4,205	49	8,959	140,941
Accumulated depreciation						
Balance as at January 1, 2021	2,003	119,530	3,481	-	7,685	132,699
Additions during the year	67	1,636	214	2	199	2,118
Disposals during the year	(2,070)	(6,089)	-	-	-	(8,159)
Balance as at December 31, 2021	-	115,077	3,695	2	7,884	126,658
Provision for impairment						
Balance as at January 1, 2021	119	120	-	-	-	239
Additions during the year	708					708
Depreciation during the year	-	(120)	-	-	-	(120)
Disposals during the year	(827)	-	-	-	-	(827)
Balance as at December 31, 2021	-	-	-	-	-	-
Balance of depreciated cost as at December 31, 2021	-	12,651	510	47	1,075	14,283

Note 8 – Fixed assets and Right-of-use asset (Cont.)

Fixed assets (Cont.)

a. Composition and movement in assets used by the Group: (Cont.)

(*) Machinery and equipment are presented net of investment grants.

(**) During 2021 the Company sold its real estate property in North Carolina, USA, which served as an office building and former logistics center, and which until its sale was partly leased to third parties.

For the year of 2020

	Land and buildings	Machinery and equipment (*)	Office furniture and equipment	Leasehold improve-ments	Total
	US dollars in thousands				
Cost					
Balance as at January 1, 2020	3,863	128,597	3,714	8,062	144,236
Additions during the year	-	2,564	182	24	2,770
Disposals during the year	-	(198)	-	-	(198)
Balance as at December 31, 2020	3,863	130,963	3,896	8,086	146,808
Accumulated depreciation					
Balance as at January 1, 2020	1,937	116,645	3,218	7,558	129,358
Additions during the year	66	3,070	263	127	3,526
Disposals during the year	-	(185)	-	-	(185)
Balance as at December 31, 2020	2,003	119,530	3,481	7,685	132,699
Provision for impairment					
Balance as at January 1, 2020	119	292	-	-	411
Depreciation during the year	-	(172)	-	-	(172)
Balance as at December 31, 2020	119	120	-	-	239
Balance of depreciated cost as at December 31, 2020	1,741	11,313	415	401	13,870

(*) Machinery and equipment are presented net of investment grants

Regarding liens, see Note 19c.

b. Purchase of fixed assets on credit

As at December 31, 2021 and December 31, 2020, the balance of fixed assets in supplier credit amounted to US 1,060 and 1,125 thousand dollars, respectively. The said balances will be repaid by December 18, 2023.

Note 8 – Fixed assets and Right-of-use asset (Cont.)

Right-of-use asset

c. Composition and movement in assets leased:

The year of 2021

	Land and buildings	Vehicles	Total
	US dollars in thousands		
Cost			
Balance as at January 1, 2021	1,899	502	2,401
Additions during the year	5,797	294	6,091
Disposals during the year	-	(98)	(98)
Balance as at December 31, 2021	7,696	698	8,394
Accumulated depreciation			
Balance as at January 1, 2021	705	279	984
Additions during the year	1,538	162	1,700
Disposals during the year	-	(44)	(44)
Balance as at December 31, 2021	2,243	397	2,640
Balance of depreciated cost as at December 31, 2021	5,453	301	5,754
Balance of depreciated cost as at December 31, 2020	1,194	223	1,417

Note 9 - Other assets

a. Goodwill and intangible assets

The year of 2021

	List of customers	Patents	Goodwill	Total
	US dollars in thousands			
Balance as at January 1, 2021	2,037	99	49	2,185
Additions during the year	-	9	-	9
Balance as at December 31, 2021	2,037	108	49	2,194
Accumulated amortization				
Balance as at January 1, 2021	2,037	25	-	2,062
Amortization recognized during the year	-	5	-	5
Balance as at December 31, 2021	2,037	30	-	2,067
Amortized balance as at December 31, 2021	-	78	49	127

The year of 2020

	List of customers	Patents	Goodwill	Total
	US dollars in thousands			
Balance as at January 1, 2020	2,037	95	49	2,181
Additions during the year	-	4	-	4
Balance as at December 31, 2020	2,037	99	49	2,185
Accumulated amortization				
Balance as at January 1, 2020	2,037	23	-	2,060
Amortization recognized during the year	-	2	-	2
Balance as at December 31, 2020	2,037	25	-	2,062
Amortized balance as at December 31, 2020	-	74	49	123

The list of customers and goodwill were bought through business combinations. The customer list is amortized over a period of 8 years.

Note 9 - Other assets (Cont.)

b. Computer software

The year of 2021

	Computer software
	US dollars in thousands
Cost	
Balance as at January 1, 2021	5,648
Additions during the year	844
Balance as at December 31, 2021	6,492
Accumulated amortization	
Balance as at January 1, 2021	3,336
Amortization recognized during the year	533
Balance as at December 31, 2021	3,869
Amortized balance as at December 31, 2021	2,623

The year of 2020

	Computer software
	US dollars in thousands
Cost	
Balance as at January 1, 2020	4,927
Additions during the year	721
Balance as at December 31, 2020	5,648
Accumulated amortization	
Balance as at January 1, 2020	2,894
Amortization recognized during the year	442
Balance as at December 31, 2020	3,336
Amortized balance as at December 31, 2020	2,312

Note 10 - Credit from banks

a. Composition

	As at December 31	
	2021	2020
	US dollars in thousands	
Short-term credit from banks	32,471	24,256
Current maturities of long-term loans	1,714	3,012
	34,185	27,268

b. Regarding collateral and liens see Note 19c, as follows.

Note 11 - Trade payables

	As at December 31	
	2021	2020
	US dollars in thousands	
Open accounts	50,315	32,870
Notes payable	1,772	3,426
	52,087	36,296

Note 12 - Other payables

	As at December 31	
	2021	2020
	US dollars in thousands	
Liability to employees and other liabilities for wages and salaries	3,890	3,248
Accrued expenses	3,414	2,389
Derivative financial instrument	247	435
Lease liability	1,841	520
Other payables	2	10
	9,394	6,602

Note 13 - Loans from banks

1. Composition

As at December 31, 2021

	Nominal rate of interest	Balance	Balance less current maturities
	%	US dollars in thousands	
Loans from banks	Libor + 2.35	6,857	5,143

Note 13 - Loans from banks (Cont.)

1. **Composition (Cont.)**

As at December 31, 2020

	Nominal rate of interest	Balance	Balance less current maturities
	%	US dollars in thousands	
Loans from banks	Libor + 2.35	8,571	5,559

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%).

2. **Financing agreement with HSBC**

On March 29, 2018, the following parties signed a financing agreement: Tefron Canada Inc. a Canadian private 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, as the lender (hereinafter: "the bank"). The agreement was signed to provide alternative financing to the Israeli bank financing that financed the Company's operations until that date (hereinafter: "the agreement"), the main terms of which are as follows:

1. The financing amounts to a total cumulative principal of up to US 38 million dollar (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 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;

      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;

Note 13 - Loans from banks (Cont.)

2. Financing agreement with HSBC (Cont.)

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 consolidated basis), based on the ratio of debt to EBITDA 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 long-term loan principal payments according to its repayment 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%

Note 13 - Loans from banks (Cont.)

2. Financing agreement with HSBC (Cont.)

5. The collateral for the financing will be as follows:
   - a. First ranking charge in Canada by Tefron Canada on all of 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 on the basis of 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 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 credits, 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. Taking any loans as defined in the agreement is not permitted;
   - f. Distribution of dividends is not permitted.

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.

On November 5, 2018, an additional line of credit was granted by the bank to Tefron Canada, as part of the general terms of the financing agreement which is intended to issue documentary letters of

Note 13 - Loans from banks (Cont.)

2. Financing agreement with HSBC (Cont.)

credit up to a total amount of US 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.

On February 21, 2019, an addendum to the financing agreement 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 to be received from Walmart. It should be noted that the Company executes the sales to Walmart through its wholly owned subsidiary Lamour Hosiery 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 Wells Fargo Bank ("Wells"). The additional credit line is intended to advance the payments received by Lamour from Wells. On April 27, 2021, this line of credit was increased to an amount of up to US 7 million dollars.

(2) Amending the commitment to comply with the financial covenant of the debt service cover ratio which according to the financing agreement was 3.50 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 times any time thereafter.

On June 23, 2020, an addendum to the financing agreement was signed, the principals thereof are as follows:

(1) Deferring the current long-term loan principal payments which was provided by the bank HSBC Israel that was scheduled to be paid in 2020, in one year, in such a manner that it would be evenly divided among the following five annual current repayments. Additionally, the accelerated repayment of the loan, which was due in 2020, was also canceled,

(2) Amending the commitment to comply with the financial covenant of the debt to EBITDA ratio that according to the financing agreement was 3.50 times to a ratio of no more than 4.75 times for the quarters ending on June 30 and September 30, 2020.

(3) Amending the commitment to comply with the financial covenant of the debt service cover ratio which was 1.25 times to no more than 1.00 times for the quarters ending on June 30 and September 30, 2020.

