TEFRON LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2022

(UNAUDITED)

TEFRON LTD.

Condensed Consolidated Financial Statements as of September 30, 2022

(Unaudited)

Contents

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

Preface

We have reviewed the attached financial information of **Tefron Ltd.** and its subsidiaries (hereinafter **-** "the Company"), which includes the condensed consolidated balance sheet as of September 30, 2022, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the periods of nine months and three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods, in accordance with International Accounting Standard IAS 34, "Financial Reporting for Interim Periods", and are also responsible for the preparation of financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

Scope of the Review

We have performed our review in accordance with Review Standard (ISRE) 2410 of the Institute of Certified Public Accountants in Israel - "Review of Financial Information for Interim Periods Prepared by the Entity's Auditor". A review of financial information for interim periods consists of making inquiries, primarily with persons responsible for financial and accounting matters, and of applying analytical and other review procedures. A review is considerably more limited in scope than an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore does not enable us to obtain assurance that we will be aware of all significant matters which might have been identified in an audit. Consequently, we are not expressing an opinion of an audit.

Conclusion

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

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

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

Haifa, November 23, 2022

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Tefron Ltd.

Condensed Consolidated Balance Sheets

	As of September 30,		As of December 31,
	2022	2021	2021
	US dollars in thousands		
	(Unaudited)		Audited
ASSETS			
CURRENT ASSETS			
Cash	5,123	7,051	3,501
Trade receivables, net	29,399	41,243	43,022
Other receivables	5,662	7,969	4,845
Inventory	82,336	58,717	70,963
Total current assets	122,520	114,980	122,331
NON-CURRENT ASSETS			
Property, plant and equipment, net	16,774	14,392	14,283
Right-of-use asset	4,714	6,120	5,754
Goodwill and intangible assets, net	3,358	128	127
Software, net	2,382	2,531	2,623
Deferred taxes, net	4,407	5,648	5,648
Total non-current assets	31,635	28,819	28,435
Total Assets	154,155	143,799	150,766

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

Tefron Ltd.

Condensed Consolidated Balance Sheets

	As of September 30,		As of December 31,
	2022	2021	2021
	US dollars in thousands		
	(Unaudited)		Audited
LIABILITIES			
CURRENT LIABILITIES			
Bank credit	53,042	28,732	34,185
A loan from the controlling shareholders	-	2,000	-
Liability for bank options	-	1,313	-
Trade payables	31,345	50,318	52,087
Other payables	8,421	9,654	9,394
Total current liabilities	92,808	92,017	95,666
NON-CURRENT LIABILITIES			
Loans from banks	3,429	5,143	5,143
Liabilities for benefits to employees, net	1,050	1,543	1,301
Long-term payables	6,997	5,236	4,653
Total non-current liabilities	11,476	11,922	11,097
EQUITY			
Share capital	34,995	33,784	34,402
Additional paid-in capital	100,978	100,328	101,352
Reserve for remeasurement of defined benefit plan	(2,340)	(2,260)	(2,340)
Accumulated deficit	(77,008)	(84,868)	(82,366)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for hedging transactions	45	(325)	(246)
Other capital reserves	609	609	609
Total equity	49,871	39,860	44,003
Total liabilities and equity	154,155	143,799	150,766

November 23, 2022			
Date of approval of the financial statements	**Yossi Shachak** **A director authorized to sign the report instead of the Chairman of the Board**	**Ben Lieberman** **CEO**	**Gregory Davidson** **CFO**

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

Tefron Ltd.

Condensed Consolidated Statements of Income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2022	2021	2022	2021	2021
	(Unaudited)		(Unaudited)		Audited
	US dollars in thousands (Excluding data on earnings per share)				
Sales	159,667	197,834	48,061	71,697	261,346
Cost of sales	124,465	(*)157,451	38,388	(*)58,348	207,564
Gross profit	35,202	(*)40,383	9,673	(*)13,349	53,782
Development expenses, net	4,242	3,782	1,296	1,313	5,232
Selling and marketing expenses	18,608	(*)17,877	6,181	(*)6,423	24,426
General and administrative expenses	2,760	3,210	681	1,077	4,508
Other expenses (income)	-	632	-	(76)	739
Operating profit	9,592	14,882	1,515	4,612	18,877
Financing income	286	197	-	111	197
Financing expenses	(2,641)	(3,406)	(1,087)	(739)	(4,145)
Financing expenses, net	(2,355)	(3,209)	(1,087)	(628)	(3,948)
Income before taxes on income	7,237	11,673	428	3,984	14,929
Tax income (expenses)	(1,879)	177	(345)	18	(577)
Net income	5,358	11,850	83	4,002	14,352
Earnings per share (in dollars)					
Basic earnings per share	0.44	1.00	0.01	0.34	1.18
Diluted earnings per share	0.41	0.92	0.01	0.31	1.11

(*) Reclassified – See Note 7 as follows.

