TEFRON LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 2015

UNAUDITED

Contents

Building a better working world

Kost Forer Gabbay & Kasierer
2 Pal-Yam Ave.
Haifa 3309502
Tel: 972-4-8654000
Fax: 972-3-5633433

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

Preface

We have reviewed the attached financial information of Tefron Ltd. and its subsidiaries (hereinafter: "the Group"), which includes the condensed consolidated balance sheet as at March 31, 2015, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the period of three month then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for this interim period, in accordance with International Accounting Standard IAS 34, "Financial Reporting for Interim Periods", and are also responsible for the preparation of financial information for this interim period in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

Scope of the review

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

Conclusion

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

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

Haifa, Israel
May 28, 2015

KOST FORER GABBAY & KASIERER
Certified Public Accountants

Consolidated balance sheets

	As at March 31,		As at December 31,
	2015	2014	2014
	Unaudited		Audited
	Dollars thousands		
Current assets			
Cash	3,171	3,878	224
Investments in securities available for sale	-	420	347
Trade receivables, net	14,148	13,498	18,023
Other receivables	2,612	2,942	2,536
Inventory	15,255	15,212	15,347
	35,186	35,950	36,477
Non-current assets			
Property, plant and equipment, net	27,314	26,798	25,857
Inactive assets	2,414	2,519	2,442
Goodwill and intangible assets, net	449	681	499
Software, net	681	309	549
Deferred taxes, net	3,230	2,825	3,265
	34,088	33,132	32,612
	69,274	**69,082**	**69,089**

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

Consolidated balance sheets

	As at March 31, 2015	As at March 31, 2014	As at December 31, 2014
	Unaudited	Unaudited	Audited
	Dollars thousands		
Current Liabilities			
Bank credit	9,631	8,909	9,185
Trade payables	13,576	12,760	13,933
Other payables	2,245	3,129	2,257
	25,452	24,798	25,375
Non-current liabilities			
Long-term loans from banks and vendors	13,428	15,192	14,428
Liabilities for bank options	102	165	56
Liabilities for benefits to employees, net	724	731	783
Long-term payables	2,888	1,161	1,643
	17,142	17,249	16,910
Equity attributed to the Company's shareholders			
Share capital	20,281	20,281	20,281
Additional paid-in capital	107,513	107,390	107,467
Capital reserve for re-measurement of defined contribution plans	(1,109)	(928)	(1,109)
Accumulated deficit	(92,834)	(92,561)	(92,572)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for financial assets available for sale	-	(44)	(97)
Capital reserve for hedging transactions	-	33	(30)
Other capital reserves	237	272	272
Total equity	26,680	27,035	26,804
	69,274	**69,082**	**69,089**

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

May 27, 2015			
Date of approval of the financial statements	**Arnon Tieberg Chairman of the Board**	**Gil Shimon CEO**	**Eliezer Parnafes CFO**

Consolidated statements of income

	For the three months ended March 31, 2015	For the three months ended March 31, 2014	For the year ended December 31 2014
	Unaudited	Unaudited	Audited
	Dollars thousands (except share and per share data)		
Sales	24,669	22,029	93,915
Cost of sales	19,706	17,606	77,081
Gross profit	4,963	4,423	16,834
Development expenses, net	947	1,127	4,124
Selling and marketing expenses	2,870	2,574	10,389
General and administrative expenses	900	907	3,057
Other expenses (income)	2	6	(959)
Operating income (loss)	244	(191)	223
Financing income	411	109	750
Financing expenses	(917)	(707)	(2,202)
Financing expenses, net	(506)	(598)	(1,452)
Loss before taxes on income	(262)	(789)	(1,229)
Tax benefit	-	-	429
Loss	(262)	(789)	(800)
Loss per share attributed to the Company's shareholders (in dollars)			
Basic and diluted loss per share	(0.04)	(0.12)	(0.12)