Additionally, the bank provided an additional line of credit to the Company's Canadian subsidiary, Tefron Canada Inc., according to the Canadian Government's Special Assistance Program due to the Coronavirus pandemic, in the amount of up to CA 5 million dollars (equivalent to US$ 3,700,000) (hereinafter:" the additional credit line"). The purpose of the additional credit line is to help finance the borrower's business operations as detailed in the additional credit line's documents. This credit line will be set with a guarantee of 80% of the amount provided by the EDC (Export Development Canada), which assists on behalf of the Canadian Government, in financing Canadian companies' export activities. The terms of the additional credit line are as follows:

(1) The additional credit line can be utilized once or several times, provided that the first utilization thereof will be made within 60 days of its issuance.

Note 13 - Loans from banks (Cont.)

2. Financing agreement with HSBC (Cont.)

(2) The repayment thereof can be made at any time however, once an amount has been repaid it will not be set out as credit again.

(3) The additional credit line will be provided for a period of 12 months, and it can be extended at the sole discretion of the bank in 4 additional periods of 12 months each. Nevertheless, the bank may demand immediate repayment of the credit line at its discretion.

(4) As part of the request for an additional credit line, the Company agreed that as long as the additional credit line is not repaid in full, annual investments will not be made without the approval of the bank, subject to the fact the Group will be able to carry out annual investments for the purpose of maintaining its existing assets, insofar as these investments are included in the budget plan submitted by the Company to the bank, from time to time, in accordance with the terms of the financing agreement and the amendment thereto.

The Company has used the line of credit during the period. The line of credit had been repaid and was not extended for an additional period.

On April 22, 2021, the signing of an additional amendment to the financing agreement was completed. The principles of the amendment are as follows:

1. Increasing the line of credit provided by the bank to Tefron Canada Ltd., a Canadian subsidiary wholly owned by the Company (hereinafter: "Tefron Canada"), from the amount of US$ 25,000,000, as stipulated in the agreement, to the amount of US$ 35,000,000 (hereinafter: "the line of credit").
2. Adjusting the designated credit line of Tefron Canada in such a way that against it Tefron Israel would be provided with back-to-back credit through HSBC Israel, for long-term loan repayments (which is part of this credit line) carried out as of the date of the long-term loan so that it shall stand at US$ 10,000,000, while reducing the required guarantee from EDC to secure this credit line to a sum of US$ 5,000,000. This credit line is in addition to the line of credit mentioned in section 1 above. In this context, the Company's obligation in the financing agreement to accelerate the repayment of the long-term loan in any case where there is a free cash flow was cancelled.
3. 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 according to the financing agreement	Percentage of margin according to the amendment
$R \leq 1.50$	1.25% - 2.25%	0.5%-1.5%
$1.50 < R \leq 2.00$	1.5% - 2.5%	0.75%-1.75%
$2.00 < R \leq 3.00$	1.75% - 2.75%	1%-2%
$R > 3.00$	2% - 3%	1.25%-2.25%

4. The financial covenant relating to debt service cover ratio was amended to at least 1.20 times (*in lieu* of 1.25 times as set forth in the financing agreement).

5. The parties have reached an agreement regarding the base interest rate formula that will replace the LIBOR interest rate once the global use of this interest rate ceases. In general, the base interest rate formula will be the one that will be used as the standard interest rate that replaces the LIBOR interest rate at the bank.

Note 13 - Loans from banks (Cont.)

2. Financing agreement with HSBC (Cont.)

Subsequent to date of the report, on March 10, 2022, the signing of an amendment to the Company's financing agreement with the bank that finances its operations, HSBC Canada (hereinafter: "the financing agreement", "the amendment" and "the bank", respectively) was completed. The principles of the amendment are as follows:

1. Increasing the line of credit provided by the bank to Tefron Canada Ltd., a Canadian subsidiary wholly owned by the Company (hereinafter: "Tefron Canada"), from the amount of US$ 35,000,000, as stipulated in the financing agreement, to the amount of US$ 50,000,000 (hereinafter: "the line of credit").
2. Increasing the maximum level limit of the inventory stock value that will be considered as collateral for the purpose of utilizing the line of credit, so that the inventory stock value will be lower than (1) 50% of the inventory stock value of the finished goods of Tefron Canada and its wholly-owned subsidiary, Tefron USA Inc. (hereinafter: “Tefron USA”); and (2) US$ 25,000,000 (prior to the increase the amount was US$ 10,000,000), when out of this amount, the sum of in-process inventory shall not exceed US$ 3,000,000.
3. Increasing the limit of the Company's annual investment limit from a sum of US$ 2,000,000 to a sum of US$ 7,000,000 in 2022 and a sum of US$ 3,500,000 each year thereafter.
4. Adjusting the financing agreement to the SOFR interest rate (and TERM SOFR), which will replace the Labor interest rate.

As at December 31, 2021, the Company met all of the financial covenants stipulated in the financing agreement, as detailed as follows:

Debt service cover ratio of at least 1.20 times, was 4.79.
Debt to EBITDA ratio (as defined in the financing agreement) of no more than 3.50 times was 1.45.

Note 14 - Financial instruments

a. Classification of financial assets and financial liabilities

The financial assets and financial liabilities in the balance sheet are classified by groups of financial assets pursuant to IFRS 9:

	As at December 31,	
	2021	2020
	US dollars in thousands	
Financial assets		
Financial assets measured at amortized cost:		
Trade receivables	43,022	41,764
Receivables	4,415	2,874
Total financial assets measured at amortized cost	47,437	44,638
Total financial assets	47,437	44,638
Total current financial assets	47,437	44,638

Note 14 - Financial instruments (Cont.)

a. Classification of financial assets and financial liabilities (Cont.)

	As at December 31,	
	2021	2020
	US dollars in thousands	
Financial liabilities		
Financial liabilities measured at amortized cost:		
Loans and credit from banks	39,328	32,827
A loan from the controlling shareholders	-	2,000
Trade payables	52,568	36,886
Payables	10,229	5,505
Total financial liabilities measured at amortized cost	102,125	77,218
Financial liabilities at fair value through profit or loss:		
Liabilities in respect of options to banks	-	168
Liabilities in respect of share-based payment	87	-
Derivative financial instrument	247	435
Total financial liabilities at fair value through profit or loss	334	603
Total financial liabilities	102,459	77,821
Total current financial liabilities	92,664	70,543
Total non-current financial liabilities	9,795	7,278

b. Financial risk factors

The Group's activities expose it to various financial risks such as market risks (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible negative effects on the Group's financial performance. The Group utilizes derivative financial instruments in order to hedge certain exposures to risks.

The Board discusses the overall risk management principles, including the specific policy for certain risks such as foreign exchange risk, interest rate risk, credit risk and liquidity risk, and the use of derivative financial instruments and non-derivative financial instruments.

1. Foreign currency risk

The Group operates in a large number of countries and is exposed to foreign currency risk resulting from the exposure to different currencies, mainly the NIS and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities denominated in a different currency from the functional and the reporting currency of the Company (US Dollar). The finance department is responsible for managing the net position of each foreign currency by the use of forward contracts and currency options, according to the Company's hedging policy. In general, the management's policy is to hedge the forecasted payroll expenses denominated in NIS, payments in NIS to suppliers and payments in Euro to suppliers. The hedging level is examined each period, according to the market conditions and the Company's ability to provide collateral for hedging transactions.

2. Credit risk

The Group has no significant concentrations of credit risk. The Group has a policy to ensure that the sales of its products are carried out to customers with an appropriate credit history.

Note 14 - Financial instruments (Cont.)

b. Financial risk factors (Cont.)

2. Credit risk (Cont.)

Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will likely be similarly affected by changes in economic or other conditions. Factors that have the potential of creating concentrations of risks consist of the nature of the debtors' activities, such as their business sector, the geographical area of their operations and the level of their financial strength.

Terms of sale to customers

Management of customer credit risk is managed in accordance with the policy, procedures and controls of the Company with respect to the management of customer credit risk. The evaluation of the credit quality of a customer is based on performance analysis and credit rating of each customer, according to which credit terms are determined for each specific customer. Outstanding customer balances that have yet to be repaid are reviewed regularly and shipments to major customers are usually covered by credit insurance. It should be noted that the sales to a material customer that are carried out through an interested party, are not insured.

The Company's revenues are mainly from customers in the USA and Canada. The Group monitors trade receivable debts on a regular basis, and the financial statements include provisions for doubtful debts which accurately reflect, in the Company's opinion, the loss inherent in the debts whose collection is in doubt.

3. Interest risk

The Group is exposed to the risk of changes in market interest rates resulting from short-term and long-term loans that were received which bear adjustable interest rate (the loans are linked to the Libor interest rate).

4. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities on due dates. The responsibility for managing liquidity risk is handled by the Company's management which carries out a plan of managing financial and liquidity risks for the short, medium and long terms according to the Company's needs. The Company manages the liquidity risk by carrying out current financial forecasts.

The Company holds cash and other financial instruments with various financial institutions in Israel and in additional countries in which the Group operates. The Group's policy as a borrower of credit is to operate under the limitations of the financing agreement with the banks.

As at December 31, 2021, the cash balance amounted to US 3,501 thousand dollars. The Company also had an unutilized line of credit derived from the Company's current volume of collateral in the amount of US 8,600 thousand dollars.