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

Tefron Ltd.

Condensed Consolidated Statements of Comprehensive Income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2022	2021	2022	2021	2021
	US dollars in thousands				
	(Unaudited)		(Unaudited)		Audited
Net income	5,358	11,850	83	4,002	14,352
Other comprehensive income (loss) (after the effect of the tax):					
Amounts that will not be reclassified subsequently to the statements of income:					
Loss from remeasurement of defined benefit plans	-	-	-	-	(80)
Subtotal of items that will not be reclassified subsequently to the statements of income	-	-	-	-	(80)
Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met:					
Unrealized loss on cash flows hedge transaction	(31)	-	(20)	-	-
Realized loss (gain) on cash flows hedge transaction	-	(54)	13	(84)	(54)
Unrealized gain due to interest rate swap transaction	322	110	89	41	189
Total items that shall be reclassified or are reclassified to the statements of income	291	56	82	(43)	135
Total comprehensive income (loss)	291	56	82	(43)	55
Total comprehensive income attributed to the Company’s shareholders	5,649	11,906	165	3,959	14,407

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

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
	US dollars in thousands							
Balance as of January 1, 2022	34,402	101,352	(2,340)	(82,366)	(7,408)	(246)	609	44,003
Net income	-	-	-	5,358	-	-	-	5,358
Total other comprehensive income	-	-	-	-	-	291	-	291
Issue of shares	593	(593)	-	-	-	-	-	-
Share based payment to employees and consultants	-	219	-	-	-	-	-	219
Balance as of September 30, 2022 (Unaudited)	34,995	100,978	(2,340)	(77,008)	(7,408)	45	609	49,871

	Share capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total Equity
	US dollars in thousands							
Balance as of January 1, 2021	33,617	99,967	(2,260)	(96,718)	(7,408)	(381)	572	27,389
Net income	-	-	-	11,850	-	-	-	11,850
Total other comprehensive income	-	-	-	-	-	56	-	56
Issue of shares	167	54	-	-	-	-	-	221
Share based payment to employees and consultants	-	307	-	-	-	-	-	307
A benefit from a controlling shareholder	-	-	-	-	-	-	37	37
Balance as of September 30, 2021 (Unaudited)	33,784	100,328	(2,260)	(84,868)	(7,408)	(325)	609	39,860

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

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	Share Capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury Shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
	US dollars in thousands							
Balance as of July 1, 2022 (Unaudited)	34,995	100,921	(2,340)	(77,091)	(7,408)	(37)	609	49,649
Net income	-	-	-	83	-	-	-	83
Total other comprehensive income	-	-	-	-	-	82	-	82
Share based payment to employees and consultants	-	57	-	-	-	-	-	57
Balance as of September 30, 2022 (Unaudited)	34,995	100,978	(2,340)	(77,008)	(7,408)	45	609	49,871

	Share Capital	Additional paid in capital	Reserve for actuarial losses	Accum. deficit	Treasury Shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
	US dollars in thousands							
Balance as of July 1, 2021 (Unaudited)	33,784	100,204	(2,260)	(88,870)	(7,408)	(282)	609	35,777
Net income	-	-	-	4,002	-	-	-	4,002
Total other comprehensive income	-	-	-	-	-	(43)	-	(43)
Share based payment to employees and consultants	-	124	-	-	-	-	-	124
Balance as of September 30, 2021 (Unaudited)	33,784	100,328	(2,260)	(84,868)	(7,408)	(325)	609	39,860

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

Tefron Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity

	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 of 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 of December 31, 2021	34,402	101,352	(2,340)	(82,366)	(7,408)	(246)	609	44,003

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

Tefron Ltd.