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

Consolidated statements of comprehensive income

	For the three months ended March 31		For the year ended December 31
	2015	2014	2014
	Unaudited		Audited
	Dollars thousands		
Loss	(262)	(789)	(800)
Other comprehensive loss (after the effect of the tax):			
Amounts that will not be restated thereafter to the statements of income:			
Actuarial loss from defined benefit plans	-	-	(181)
Subtotal of items that will not be restated thereafter to the statements of income	-	-	(181)
Subtotal of items that will be restated or are restated to the statements of income provided that specific terms are met:			
Transfer to the statement of income for cash flow hedging transactions	30	33	(30)
Loss not yet realized for investments in securities available for sale	-	-	(53)
Transfer to the statement of income on disposal of investments in securities available for sale	97	-	-
Subtotal of items that will be restated or are restated to the statements of income	127	33	(83)
Total other comprehensive income (loss)	127	33	(264)
Total comprehensive loss relating to the Company's shareholders	(135)	(756)	(1,064)

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

Consolidated statements of changes in shareholders' equity

	Share capital	Additional paid-in capital	Capital reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for financial assets available for sale	Capital reserve for hedging transactions	Other capital reserves	Total equity
	Relating to the Company's shareholders								
	Unaudited								
	Dollars thousands								
Balance as at January 1, 2015 (Audited)	20,281	107,467	(1,109)	(92,572)	(7,408)	(97)	(30)	272	26,804
Loss	-	-	-	(262)	-	-	-	-	(262)
Total other comprehensive income	-	-	-	-	-	97	30	-	127
Share-based payment to employees and directors	-	11	-	-	-	-	-	-	11
Expiry of rights to shares to the consultant	-	35	-	-	-	-	-	(35)	-
Balance as at March 31, 2015	20,281	107,513	(1,109)	(92,834)	(7,408)	-	-	237	26,680

	Share capital	Additional paid-in capital	Capital reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for financial assets available for sale	Capital reserve for hedging transactions	Other capital reserves	Total equity
	Relating to the Company's shareholders								
	Unaudited								
	Dollars thousands								
Balance as at January 1, 2014 (Audited)	19,995	107,444	(928)	(91,772)	(7,408)	(44)	-	467	27,754
Loss	-	-	-	(789)	-	-	-	-	(789)
Total other comprehensive loss	-	-	-	-	-	-	33	-	33
Share-based payment to employees and directors	-	37	-	-	-	-	-	-	37
Allocation of shares to the consultant	286	(91)	-	-	-	-	-	(195)	-
Balance as at March 31, 2014	20,281	107,390	(928)	(92,561)	(7,408)	(44)	33	272	27,035

	Share capital	Additional paid in capital	Capital reserve for actuarial losses	Accum. deficit	Treasury shares	Capital reserve for financial assets available for sale	Capital reserve for hedging transactions	Other capital reserves	Total Equity
	Relating to the Company's shareholders								
	Audited								
	Dollars thousands								
Balance as at January 1, 2014	19,995	107,444	(928)	(91,772)	(7,408)	(44)	-	467	27,754
Loss	-	-	-	(800)	-	-	-	-	(800)
Total other comprehensive loss	-	-	(181)	-	-	(53)	(30)	-	(264)
Share-based payment to employees and directors	-	114	-	-	-	-	-	-	114
Allocation of shares to the consultant	286	(91)	-	-	-	-	-	(195)	-
Balance as at December 31, 2014	20,281	107,467	(1,109)	(92,572)	(7,408)	(97)	(30)	272	26,804

Consolidated statements of cash flows

	For the three months ended March 31, 2015	For the three months ended March 31, 2014	For the year ended December 31 2014
	Unaudited	Unaudited	Audited
	Dollars thousands		
Cash flows from operating activities:			
Loss	(262)	(789)	(800)
Adjustments required to present cash flows from operating activities:			
Adjustments to statement of income items:			
Depreciation and amortization of fixed assets and intangible assets	1,129	1,354	5,127
Capital gain on sale of property, plant and equipment	-	-	(974)
Cost of share based payments	11	37	114
Loss from impairment of inventory	123	200	758
Loss from disposal of securities available for sale	169	-	-
	1,432	1,591	5,025
Change in deferred taxes, net	-	-	(429)
Change in liabilities for benefits to employees, net	(59)	42	(87)
Change in fair value of liabilities for bank options	46	98	(11)
Taxes on income	71	90	242
Financing expenses, net	470	428	1,379
	528	658	1,094
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables	3,875	193	(4,332)
Decrease (increase) in other receivables	(46)	(198)	179
Increase in inventory	(31)	(2,790)	(3,483)
Increase (decrease) in trade payables	(1,126)	1,592	2,844
Increase (decrease) in other payables	(79)	71	(1,143)
	2,593	(1,132)	(5,935)
Cash paid and received during the period for:			
Interest paid	(462)	(412)	(1,333)
Interest received	2	5	23
Taxes paid	(71)	(90)	(330)
Taxes received	-	-	88
	(531)	(497)	(1,552)
Net cash provided from (used in) operating activities	3,760	(169)	(2,168)