Note 14 - Financial instruments (Cont.)

b. Financial risk factors (Cont.)

4. Liquidity risk (Cont.)

The table below presents the maturity profile of the Group's financial liabilities according to the contractual terms:

As at December 31, 2021

	Up to one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
	US dollars in thousands					
Loans from banks	34,464	1,908	1,823	1,738	-	39,933
Trade payables	52,087	481	-	-	-	52,568
Other payables	6,145	1,912	1,412	628	132	10,229
	92,696	4,301	3,235	2,366	132	102,730

As at December 31, 2020

	Up to one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
	US dollars in thousands					
Loans from banks	27,268	1,714	1,714	1,714	417	32,827
A loan from the controlling shareholders	2,000	-	-	-	-	2,000
Trade payables	36,296	378	212	-	-	36,886
Other payables	4,544	489	411	61	-	5,505
	70,108	2,581	2,337	1,775	417	77,218

c. Fair Value

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

The financial instruments presented in the balance sheet at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring the fair value:

Level 1 - Quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2 - Data other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - Data that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

Note 14 - Financial instruments (Cont.)

c. Fair Value (Cont.)

	As at December 31	
	2021	2020
	US dollars in thousands	
Level 2		
Derivative financial instrument	(247)	(435)
Liability in respect of share-based payment	(87)	-
Liabilities for bank options	-	(168)
Total financial assets	(334)	(603)

e. Change in interest rates

A change in the interest rates of the financial liabilities as at December 31 would have increased (decreased) the shareholders' equity and the gain or loss in the amounts presented below. This analysis assumes that all other variables remain constant and ignores tax effects.

	Sensitivity test to changes in interest rates	
	Gain (loss) from change	
	10% increase in interest	10% decrease in interest
	US dollars in thousands	
2021	(7)	7
2020	(14)	14

The Company's bank credit is linked to the LIBOR interest rate. Recently, the market has started preparing for the cessation of the use of LIBOR rates and replacing it with new benchmark interest, a process that is likely to end by June 2023. An agreement has been reached with HSBC on the interest rate formula that will replace the LIBOR interest rate when it will no longer be used worldwide. In general, the interest rate formula will be the standard interest rate that replaces the LIBOR interest rate in the bank. The benchmark interest that is intended to replace the Libor is a new interest called SOFR. As at the date of publication of this report, it appears the that the SOFR index is not significantly different from the LIBOR index.

f. Foreign currency risk

Foreign currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.
As at December 31, 2021, the Company has surplus of financial liabilities in NIS over financial assets in the amount of US 7,057 thousand dollars (as at December 31, 2020 – US 4,083 thousand dollars).

Note 14 - Financial instruments (Cont.)

f. Foreign currency risk (Cont.)

Changes in Dollar - NIS exchange rates as at December 31 would have increased (decreased) the shareholders' equity and gain or loss by the following amounts. This analysis assumes that all other variables are constant and ignores tax effects.

	Sensitivity test to changes in NIS exchange rates	
	Gain (loss) from change	
	10% increase in exchange rate	10% decrease in exchange rate
	US dollars in thousands	
2021	706	(706)
2020	108	(408)

Sensitivity tests and principal work assumptions:

The selected changes in the relevant risk variables were determined based on the management's estimates as to reasonable possible changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or reported financial condition. The sensitivity tests present the gain or loss and/or change in shareholders' equity (before tax), in respect of each financial instrument for the relevant risk variable chosen for that instrument as at each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial position of each risk with reference to the functional currency and assuming that all the other variables are constant.

The sensitivity test for loans with variable interest was performed on the variable component of interest.

Note 15 - Liability for options to banks

On July 9, 2014, the Company issued to Bank Leumi Le-Israel Ltd., Israel Discount Bank Ltd. and Bank Hapoalim Ltd., that financed the Company's operations at that time (hereinafter together: "the banks") 300,000 cashless option warrants exercisable into 300,000 shares, in accordance with the provisions of the amended re-organization of the credit lines agreement with the banks dated March 27, 2014. These options replace two series of 100,000 and 200,000 cashless option warrants which were allocated in March 2010 and December 2010, respectively.
On September 9, 2015, and in accordance with the provisions of the amended financing agreement as at May 18, 2015, the Company issued to the banks an amendment to the allocation letters that were granted to them, according to which the terms of the options were changed, in such a manner that the exercise price of each option shall be US 1.43 dollars (instead of US 2.5 dollars) and the exercise period of each option shall be until March 31, 2023 (instead of December 31, 2019).
On March 29, 2018, and in accordance with the terms of the early repayment as aforesaid in Clause 13(2)a above, the Company's Board approved the update of the terms of the 300,000 options allocated on July 9, 2014, to the banks 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 have remained unchanged.

Note 15 - Liability for options to banks (Cont.)

The value of the benefits inherent in granting these options amounted to US 37 thousand dollars as at December 31, 2018, and was recorded as a liability for options to banks, against the recording of financing expenses. This liability is measured periodically, according to the option evaluation model. In 2021 and 2020, the Company recorded financing expenses of US 1,527 and US 140 thousand dollars respectively, as a result of the revaluation of the liability for the banks' options (2019 - financing income on the sum of US 9 thousand dollars).

During 2021, the banks exercised all of the options granted to them in cash less exercise and accordingly, the Company's shares were allotted to them, for further details see Note 21c as follows.

Note 16 - Assets and liabilities for employee benefits

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits

According to the Labor Laws and Severance Pay Law in Israel, the Company is required to pay severance pay to an employee upon dismissal or retirement or to make current contributions to defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below. The Company's liability for the aforementioned is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is carried out in accordance with a valid employment contract and based on the employee's salary and term of service of its employment which establish the entitlement to receive the severance pay.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans, as detailed below:

1. Defined contribution plans

The provisions of Section 14 of the Severance Pay Law, 1963, apply to part of the severance pay payments, pursuant to which the current contributions paid by the Group into pension funds and/or policies of insurance companies, release the Group from any additional liability to employees for whom such contributions were made as aforementioned. These contributions as well as contributions for remuneration represent defined contribution plans.

	For the year ended December 31		
	2021	2020	2019
	US dollars in thousands		
Expenses in respect of defined contribution plans	490	426	466

2. Defined benefit plans

The Group accounts for that part of the payment of compensation that is not covered by contributions to defined contribution plans, as aforementioned, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group contributes amounts in central severance pay funds and in qualifying insurance policies.

Note 16 - Assets and liabilities for employee benefits (Cont.)

Post-employment benefits (Cont.)

2. **Defined benefit plans (Cont.)**
   a. Changes in the defined benefit plan's liabilities and in fair value of the plan's assets

The year of 2021

		Expenses recorded to profit or loss					Loss due to remeasurement in other comprehensive income							
	Balance as at January 1, 2021	Cost of current service	Interest Expenses, net	Cost of past service and effect of clearing	Total expenses recorded to profit or loss in the period	Payments from the plan	Return on plan's assets (excluding amounts recognized in interest expenses, net)	Actuarial gain due to changes in demographic assumptions	Actuarial loss due to changes in financial assumptions	Actuarial loss due to experience deviations	Total effect on other compreh-ensive income in the period	Effect of changes in the exchange rates of foreign currency	Contributions deposited by the employer	Balance as at December 31, 2021
Liabilities for defined benefit	1,508	169	25	(49)	145	469	-	-	(39)	121	82	26	-	1,292
Fair value of plan's assets	(140)	-	(1)	-	(1)	(160)	(3)	-	-	-	(3)	1	(8)	9
Liability (asset) net for defined benefit	1,368	169	24	(49)	144	309	(3)	-	(39)	121	79	27	(8)	1,301

Note 16 - Assets and liabilities for employee benefits (Cont.)

Post-employment benefits (Cont.)

2. Defined benefit plans (Cont.)

a. Changes in the defined benefit plan's liabilities and in fair value of the plan's assets (Cont.)

The year of 2020

		Expenses recorded to profit or loss					Loss due to remeasurement in other comprehensive income							
	Balance as at January 1, 2020	Cost of current service	Interest Expenses, net	Cost of past service and effect of clearing	Total expenses recorded to profit or loss in the period	Payments from the plan	Return on plan's assets (excluding amounts recognized in interest expenses, net)	Actuarial gain due to changes in demographic assumptions	Actuarial loss due to changes in financial assumptions	Actuarial loss due to experience deviations	Total effect on other compreh-ensive income in the period	Effect of changes in the exchange rates of foreign currency	Contributions deposited by the employer	Balance as at December 31, 2020
Liabilities for defined benefit	1,310	295	26	(92)	229	285	-	-	(24)	201	177	77	-	1,508
Fair value of plan's assets	(122)	-	(2)	-	(2)	-	3	-	-	-	3	(11)	(8)	(140)
Liability (asset) net for defined benefit	1,188	295	24	(92)	227	285	3	-	(24)	201	180	66	(8)	1,368

Note 16 - Assets and liabilities for employee benefits (Cont.)

Post-employment benefits (Cont.)