Condensed Consolidated Statements of Cash Flows

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2022	2021	2022	2021	2021
	US dollars in thousands				
	(Unaudited)		(Unaudited)		Audited
Cash flows from operating activities					
Net income	5,358	11,850	83	4,002	14,352
Adjustments required to present cash flows from operating activities:					
Adjustments to the statement of income items:					
Depreciation and amortization of fixed assets and intangible assets	4,512	3,126	1,537	1,054	4,236
Capital loss (gain) on sale of fixed assets	-	(76)	-	(76)	31
Impairment of fixed assets	-	708	-	-	708
Cost of share-based payment	132	307	29	124	518
Benefit from a controlling shareholder	-	37	-	-	37
Loss due to impairment of slow inventory	430	378	100	91	569
	5,074	4,480	1,666	1,193	6,099
Change in deferred taxes, net	1,241	(2,597)	240	(1,025)	(2,597)
Change in liabilities for benefits to employees, net	(251)	175	(61)	(136)	(147)
Change in fair value liabilities for bank options	-	1,366	-	66	1,571
Taxes on income	1,987	1,089	892	193	2,205
Financing expenses, net	2,027	1,618	813	454	1,955
	5,004	1,651	1,884	(448)	2,987
Changes in asset and liability items:					
Decrease (increase) in trade receivables	13,623	521	4,516	1,462	(1,258)
Decrease (increase) in other receivables	(848)	(4,397)	691	(2,025)	(1,273)
Decrease (increase) in inventory	(11,803)	(25,336)	6,464	(9,072)	(37,773)
Increase (decrease) in trade payables	(21,530)	13,842	(11,404)	4,498	15,895
Increase (decrease) in other payables	(2,108)	1,906	(255)	812	1,665
	(22,666)	(13,464)	12	(4,325)	(22,744)
Cash paid and received during the period for:					
Interest paid	(1,649)	(1,394)	(702)	(376)	(1,658)
Taxes paid	(1,987)	(1,172)	(892)	(193)	(2,288)
Taxes received	-	83	-	-	83
	(3,636)	(2,483)	(1,594)	(569)	(3,863)
Net cash provided from (used for) operating activities	(10,866)	2,034	2,051	(147)	(3,169)

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

Tefron Ltd.

Condensed Consolidated Statements of Cash Flows

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2022	2021	2022	2021	2021
	(Unaudited)		(Unaudited)		Audited
	US dollars in thousands				
Cash flows from investing activities					
Purchase of fixed assets and intangible assets	(1,772)	(2,001)	(547)	(912)	(3,499)
Purchase of software	(216)	(614)	(73)	(96)	(844)
Proceeds from sale of fixed assets	-	76	-	76	939
Net cash used for investing activities	(1,988)	(2,359)	(620)	(932)	(3,404)
Cash flows from financing activities					
Short-term bank credit, net	18,858	2,763	2,642	3,133	8,215
Repayment of long-term loans	(1,714)	(1,715)	-	-	(1,715)
Repayment of loans from a controlling shareholder	-	-	-	-	(2,000)
Repayment of long-term credit for fixed assets	(560)	(406)	(196)	-	(812)
Repayment of a lease liability	(2,108)	(1,365)	(808)	(516)	(1,893)
Net cash provided from (used for) financing activities	14,476	(723)	1,638	2,617	1,795
Increase (decrease) in cash and cash equivalents	1,622	(1,228)	3,069	1,538	(4,778)
Balance of cash and cash equivalents at beginning of period	3,501	8,279	2,054	5,513	8,279
Balance of cash and cash equivalents at end of period	5,123	7,051	5,123	7,051	3,501
Appendix a – Significant non-cash transactions					
Purchase of fixed assets on credit	2,056	746	-	-	599

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

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 1 - General

a. These financial statements were prepared in a condensed format, as of September 30, 2022, and for the periods of nine months and three months then ended (hereinafter: "consolidated financial statements"). These statements should be read together with Tefron Ltd.'s (hereinafter: "the Company") annual financial statements as of December 31, 2021, and for the year then ended, and the notes accompanying them (hereinafter: the "annual consolidated financial statements").

b. The Company did not include separate financial information in the financial statements in accordance with Regulation 5C(6) and Regulation 9C(c) of the Securities Regulations ("Periodic and Immediate Reports"), 1970, since the Company is a "small corporation" and in addition, it believes that the inclusion of such information shall not constitute as additional material information to the investor.

Note 2 – Significant accounting principles

a. Basis for the preparation of the financial statements

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

During the preparation of these interim financial statements, the Group implemented accounting policies, presentation rules and calculation methods identical to those applied in its financial statements as of December 31, 2021, and for the year then ended.

b. Taxes on income in interim financial reports

The tax expenses (income) for the presented periods include the total current taxes, taxes in respect of previous years as well as the total change in the balances of deferred taxes.
Current tax expenses (income) in interim periods are accrued using the average effective annual income tax rate. For the purpose of calculating the effective income tax rate, tax losses for which deferred tax assets were not recognized, which are expected to reduce the tax liability in the reporting year are deducted.