2. Defined benefit plans (Cont.)

b. Principal assumptions used in determining the defined benefit plan

	2021	2020
	%	%
Discount rate (*)	2.9	2.5
Expected salary increase rate	3	3

(*) The discount rate is based on index-linked high-quality corporate bonds.

c. Amounts, timing and uncertainties of future cash flows

The following are possible changes which are considered reasonable for the end of the reporting period, for each actuarial assumption, assuming that the remaining actuarial assumptions have remained unchanged:

	The change in the defined benefit obligation
	Dollars thousand
As at December 31, 2021:	
Sensitivity test to changes in expected salary increase rate	
The change as a result of:	
Salary increase of 1%	93
Salary decrease of 1%	(81)
Sensitivity test to changes in the discount rate of the plan's liabilities and assets	
The change as a result of:	
1% increase of the discount rate	(80)
1% decrease of the discount rate	94

Note 17 – Long-Term Payables

	For the year ended December 31	
	2021	2020
	US dollars in thousands	
Supplier credit - Purchase of fixed assets (1)	482	590
Liability in respect of long-term lease	4,084	961
Liability in respect of share-based payment (2)	87	-
	4,653	1,551

(1) For additional details see Note 8b above

(2) For additional details see Note 21b2 as follows.

Note 18 - Taxes on income

a. Tax laws applicable to the Group's companies

The Company is subject to provisions of Income Tax Regulations (Rules for Bookkeeping by Foreign Investment Companies and Certain Partnerships and Determination of Taxable Income), 1986. In accordance with the aforementioned regulations, the Company files its income tax returns in US dollars.

b. Tax rates applicable to the Group:

The corporate tax rate on the company in Israel is 23%.
The tax rate on a subsidiary in the US and Canada is 27% (including federal tax and state tax).

c. Final tax assessments

Final tax assessments were issued to the Company up to and including the tax year 2016. The main subsidiary operating outside Israel has final tax assessments until 2017.

d. Carry- forward losses for tax purposes and other temporary differences

The Company has carry-forward losses for tax purposes amounting to, as at December 31, 2021, a sum of US 33.0 million dollars which may be used over an unlimited period of time, and subject to the limitations of the merger with the subsidiary, Hi-Tex founded by Tefron Ltd. In respect of these balances and other deductible temporary differences, the Company recorded in its financial statements deferred tax assets on the sum of 5.6 million dollars (due to the expectation of their utilization as a result of the expected profit forecast in the coming years and the existence of deferred tax reserves in the amount of 1.4 million dollars, mainly in respect of fixed assets, and the expectation of realizing them against taxable income).

Note 18 - Taxes on income (Cont.)

e. Deferred taxes

Composition:

	Balance sheets		Statements of income		
	December 31		The year ended December 31		
	2021	2020	2021	2020	2019
	US dollars in thousands				
Deferred tax liabilities					
Fixed assets	(1,444)	(1,623)	179	551	805
	(1,444)	(1,623)			
Deferred tax assets					
Carry-forward losses for tax purposes	6,638	4,251	2,387	(259)	(951)
Provision for doubtful accounts	-	-	-	-	-
Employee benefits	454	423	31	5	10
	7,092	4,674			
Deferred tax income (expenses)			2,597	297	(136)
Deferred tax assets, net	5,648	3,051			

Deferred taxes are presented in the balance sheet as follows:

	December 31	
	2021	2020
	US dollars in thousands	
Non-current assets	5,648	3,051

f. Tax to be paid included in profit and loss

	For the year ended December 31		
	2021	2020	2019
	US dollars in thousands		
Current tax expenses	3,215	1,705	97
Expenses (income) in respect of taxes from previous years	(41)	116	(142)
Deferred taxes expenses (income)	(2,597)	(297)	136
	577	1,524	91

Note 18 - Taxes on income (Cont.)

g. Theoretical tax

The reconciliation between the theoretical tax rate that would have applied assuming that all the income and expenses, gains and losses in profit or loss were taxed at the statutory tax rate, and the taxes on income recorded in profit or loss, is as follows:

	For the year ended December 31		
	2021	2020	2019
	US dollars in thousands		
Income (loss) before taxes on income	14,929	6,084	(1,619)
Statutory tax rate	23%	23%	23%
Tax expenses (income) computed at the statutory tax rate	3,434	1,399	(372)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses for tax purposes	384	55	21
Temporary differences for which no deferred taxes were recorded	413	388	653
Losses for tax purposes for which no deferred tax assets were recognized in the past, but were recognized during the reporting period	(4,196)	(444)	-
Difference in the tax rate applicable to income in consolidated subsidiaries located in other jurisdictions	233	231	(47)
Adjustments carried out during the year in respect of taxes from previous years	(41)	116	(142)
Others	350	(221)	(22)
Tax expenses	577	1,524	91

Note 19 - Contingent liabilities, commitments and liens

a. Contingent liabilities

Legal proceedings

Subsequent to date of the report, on January 10, 2022, the Company reported the submission of a statement of claim against it and against four additional defendants in Haifa District Court by an agent of the Company's machine supplier, Realtex Agencies Ltd. and the shareholder thereof, in a total amount of NIS 9 million. The plaintiff claims the defendants allegedly owe him commissions.
Apparently, the Company’s part is insignificant in relation to the entire lawsuit. It also appears the Company has good defense claims against the plaintiff’s lawsuit. In the opinion of the Company's management and based on its legal counsel, in view of the preliminary stage in which the lawsuit is located, it is not possible to assess the chances of the lawsuit.

b. Commitments to pay rent

The Company's plants and installations and most of those of its subsidiaries are located in buildings leased for various terms ending during the years 2022-2026.

Note 19 - Contingent liabilities, commitments and liens (Cont.)

b. Commitments to pay rent (Cont.)

The expected rents for non-cancellable lease agreements in the coming years which are calculated according to the rental agreements in effect as at December 31, 2021, are as follows:

	2021	2020
	US dollars in thousands	
Year 1	1,923	2,236
Year 2	920	148
Year 3	858	148
Year 4	709	148
Year 5	162	61
	4,572	2,741

c. Liens

All the liabilities to a bank are secured by a fixed and floating charge on the existing and future assets of the Company and its subsidiaries in both the present and the future.

Note 20 - Capital

a. Composition of the share capital and the convertible securities

	As at December 31,	
	2021	2020
	Number of shares	
Authorized share capital (ordinary shares of NIS 10 par value each)	20,000,000	20,000,000
Issued share capital (ordinary shares of NIS 10 par value each)	12,220,890	11,970,126
Paid up share capital (ordinary shares of NIS 10 par value each)	12,121,150	11,870,386
Option warrants (non-tradable) for the Company's employees and managers, directors and service providers exercisable into ordinary shares of NIS 10 par value each	1,270,000	1,011,605
Treasury shares held by a subsidiary	99,740	99,740

b. Rights conferred by the shares

Ordinary shares

Voting rights at the general meeting, right to a dividend, rights upon liquidation of the Company and the right to appoint directors of the Company.

c. Treasury shares

Tefron Holdings (98) Ltd., a wholly-owned subsidiary of the Company, holds 99,740 Company shares, which constitute 0.82% of the Company's shares and whose cost is US 7,408 thousand dollars, as at December 31, 2021, and 2020. The investment in these shares is recorded according to the "treasury shares" method in shareholders' equity.

Note 20 – Capital (Cont.)

d. Capital management in the Company

The Company's capital management objectives are:

1. To preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.
2. To ensure adequate return for the shareholders by pricing products and services commensurately with the level of risk in the Group's business operations.

The Company operates to achieve a return on capital at a level that is customary in the industry and markets in which the Company operates. This return is subject to changes depending on market factors in the Company's industry and business environment. In 2021 and 2020, the Company achieved a return on capital of 32.6% and 17% respectively. In 2019 the Company had a negative return on capital.

Note 21 - Share-based payment transactions

a. Expense recognized in the financial statements

The expense recognized in the Company's financial statements for services rendered by employees, directors and consultants is presented in the following table:

	For the year ended December 31		
	2021	2020	2019
	US dollars in thousands		
Share based payment plans settled with equity instruments for employees and directors	431	101	180
Share based payment plans settled in cash for employees and directors	87	-	-
Total share-based payment plans settled with equity instruments and in cash	518	101	180

b. Share-based payment plan to the Company's employees and managers, directors and service providers

1. Transactions settled with equity instruments

On December 30, 2013, the general meeting of the shareholders of the Company approved the option plan for employees, officers and consultants. The option warrants shall vest and become exercisable and the offeree's eligibility to those warrants shall expire according to the following:

- One-third of the options (hereinafter: "the first series") will be exercisable beginning one year from the date of their allocation and until the end of five years as of the date on which the options included in the first series were first exercisable.
- One-third of the options (hereinafter: “the second series") will be exercisable beginning two years from the date of their allocation and until the end of five years as of the date on which the options included in the second series were first exercisable.
- One-third of the options (hereinafter: “the third series") will be exercisable beginning three years from the date of their allocation and until the end of five years as of the date on which the options included in the third series were first exercisable.

Note 21 - Share-based payment transactions (Cont.)

b. Share-based payment plan to the Company's employees and managers, directors and service providers (Cont.)

1. Transactions settled with equity instruments (Cont.)

The share-based payment transactions granted by the Company to its employees and consultants are detailed as follows:

On January 16, 2019, the Company's Board approved, after receiving the approval of the Remuneration Committee, the allocation of 700,000 non-tradeable options to Mr. Michael Goldenblatt, the CEO of Tefron USA, Inc. (or to a corporation fully-controlled by him and through which he provides management services to the Company) (hereinafter: "the options" and “the offeree”) exercisable for up to 700,000 ordinary shares of NIS 10 par value each (hereinafter: “the exercise shares”), in accordance with 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.

On May 22, 2019, these options were allocated to the offeree without 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.

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:

- 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.
- 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.
- 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 March 18, 2021, the Company's Board of Directors decided, after receiving the approval of the Company’s Remuneration Committee, to allocate 585,000 non-tradeable options to 20 of the Company’s employees (hereinafter: "the options" and “the offerees”), exercisable for up to 585,000 ordinary shares of NIS 10 par value each (hereinafter: “the exercise shares”), in accordance with the cashless method. The economic value of each option offered to the offerees (in an average calculation of the three series) is NIS 4.6.

On May 5, 2021, these options were allocated to the offerees without consideration as part of the offerees’ remuneration in respect of their position in the Company. The exercise price of each option determined by the Company's Board is NIS 7.07.

The offerees 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:

- First series – 195,000 options exercisable for up to 195,000 ordinary shares of the Company of NIS 10 par value each as of March 17, 2022, and until March 16, 2027.
- Second series – 195,000 options exercisable for up to 195,000 ordinary shares of the Company of NIS 10 par value each as of March 17, 2023, and until March 16, 2028.
- Third series – 195,000 options exercisable for up to 195,000 ordinary shares of the Company of NIS 10 par value each as of March 17, 2024, and until March 16, 2029.

Note 21 - Share-based payment transactions (Cont.)

b. Share-based payment plan to the Company's employees and managers, directors and service providers (Cont.)

On October 31, 2021, 15,000 options expired as a result of termination of employment with one of the offerees.

2. Transactions settled in cash

On July 1, 2021, six employees in the subsidiary who are not officers of the Company, were granted 120,000 share appreciation rights, settled in cash, without any consideration as part of the remuneration in respect of their position in the Company. The determined exercise price of each such right is US 5 dollars. The employees will be entitled to exercise the rights in 3 installments, which will be exercisable for a period of three years each (hereinafter: "the exercise period"), as of the following dates, provided that at that date the employee is still employed by the Company:

- First series – 30,000 rights exercisable as of July 1, 2022.
- Second series – 30,000 rights exercisable as of July 1, 2023.
- Third series – 30,000 rights exercisable as of July 1, 2024.

c. Exercising options

On April 20, 2021, Bank Hapoalim Ltd. exercised 71,400 option warrants granted to it in a cashless exercise, and accordingly it was granted 54,136 options of the Company.

On October 21, 2021, Bank Leumi Le-Israel Ltd. exercised 153,900 option warrants granted to it in a cashless exercise, and accordingly it was granted 132,359 shares of the Company.

On December 29, 2021, Israel Discount Bank Ltd. exercised 74,700 option warrants granted to it in a cashless exercise, and accordingly it was granted 64,269 shares of the Company.

Subsequent to the date of the report, on February 22, 2022, Mr. Michael Goldenblatt (through a company fully-owned and fully-controlled by him) exercised 233,333 options granted to him in a cashless exercise and accordingly he was allotted 190,909 shares of the Company.

d. Movement during the year

The following table lists the number of share options, the weighted average exercise price of the share options, and modifications in employee option plans which were carried out during the current year:

	As at December 31, 2021		As at December 31, 2020	
	Number of options	Weighted average exercise price (dollar)	Number of options	Weighted average exercise price (dollar)
Options for shares granted at the beginning of the year	1,011,000	1.2	1,070,605	1.2
Options for shares granted during the year	585,000	2.3	-	-
Options for shares forfeited or expired during the year	(26,000)	2.9	(59,605)	2.4
Options exercised during the year (*)	(300,000)	1.0	-	-
Options for shares at the end of the year	1,270,000	1.8	1,011,000	1.2
Options for shares which can be exercised at the end of the year	466,667	1.3	544,333	1.1

Note 21 - Share-based payment transactions (Cont.)

(*) For more details regarding options exercised by banks see Note 15 above.

d. The weighted average of the remaining contractual term of the share options as at December 31, 2021, is 5.0 years (2020 – 4.2 years).

e. Measurement of the fair value of the share options settled with equity instruments

The Company uses the Black & Scholes model to measure the fair value of options to shares settled with equity instruments that have been granted to employees. The measurement is carried out on the date of granting the options for shares which are settled with equity instruments. The Company uses the Monte Carlo simulation method for measuring the fair value of the options granted to the banks. The measurement is carried out on the date of granting the options and a remeasurement is conducted quarterly.

The expected lifespan of the share options is based on the Company's historical data which is not necessarily indicative of the future exercise pattern of share options.

The expected volatility of the share price reflects the assumption that the historical volatility of the share price is reasonably indicative of expected future trends.

Note 22 - Supplementary information to the profit and loss items

a. Cost of sales

	For the year ended December 31		
	2021	**2020**	**2019**
	US dollars in thousands		
Finished goods and incidentals (2)	190,509	(*) 127,003	(*) 105,506
Materials	23,424	(**) 6,257	(**) 5,993
Payroll and benefits	10,705	5,720	6,936
Sub-contracted work	9,615	3,000	3,417
Depreciation	3,678	3,754	5,458
Other manufacturing expenses (3)	7,579	4,691	2,935
	245,510	150,425	130,245
Increase in work-in-progress and finished goods inventories (1)	(37,946)	(1,763)	(575)
	207,564	148,662	129,670
(1) Including provision for impairment of slow inventory.	569	465	472

(2) Including expenses for the purchase of finished goods customs and transportation.
(3) Including a loss due to exiting a joint operation see Note 26a as follows.

(*) Reclassification - see section g as follows.
(**) Expenses for the purchase of finished goods and customs were reclassified to the finished goods and incidentals item.

Note 22 - Supplementary information to the profit and loss items (Cont.)

b. Development expenses, net

	For the ended December 31		
	2021	**2020**	**2019**
	US dollars in thousands		
Payroll and benefits	3,167	2,665	2,708
Manufacturing expenses	1,503	1,068	864
Depreciation and amortization	249	247	247
Materials	271	202	322
Others	42	50	179
Participation in the expenses of a joint arrangement	-	(1,416)	(1,030)
	5,232	2,816	3,290

(4) Selling and marketing expenses

	For the year ended December 31		
	2021	**2020**	**2019**
	US dollars in thousands		
Payroll and benefits	7,891	5,382	5,625
Export and distribution	7,249	(*) 4,610	(*) 3,675
Commissions to agents and franchisees	5,883	4,907	4,931
Overseas office maintenance	646	660	745
Overseas excursions	147	251	898
Depreciation and amortization	269	328	272
Sales promotion	1,007	556	414
Others	1,334	792	383
Participation in the expenses of a joint arrangement	-	(1,464)	(946)
	24,426	16,022	15,997

(*) Reclassified, see section g as follows.

(5) General and administrative expenses

	For the year ended December 31		
	2021	**2020**	**2019**
	US dollars in thousands		
Payroll and benefits	1,898	1,349	1,391
Consulting	765	658	784
Remuneration and insurance for directors	267	235	229
Provision for doubtful and bad debts	-	44	-
Others	1,578	1,152	1004
	4,508	3,438	3,408

Note 22 - Supplementary information to the profit and loss items (Cont.)

(6) Other expenses (income)

	2021	2020	2019
	For the year ended December 31		
	US dollars in thousands		
Capital loss (gain)	31	(13)	(24)
Loss from impairment	708	-	-
Exiting a joint operation (*)	-	464	-
Reorganization (**)	-	-	1,878
	739	451	1,854

(*) In 2020 the Company incurred a loss as a result of exiting the Company's joint operation in Jordan, for further details see Note 26a as follows.

(**) In 2019 the Company included in its financial statements reorganization expenses in respect of establishing a joint company in Jordan,

(7) Financing income (expenses)

	2021	2020	2019
	For the year ended December 31		
	US dollars in thousands		
Financing income			
Net gain from change in rates of exchange	197	26	-
Net income due to a change in fair value of cash flow	-	134	182
Revaluation of liability for options to banks	-	-	9
Others	-	220	245
	197	380	436
Financing expenses			
Financing expenses in respect of credit and bank loans	911	1,264	1,692
Net loss from change in foreign exchange rates	247	345	197
Revaluation of liability for options to banks	1,571	140	-
Bank expenses and other expenses	1,416	1,158	1,330
	4,145	2,907	3,219

g. Reclassification

During the reporting period, the Company reclassified the transportation costs since these are costs incurred in transporting the inventory to the point of sale.

Therefore, transportation costs were reclassified from selling and marketing expenses to the cost of sales in the statement of income, in order to reflect more accurately the expenses related to the cost of sales. The aforesaid reclassification had no effect on the total operating profit and the profit for the period.

Note 22 - Supplementary information to the profit and loss items (Cont.)

g. Reclassification (Cont.)