Note 3 – Amendments to financial reporting standards

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.

Note 3 – Amendments to financial reporting standards (Cont.)

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

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.

Amendment IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (concerning Onerous Contracts — Cost of Fulfilling a Contract with a Customer)

The amendment states that "the cost of fulfilling a contract with a customer" consists of "the costs that relate directly to a contract." Costs that relate directly to a contract consist of both incremental costs of fulfilling that contract (for example, direct labor and materials costs) and the allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of depreciation charge for an item of property, plant and equipment used, among others, in fulfilling that contract).

The amendment is applied for annual reporting periods beginning on or after January 1, 2022.

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

Amendment IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (Concerning Definition of Accounting Estimates)

The definition of "change in an accounting estimate" has been replaced by the definition of "accounting estimates". Accounting estimates under the new definition are "monetary amounts in financial statements that are subject to measurement uncertainty".

The amendment clarifies that a change in an accounting estimate resulting from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or measurement technique used to develop an accounting estimate constitute a change in accounting estimates if those changes do not result from the correction of errors in a prior period.

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

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

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

On March 10, 2022, the signing of the amendment to the financing agreement of the Company with the bank that finances its operations, HSBC, was completed (hereinafter: "the financing agreement", "the amendment" and "the bank", respectively). 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 an amount of US$ 35,000,000 to an amount of US$ 50,000,000 (hereinafter: "the line of credit").

(2) Increasing the upper limit of the inventory that will be taken into consideration as collateral for the purpose of utilizing the credit line so that the inventory value will be the lower of: (1) 50% of the inventory 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, as aforementioned, US$ 10,000,000), while out of this amount, the amount of work-in-progress inventory shall not exceed US$ 3,000,000.

(3) Increasing the 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.

On July 6, 2022, the signing of an additional amendment to the financing agreement was completed (hereinafter: "**the additional amendment**"). The principles of the additional amendment are as follows:

(1) Increasing the line of credit provided by the bank to Tefron Canada Ltd., during the period until 31.12.2022, from an amount of US$ 50,000,000, as was set in the financing agreement, to an amount of US$ 60,000,000 (hereinafter: "the line of credit").

(2) Increasing the upper limit of the inventory that will be taken into consideration as collateral for the purpose of utilizing the credit line during the period until 31.12.2022, so that the inventory value will be the lower of: (1) 50% of the inventory value of the finished goods of Tefron Canada and Tefron USA Inc., and (2) US$ 35,000,000 (prior to the increase the amount was US$ 25,000,000), while out of this amount, the amount of work-in-progress inventory shall not exceed US$ 3,000,000. In any event where the Company is offered a loan through **HSBC** Israel in the amount of US$ 5,000,000 (regarding this matter, see clause (3) below) within the said period, then as of that date the said amount of US$ 35,000,000 will be reduced to an amount of US$ 30,000,000.

(3) Increasing the designated line of credit of Tefron Canada in such a way that against it Tefron Israel would be provided with back-to-back credit through **HSBC** Israel, so that it shall stand at US$ 13,500,000 (prior to the increase the amount was US$

Note 4 – Significant events during the period of the report and thereafter (Cont.)

a. Amendment to the financing agreement with HSBC Canada, the Company's financing bank (Cont.)

(3) (Cont.)

10,000,000), while increasing the required guarantee from **EDC** to secure this credit line to a sum of US$ 6,750,000 (prior to the increase the amount was US$ 5,000,000). This credit line is in addition to the line of credit mentioned in clause (1) above. Increasing the said line of credit as mentioned in this clause (3) will be used to provide an additional loan to the Company through **HSBC** Israel in the principal amount of US$ 5,000,000. The increase of the line of credit mentioned in this clause is conditional on the increase of the guarantee required from **EDC** as aforementioned.

On August 11, 2022, the EDC's approval for the increase of the guarantee required from EDC as specified in clause (3) above, was received, and accordingly the increase in the line of credit as specified in clause (3) above, came into effect.

As of September 30, 2022, 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 2.31.
Debt to EBITDA ratio (as defined in the financing agreement) of no more than 3.50 times was 2.90.

b. Legal proceedings

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, Real.Tex 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 in the lawsuit is insignificant in relation to the entire lawsuit, and based on the evidence the Company holds, the Company has good defense claims against the plaintiff's lawsuit. The management of the Company assesses, based on its legal counsel that due to the preliminary stage of the lawsuit, it is not possible to estimate the chances of the lawsuit.

c. Exercising options

During the reporting period, 233,333 options that were allocated by the Company were exercised into 109,909 ordinary shares of the Company.

d. Renewal of letters of indemnity to controlling shareholders

On 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 letters of indemnity to Messrs. Ben Lieberman and Martin Lieberman, directors, officers and controlling shareholders of the Company, and this as of February 11, 2022

Note 4 – Significant events during the period of the report and thereafter (Cont.)