The effect of the reclassification on the reporting periods is detailed as follows:

	For the year ended December 31, 2020		
	According to the report as at 31.12.20	The change	As reported in these financial statements
Cost of sales	145,693	2,969	148,662
Gross profit	34,307	(2,969)	31,338
Selling and marketing expenses	18,991	(2,969)	16,022
Operating profit	8,611	-	8,611

	For the year ended December 31, 2019		
	According to the report as at 31.12.19	The change	As reported in these financial statements
Cost of sales	128,174	1,496	129,670
Gross profit	27,209	(1,496)	25,713
Selling and marketing expenses	17,493	(1,496)	15,997
Operating profit	1,164	-	1,164

Note 23 - Earnings (loss) per share

Detail of number of shares and earnings (loss) used to calculate the earnings (loss) per share

	For the year ended December 31,					
	2021		2020		2019	
	Weighted average number of shares	Earnings attributed to shareholders of the Company	Weighted average number of shares	Earnings attributed to shareholders of the Company	Weighted average number of shares	Loss attributed to shareholders of the Company
	Thousands	Dollars thousands	Thousands	Dollars thousands	Thousands	Dollars thousands
For the purpose of calculating basic earnings (loss)	12,121	14,352	11,870	4,560	11,870	(1,710)
For the purpose of calculating diluted earnings (loss)	12,944	14,352	11,870	4,560	11,870	(1,710)

Note 24 – 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, to customers in North America and Europe with leading brands such as Under Armour.

(b) Retail – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear which are characterized by purchasing large quantities of less complex products to private brands as well as brands for which the Company received a franchise to customers in the retail market in North America and Europe such as Walmart.

b. Information on reportable segments' sales, income (loss) and assets:

(a) Measurement of segment sales, income (loss) and assets:
Segment sales, income (loss) and assets are measured according to the same accounting principles as those applied in the consolidated financial statements.
The income (loss) of the segments reflects the profit (loss) from the operations of the segment and do not include net financing expenses and income taxes, since these items are not attributed to segments and are not analyzed by the CODM by segment.

(b) The segments' assets include mostly inventory, trade receivables and other receivables. Assets not attributed to the segments mostly include fixed assets, intangible assets, cash, financial derivative and deferred taxes.

Note 24 – Operating segments (Cont.)

c. Primary segment reporting in respect of business segments

	For the year ended December 31, 2021			
	Brands	**Retail**	**Adjustments**	**Total**
	US dollars in thousands			
Total segment revenues	70,083	191,263		261,346
Direct profit	7,250	17,394		
Indirect costs	(1,326)	(3,626)		
Segment results	5,924	13,768		19,692
Other expenses				(815)
Financing expenses, net				(3,948)
Tax expenses				(577)
Net profit				14,352
Segment assets	30,055	88,902	31,809	150,766
Segment liabilities	17,679	45,682	43,402	106,763
Cost of purchasing long-term assets	-	-	4,344	4,344
Depreciation and amortization	-	-	4,236	4,236

	For the year ended December 31, 2020			
	Brands	**Retail**	**Adjustments**	**Total**
	US dollars in thousands			
Total segment revenues	54,553	125,447		180,000
Direct profit (loss)	(359)	13,132		
Indirect costs	(2,435)	(1,727)		
Segment results	(2,794)	11,405		8,611
Financing expenses, net				(2,527)
Tax expenses				(1,524)
Net profit				4,560
Segment assets	29,960	49,222	29,019	108,201
Segment liabilities	14,372	28,668	37,772	80,812
Cost of purchasing long-term assets	-	-	3,486	3,486
Depreciation and amortization	-	-	4,349	4,349

Note 24 – Operating segments (Cont.)

c. Primary segment reporting in respect of business segments (Cont.)

	For the year ended December 31, 2019			
	Brands	Retail	Adjustments	Total
	US dollars in thousands			
Total segment revenues	58,595	96,788		155,383
Direct profit (loss)	(3,471)	8,309		4,838
Indirect costs	(1,385)	(2,289)		(3,674)
Segment results	(4,856)	6,020		1,164
Financing expenses, net				(2,783)
Tax expenses				(91)
Loss				(1,710)
Segment assets	27,549	36,423	25,341	89,313
Segment liabilities	17,121	16,264	33,007	66,392
Cost of purchasing long-term assets	-	-	2,788	2,788
Depreciation and amortization	-	-	6,001	6,001

d. Secondary reporting regarding geographical segments

1. Sales by geographic markets (based on customer location):

	For the year ended December 31		
	2021	2020	2019
	US dollars in thousands		
North America	215,768	164,102	132,661
Europe	45,559	15,880	22,675
Israel	19	18	47
	261,346	180,000	155,383

2. Carrying amount of assets and capital expenditures by geographical areas:

	Balance of non-current assets (*)		Capital expenditures		
	December 31,		for the year ended December 31		
	2021	2020	2021	2020	2019
	US dollars in thousands				
Israel	20,416	13,999	3,581	3,299	2,483
North America	322	2,133	121	85	161
Others	2,048	1,590	642	101	144
	22,787	17,722	4,344	3,486	2,788

(*) Excluding deferred taxes, net.

Note 24 – Operating segments (Cont.)

e. Major customers

	For the year ended December 31		
	2021	2020	2019
	Percentage of total sales		
Customer A (part of the retail segment)	31.8	35.6	35.6
Customer B (part of the retail segment)	17.9	16.9	8.9
Customer C (part of the brands segment)	12.2	13.3	12.5
Customer D (part of the retail segment)	11.4	10.7	10.3
	73.3	76.5	67.3

Note 25 - Balances and transactions with interested parties and related parties

a. Balances with interested parties and related parties

As at December 31, 2021

	Related and interested parties	Key executives
	US dollars in thousands	
Trade receivables	627	-
Trade payable	(53)	(11)
	574	(11)

As at December 31, 2020

	Related and interested parties	Key executives
	US dollars in thousands	
Trade receivables	1,033	-
Trade payable	(69)	(24)
Other payables	(90)	-
A loan from a controlling shareholder	(2,000)	-
	(1,126)	(24)

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

b. Benefits to interested parties and related parties

	For the year ended December 31		
	2021	2020	2019
	Percentage of total sales		
Salaries and benefits for employees of the Company or on its behalf, including the CEO	390	343	353
Fees of directors not employed by or on behalf of the Company	209	199	205
Number of beneficiaries of salaries and benefits			
Related and interested parties employed by or on behalf of the Company	1	1	1
Directors not employed by the Company	6	5	5
	7	6	6

c. Transactions with related parties and interested parties

For the year ended December 31, 2021

	Related and interested parties	Senior officers in management
	US dollars in thousands	
Sales	3,727	-
Cost of sales	(8)	-
Selling and marketing expenses	(213)	-
General and administrative expenses	-	(599)
Financing expenses	(65)	-

For the year ended December 31, 2020

	Related and interested parties	Senior officers in management
	US dollars in thousands	
Sales	3,458	-
Cost of sales	(17)	-
Selling and marketing expenses	(322)	-
General and administrative expenses	-	(542)
Financing expenses	(105)	-

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

c. Transactions with related parties and interested parties (Cont.)

For the year ended December 31, 2019

	Related and interested parties	Senior officers in manage-ment
	US dollars in thousands	
Sales	2,654	-
Cost of sales	(174)	-
Selling and marketing expenses	(244)	-
General and administrative expenses	-	(559)
Financing expenses	(105)	-

d. Commitment by controlling shareholders

Nouvelle Intimes Seamless Inc., a private company incorporated in Canada (through which the Lieberman family previously held shares in the Company) ("Nouvelle"), and Messrs. Ben and Martin Lieberman, the controlling shareholders of the Company, signed on December 30, 2010, a non-competition commitment concerning the Company in the field of "seamless" products for a fixed period of 5 years as of the date of signing the letter of commitment for non-competition. In the framework of an agreement for investing in the Company in 2015, it was agreed upon that Litef Holdings Inc.("Litef") (a private Canadian company owned by Messrs. Lieberman, which holds the Company's shares) will join as a party to the non-competition letter of commitment and it will remain in force as long as Nouvelle, Messrs. Ben and Martin Lieberman and Litef, each of them individually, will be amongst the controlling shareholders of the Company .

e. Purchase of related party shares

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.

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

e. Purchase of related party shares (Cont.)

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 last unaudited 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 Company’s 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 Lamour 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.

f. Lease agreement with a related party

On March 28, 2016, the Company's Board decided, after obtaining the approval of the Audit Committee of the Company, to approve the engagement of the Company in a non-extraordinary transaction, as this term is defined in the Companies Law, with a subsidiary of Lamour, for the purpose of sublease of office space in Montreal, Canada, in an area of 540 square meters for a monthly payment of US 3,950 dollars (excluding taxes). The approval of the Company’s Board, as stated above, will remain in effect for a period of up to three years. On November 22, 2018, the Company's Board decided, after obtaining the approval of the Company's Audit Committee, to approve the expansion of the lease in Montreal by an additional 240 square meters. On March 18, 2019, the Company's Board approved, after receiving the approval of the Company's Audit Committee on that date, the Company's continued engagement in the said lease agreement for an additional period of three years. On March 14, 2022, the Company’s Board approved, after receiving the approval of the Audit Committee as at that date, the continuation of the Company’s engagement in the said lease agreement for a period of additional one year.

g. Agreement for invoicing services with a related party

In February 2012, the Company's Board approved, following the approval of the Audit Committee of the Company, the Company's engagement in a non-extraordinary transaction with Lamour which shall serve as a channel for the sale of the Company’s products to Walmart, and this for the reasons described below: Walmart is a significant customer of the Company. In order for the Company to sell products directly to Walmart, it must first complete the process of issuing a

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

g. Agreement for invoicing services with a related party (cont.)

manufacturer's identification number. The Company has not completed the process of issuing the said manufacturer's identification number due to the difficulty to obtain it opposite Walmart. In light of the aforesaid, the Company decided to sell its products to Walmart through Lamour which already acquires a Walmart's manufacturer's identification number. According to the agreements between Lamour and the Company, the proceeds from Walmart which is paid to Lamour, is transferred to the Company upon receiving it and under the same payment terms. On March 22, 2015 and March 29, 2018, the Company's Board of Directors approved the extension of the term of the agreement by an additional three years, after receiving the recommendation of the Audit Committee, according to which the extension of the period, as aforesaid, is reasonable under the circumstances. Upon completion of the acquisition of Lamour as stated in Clause e above, the Group only has sales to Walmart Canada in an insignificant amount to the Company, which are executed through a company owned by the controlling shareholders in Canada as a pipeline transaction. This transaction was approved by the Audit Committee and the Board of Directors of the Company in March 2019, for the reason that a direct sale of the Company to Walmart Canada will be under inferior commercial terms compared to the selling through a pipeline transaction as aforesaid. In March 2021, the Company's Audit Committee and Board approved once more the said transaction for the same reasons as stated above.

h. Payment of director remuneration to controlling shareholders

Pursuant to the appointment of Messrs. Ben Lieberman and Martin Lieberman (hereinafter: "Messrs. Lieberman"), who are amongst the controlling shareholders of the Company, as directors of the Company as of August 12, 2015, on November 30, 2015, the Company's Board approved, after obtaining the approval of the Company's Remuneration Committee, the granting of director remuneration in accordance with the provisions of the Companies Regulations (Relief in Transactions with Interested Parties) 2000, as of the date of the commencement of their term of service as directors of the Company, in accordance with the director remuneration paid for the other directors of the Company. As of the date of Mr. Ben Lieberman's appointment as the CEO of the Company, he no longer receives director remuneration from the Company.

i. Inclusion of a related party in the director and officer policy of the Company

Pursuant to the appointment of Messrs. Lieberman, who are amongst the controlling shareholders of the Company, as directors of the Company as of August 12, 2015, on November 30, 2015, the Company's Board approved, after obtaining the approval of the Remuneration Committee of the Company the inclusion thereof in the director and officer insurance policy of the Company in accordance with the provisions of the Companies Regulations (Relief in Transactions with Interested Parties) 2000.

j. Granting a letter of indemnity to controlling shareholders

On February 11, 2016, the general meeting of the shareholders of the Company approved, after obtaining the approval of the Remuneration Committee and the Board of Directors of the Company, the granting of letters of indemnity to Messrs. Lieberman in the Company's customary wording for its officers and on March 6, 2019 the general meeting of the shareholders of the Company approved, after receiving the approval of the Audit Committee and the Company's Board, the renewal of the said letters of indemnity. Subsequent to the date of the report, on

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

j. Granting a letter of indemnity to controlling shareholders (Cont.)

February 21, 2022, the general meeting of the shareholders of the Company approved, after receiving the approval of the Remuneration Committee and the Board of Directors of the Company, the renewal of the validity of the said letter of indemnification to Messrs. Lieberman.

k. Negligible transactions

On March 22, 2015, the Company adopted, after obtaining the approval of the Audit Committee and the Board of the Company, the procedure concerning transactions with interested parties and officers, in the framework of which the Company adopted guidelines and rules for the classification of a Company's transaction with an interested party as negligible.

As part of the procedure, it was determined that in any transaction that is tested for negligibility, all of the criteria relevant to such transaction will be examined prior to the event, such as the ratio of assets, ratio of liabilities, ratio of shareholders’ equity, ratio of revenues and the ratio of expenses, and in the event that the rate of each of the relevant standards is less than half a percent (0.5%) or less than 300,000 dollars, whichever is lower, the transaction shall be deemed as negligible, subject to the following:

1. In cases where, at the discretion of the Company, the aforementioned criteria are not relevant to the transaction at issue, the Company will determine another criterion provided that the relevant criterion concerning such a transaction is at a rate of less than half a percent (0.5%) or less than 300,000 dollars, whichever is lower.
2. The negligibility of the transaction will be reviewed on an annual basis for the periodic report, the financial statements and prospectus (including shelf prospectus reports), while including all the transactions of the same type that have been carried out with an interested party or controlling shareholder, as applicable, in the same year.
3. A preliminary condition for the examination of a transaction whether it is negligible or not, is that the transaction is carried out under market conditions. Any transaction which is not being carried out under market conditions, does not meet the definition of a negligible transaction, and is considered as an extraordinary transaction which requires approval procedures as required by law in relation to an extraordinary transaction.
4. A transaction shall not be considered as negligible when it is not negligible from a qualitative standpoint. (Examination of the qualitative considerations of the transaction of the interested party may contradict the negligibility of the transaction, as noted above. For example, and for the purpose of example only, a transaction with an interested party will not generally be considered as negligible if it is seen as a significant event by the Company's management and it serves as a basis for managerial decisions, or if in the framework of the transaction of the interested party, interested parties are expected to receive benefits and it is important to report them to the public).

l. Loans from the shareholders in an aggregate amount of US 2 million dollars

On September 27, 2017, the Company's Audit Committee and Board of Directors approved at their meetings a transaction to obtain a subordinated loan from a controlling shareholder of the Company, Litef Holdings Inc., a private Canadian company wholly owned and controlled by Ben

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

l. Loans from the shareholders in an aggregate amount of US 2 million dollars (Cont.)

Lieberman and Martin Lieberman. On September 28, 2017, the Company was granted a loan in the amount of US 1 million dollars (hereinafter: "the loan principal"), according to the following terms:

1. The principal of the loan shall bear annual interest at a rate equal to the annual interest of the US Government's annual bonds, on the basis of which the interest was set at 1.3% per year (hereinafter: "the interest"). The interest and the loan principal shall be referred together as: "the loan".
2. The loan is not secured by any collateral.
3. The loan will be repaid by the Company until September 30, 2018 (hereinafter: "the maturity date"), subject to the provisions of Clause 4 as follows.
4. The loan is subordinated to the loans that the Company took from its financing banks - Bank Leumi Le-Israel Ltd., Bank Hapoalim Ltd. and Israel Discount Bank Ltd. (hereinafter: "the banks"), whereas according to its subordination terms, it could be repaid (in whole or in part, as applicable) only in the event where on the repayment date (a) the Company's tangible shareholders' equity will not be less than US 27.5 million dollars after the repayment of the loan (in whole or in part, as applicable), and (b) the Company will meet all of its obligations to the banks, including its undertaking to comply with financial covenants; all according to the reviewed quarterly financial statements of the Company as at June 30, 2018 (hereinafter together: "the preconditions for repayment of the loan"). As at the date of the report, the repayment of the loan is subject to the approval of the Groups' financing bank, HSBC Canada.
5. If the preconditions for repayment of the loan are not fulfilled by the maturity date, in whole or in part, the fulfillment of the preconditions will be reexamined at the subsequent date of approval of the Company's financial statements, audited or reviewed, as applicable, and so forth (hereinafter: the "periodic examination date"), and if at the time of the periodic examination date the preconditions for repayment of the loan are fulfilled, the loan will be repaid, in whole or in part, as applicable, within 30 days as of the periodic examination date.
6. The Company is given the possibility of an early repayment of the loan, in whole or in part, at its sole discretion, without requiring any other additional consideration in respect of the loan in regards with the early repayment, provided that it complies with the covenants stated in Clause 4 above.

On December 25, 2017, the Company reported an additional loan on the sum of US 1 million dollars provided by the controlling shareholder. The additional loan was granted under similar terms to the first loan (interest of 1.7%).

On October 21, 2021, the Company repaid both of the loans granted to it in full (principal and interest) after the preconditions for early repayment of the loans were met and after the Company received the approval of HSBC CANADA.