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

On August 10, 2022, the Company's shareholder meeting approved the appointment of Prof. Shoshana Anily for a second term as an external director of the Company as of September 5, 2022, after the Company's Board of Directors had proposed her appointment for another term of office at its meeting on June 28, 2022.

f. Extending a lease agreement between the Company and the controlling shareholders thereof

On March 14, 2022, the Audit Committee and Board of Directors of the Company approved the extension of the lease agreement of the showrooms in Manhattan, New York, which was signed between the Company and its controlling shareholders, and this until December 31, 2025, and the updated lease fees, which will be US$ 10,700 per month on an average basis over 4 years.

g. Coronavirus

As at the date of the publication of this report and during the reporting period, the global spread of Covid-19 pandemic has caused, among other things, disruptions and significant price increases in the supply chain of products, as well as restrictions on transportation and employment in various territories around the world. Nevertheless, as at the date of this report, the global management of this pandemic has seemed to stabilize. However, there is still a 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 of 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.

Note 5 – Operating segments

a. General

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

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

(a) Brands – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear, which are manufactured in the Company's plants and through subcontractors and are sold to customers with leading brands.

(b) Retail – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear which are sold worldwide to customers in the retail market and are characterized by purchasing large quantities of less complex products compared to the products of the brands segment.

b. Reporting in respect of operating segments

	For the nine-month period ended September 30, 2022			For the nine-month period ended September 30, 2021		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	US dollars in thousands					
Total segment revenues	52,450	107,217	159,667	53,492	144,342	197,834
Direct profit	6,633	6,010	12,643	5,410	13,739	19,149
Indirect costs	(1,014)	(2,037)	(3,051)	(962)	(2,597)	(3,559)
Segment results	5,619	3,973	9,592	4,448	11,142	15,590
Other expenses			-			(708)
Financing expenses, net			(2,355)			(3,209)
Tax income (expenses)			(1,879)			177
Net income			5,358			11,850

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 5 – Operating segments (Cont.)

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

	For the three-month period ended September 30, 2022			For the three-month period ended September 30, 2021		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	US dollars in thousands					
Total segment revenues	12,418	35,643	48,061	18,189	53,508	71,697
Direct profit	429	1,852	2,281	1,565	4,249	5,814
Indirect costs	(198)	(568)	(766)	(305)	(897)	(1,202)
Segment results	231	1,284	1,515	1,260	3,352	4,612
Financing expenses, net			(1,087)			(628)
Tax income (expenses)			(345)			18
Net income			83			4,002

	For the year ended December 31, 2021		
	Brands	Retail	Total
	Audited		
	US dollars in thousands		
Total segment revenues	70,083	191,263	261,346
Direct profit	7,250	17,394	24,644
Indirect costs	(1,326)	(3,626)	(4,952)
Segment results	5,924	13,768	19,692
Other expenses			(815)
Financing expenses, net			(3,948)
Tax expenses			(577)
Net Income			14,352

c. Regarding splitting revenue from contracts with customers into groups which detail how the nature of the amount, timing and uncertainty of revenue and cash flows are affected by economic factors, see the note related to segments above.

Tefron Ltd.

Notes to the Condensed Consolidated Financial Statements

Note 6 – Financial instruments

Fair Value

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

Note 7 – Reclassification

As detailed in Note 22g to the financial statements for the year 2021, the Company has 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 has had no effect on the total operating profit and the profit for the period.

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

	For the nine-month period ended September 30, 2021		
	As reported on 30.09.21	**The change**	**As reported in these financial statements**
	US dollars in thousands		
Cost of sales	149,870	7,581	157,451
Gross profit	47,964	(7,581)	40,383
Selling and marketing expenses	25,458	(7,581)	17,877
Operating profit	14,882	-	14,882

	For the three-month period ended September 30, 2021		
	As reported on 30.09.21	**The change**	**As reported in these financial statements**
	US dollars in thousands		
Cost of sales	54,604	3,744	58,348
Gross profit	17,093	(3,744)	13,349
Selling and marketing expenses	10,167	(3,744)	6,423
Operating profit	4,612	-	4,612