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

m. Approval of the remuneration policy for officers of the Company

On August 19, 2020, the extraordinary general meeting of the Company passed a resolution to approve the new remuneration policy for officers of the Company.

n. The Company's engagement with Mr. Ben Lieberman in an agreement to provide management services to the Company as CEO

On June 18, 2017, the Company's Board decided to appoint Mr. Ben Lieberman, a director and controlling shareholder of the Company, as the Company's CEO as of June 19, 2017. On August 3, 2017, the Company's extraordinary general meeting approved the engagement with Mr. Lieberman in an agreement to provide management services to the Company as CEO. On August 19, 2020, an extraordinary general meeting of the Company was convened, during which the renewal of the management agreement with Mr. Lieberman was approved, under the same terms of the management agreement.

o. Approval of a transaction between the Company and its controlling shareholders for the purpose of leasing showrooms

On August 24, 2017, the Company's Audit Committee and Board of Directors approved a transaction between the Company and its controlling shareholders. The transaction revolves around three companies jointly renting showrooms in Manhattan, New York, which will be used by the three companies (1/3 each) for the purpose of presenting their products. For this purpose, the Company (through a wholly-owned subsidiary) engaged in an agreement with a private company controlled by the controlling shareholders of the Company, Ben Lieberman and Martin Lieberman (hereinafter: "the lessee"), whereby the lessee will lease to the Company, through a back-to-back lease, part of the showrooms' space which the lessee leased in a building in Manhattan, New York, which constitute one-third of the showrooms, which will serve, as aforementioned, the three companies (hereinafter: the "showroom complex"). The three companies are the Company and two other companies, one of which is owned by the said controlling shareholders, and the other is a company in which the controlling shareholders own 50%. All three companies operate in the textile sector, while the Company is the only company operating in the field of seamless technology. The holding of a joint showroom complex by a number of companies is acceptable, when it serves all of the companies participating in it, which enjoy greater exposure and exploit economies of scale (hereinafter: "the lease agreement").

The terms of the engagement are as follows:

- **a.** As aforesaid, the terms of the lease agreement will be back-to-back to the terms of the lease agreement signed between the lessee and the owners of the showroom complex (hereinafter: the "main lease agreement"), when it refers to 1/3 of the showroom complex area. The lease refers to 290 square meters (gross) (3,147 square feet) of the showroom complex area which constitutes one-third of the area of the entire showroom complex. The two additional companies will each bear a third of the lease fees of the showroom complex.
- **b.** The lease term **-** the lease term is as of July 1, 2017 and until December 31, 2021.
- **c.** The lease fees **-** for the sublease, the Company will pay a 1/3 of the lease costs of the showroom complex, on the dates of their payment, as stipulated in the main lease agreement. Accordingly, the cost of the lease fees for the Company will be 11,500 dollars monthly.

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

o. Approval of a transaction between the Company and its controlling shareholders for the purpose of leasing showrooms (Cont.)

d. Other joint expenses - In addition to the lease fees, the Company will bear one-third of the additional current expenses of the showroom complex, such as cleaning expenses, maintenance costs, water, electricity, municipal taxes, etc. The cost of the joint expenses for the Company is estimated at US 1,150 dollars per month.

e. Showroom complex renovation expenses - The renovation and adjustment work were carried out by a third party unrelated to any of the three companies, whereas each of the companies bears a third of the renovation and adjustment costs. The Company's share in this renovation is US 154 thousand dollars.

Subsequent to the date of the report, on March 14 2022, the Audit Committee and the Company's Board approved the extension of the agreement till December 31, 2025 and the updated lease fees will be in the average sum of US 10,700 dollars per month over 4 years.

p. The Company' merger with a wholly-owned subsidiary

On December 21, 2016, the Boards of Directors of the Company (hereinafter: "the acquiring company") and of the wholly owned subsidiary of the Company Hi-Tex founded by Tefron Ltd. ("the target company"), approved the merger between the companies so that on the date of the merger the target company will merge with and into the acquiring company, so that the target company ceases to exist as a separate legal entity and will be dissolved without liquidation, while the acquiring company will own all assets, rights, agreements, authorities and powers and will be charged with any debt and/or liability of the target company. On December 22 the agreement regarding the merger was signed by the companies and on September 29, 2017, and October 30, 2017, an additional amendment to the agreement was signed, extending its validity for an additional period the last of which is December 31, 2017. Accordingly, to the extent that the conditions precedent specified in the agreement are not fulfilled for any reason until December 31, 2017, and the parties have not agreed to extend this date, then either party may cancel this agreement, and the other party shall have no claim and/or demand against the other party in connection therewith.

On December 26, 2017, a decision was made regarding the taxation of the agreement concerning the merger of Hi-Tex, founded by Tefron Ltd. with and into Tefron Ltd., in accordance with the provisions of Section 103b of the Ordinance.
The date of the merger was set for December 31, 2016, and all as determined and detailed in the merger decision and subject to the terms of Section E2 of the Ordinance, including:

a. No new rights will be allocated to the shareholders of the acquiring company due to the merger.
b. The provisions of Section 103e of the Ordinance and provisions of Section 103c(2) shall apply to the assets transferred to the acquiring company.
c. Section 103h will be implemented, so that the losses of the companies participating in the merger that are transferable will be allowed to be offset against the income of the acquiring company starting from the tax year following the merger, provided that in any tax year this amount is no more than 20% (five-year spread) of the total losses of the target company and

Note 25 - Balances and transactions with interested parties and related parties (Cont.)

p. The Company' merger with a wholly-owned subsidiary (Cont.)

the acquiring company or 50% of the taxable income of the acquiring company in that tax year before offsetting the loss from previous years, whichever is lower.

d. Advances in respect of excess on the eve of the merger will be offset as determined in the taxation decision.
e. A succession of rights will apply in respect of the transferred employees.

On February 18, 2018, the merger was completed.

Note 26 – Additional significant events during the reporting period

a. Exiting a joint operation and obtaining control

On March 14, 2021, an agreement was signed between the Company (the Company itself and through a wholly owned subsidiary in Jordan) (hereinafter: “the subsidiary")) and a company incorporated in Jordan (hereinafter: “the partner" and “the agreement"), which together with the subsidiary holds equal parts of the company incorporated in Jordan, which engages in local production in Jordan of products made by the seamless technology, exclusively for the Company, C&T FOR PIECE WORKS PRIVATE SHAREHOLDING COMPANY LTD (hereinafter: “the joint company"). Pursuant to the agreement, the Company, through the subsidiary, purchases, as at December 31, 2020, the entire holdings of the partner in the joint company in exchange for the par value of the acquired shares. Accordingly, at the date of the transfer of the partner's shares in the joint company to the subsidiary, a total of 25,000 Jordanian dinars will be paid to the partner, a sum equivalent to US 35,000 dollars.
In addition, the parties agreed that the joint company will continue to lease from the partner the property in Jordan, which is owned by it, and is used by the joint company's plant, until December 31, 2025.

b. Convening of an extraordinary general meeting for the appointment of an external director

On October 17, 2021, the term of service of Mrs. Bruria Sofrin as an external director of the Company has come to an end
On November 4, 2021, an extraordinary general meeting of the shareholders was convened, during which it was decided to approve the appointment of Mr. Aviram Lahav to serve as of that day as an external director of the Company with accounting and financial expertise.

c. Extending the Company's engagement in a collective agreement

After the Company signed a collective agreement with the new General Federation of Labor and the Employee Association on February 20, 2019, (hereinafter: “the agreement") for a period of three years as of the date of the signing thereof, when the Company has the option to extend it by one additional year against a salary increase to the employees of 2.5%, on November 10, 2021, the Company notified the aforementioned federation of exercising the option to extend the agreement for an additional year against the payment of such a salary increase.

Note 26 – Additional significant events during the reporting period (Cont.)

d. Amendment to the financing agreement with the Company's financing bank HSBC Canada

On April 22, 2021 and Subsequent to date of the report, on March 10, 2022, an amendments to the financing agreement of the Company were signed with its financing bank HSBC Canada. For details see Note 13(2) above.

e. Coronavirus

As at the date of the publication of this report and during the reporting period, the spread of the Coronavirus has caused, among other things, disruptions and significant price increases in the supply chain of products, as well as restrictions on transportation and employment which have been imposed by the Israeli government and other governments around the world. As at the date of this report, there is still uncertainty concerning the overall impact of the crisis as well as the timing of the recovery therefrom in light of the concern of experiencing additional "waves" of the pandemic. From all of the aforementioned, at this stage, it is difficult to estimate the future consequences of the pandemic on the Company, that during the pandemic period has improved its actual results. Nevertheless, the uncertainty still exists, but as long as the trends we have witnessed during the reporting period and as at the date of publication of this report continue, the Company expects to overcome this event, but it may have an impact on the profitability of the Company.

Details regarding the investee companies held by Company as at December 31, 2021:

Name of company	Country of incorporation and principal place of business activity	% of rights of ownership as at December 31, 2021 %	2020 %
Tefron USA Inc.	U.S.A.	100%	100%
Lamour Hosiery, Inc., wholly-owned by Tefron USA Inc.	U.S.A.	100%	100%
Al Masera Textile Co., wholly-owned by Tefron USA Inc.	Jordan	100%	100%
Tefron Canada Inc.	Canada	100%	100%
Tefron Hong Kong Limited	Hong Kong	100%	100%
Tefron Holdings (98) Ltd.	Israel	100%	100%
Tefron Trading (Shanghai) Company Limited – owned by Tefron Hong Kong	China	100%	100%
Al Masera Cyprus Limited	Cyprus	100%	100%
C&T For Piece Works Private Shareholding Company Ltd., owned by Al Masera Textiles Co.	Jordan	(*)100%	(*)100%

(*) See Note 26a above.

* * *