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

Consolidated statements of cash flows

	For the three months ended March 31, 2015	For the three months ended March 31, 2014	For the year ended December 31 2014
	Unaudited	Unaudited	Audited
	Dollars thousands		
Cash flows from investing activities:			
Purchase of property, plant and equipment	(*) (88)	(*) (176)	(1,000)
Energy efficiency grant received	-	-	72
Acquisitions of intangible assets	(174)	-	(356)
Proceeds from disposal of securities available for sale	310	-	-
Proceeds from sale of property, plant and equipment	-	-	448
Net cash provided from (used in) investing activities	48	(176)	(836)
Cash flows from financing activities:			
Short term bank credit, net	596	(883)	(18)
Repayment of long term loans	(1,160)	(1,317)	(2,718)
Repayment of long-term payables	(*) (297)	(*) (274)	(733)
Net cash used for financing activities	(861)	(2,474)	(3,469)
Increase (decrease) in cash	2,947	(2,819)	(6,473)
Cash at beginning of period	224	6,697	6,697
Cash at end of period	3,171	3,878	224

(*) Reclassified

	For the three months ended March 31, 2015	For the three months ended March 31, 2014	For the year ended December 31 2014
	Unaudited	Unaudited	Audited
	Dollars thousands		
a) Non-cash significant transactions			
Acquisitions of fixed assets on credit	2,378	-	1,346
Acquisition of assets through an exchange	-	-	972
Disposal of assets through an exchange	-	-	163

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

Note 1 - General

a. These financial statements were prepared in a condensed form as at March 31, 2015 and for the three months period then ended (hereinafter - "interim consolidated financial statements"). These statements should be read together with Tefron Ltd.'s (hereinafter- “the Company”) annual financial statements as at December 31, 2014 and for the year then ended, and the notes accompanying them (hereinafter -"annual financial statements").

b. The Company did not include separate financial information in the interim financial statements in accordance with Regulation 38d of the Securities Regulations (“Periodic and Immediate reports”), 1970, due to the negligible nature of the information to be given to the investor as a result of attaching this information.

c. On March 27, 2014, the Company and the banks signed an appendix to the amendment to the financing agreement, in the framework of which, amongst else, the financial covenants the Company is obligated to meet, were amended.

As at March 31, 2015, the Company meets all the financial covenants that have been determined in the amendment to the financing agreement, as aforementioned.

On May 18, 2015, the Company and the banks signed an additional appendix to the amendment to the financing agreement, in the framework of which, amongst other things, the financial covenants to which the Company is obligated to meet were amended. For details regarding the amendment to the agreement with the banks, as mentioned above, see Note 7a as follows.

On May 25, 2015 the general meeting of shareholders of the Company approved an issuance of 4,672,897 ordinary shares to Litef Holdings, a controlling shareholder in the company, for a consideration of 5 million Dollars and 490,653 additional ordinary shares to additional investors for a consideration of 525 thousand Dollars, in accordance to a private offering as described in Note 4a below. Completion of the transaction is expected by the end of May 2015.

Note 2 - Significant accounting principles

Form of preparation of the interim consolidated financial statements

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

Note 3 – Seasonality

The Company does not identify any seasonality which might have an effect on the Company.

Note 4 – Significant events during the period of the report

a. Private Offering

On February 17, 2015, the Company signed an agreement with Litef Holdings Inc., a private company incorporated in Canada, who is among other the controlling shareholders of the Company (hereinafter: "Litef"), according to which, Litef will invest a total of US 5 million dollars in the Company against an extraordinary private offering, as this term is defined in the Securities Regulations (Private Offering of Securities in a Listed Company), 2000, of ordinary shares of the Company (hereinafter: “the agreement”), as detailed as follows.

On April 2, 2015, and pursuant to receiving the approval of the Company's Audit Committee and Board of Directors, the Company signed an agreement with Mazouz and Weisselberger Genesis Investment, Limited Partnership, Mr. Erez Rozenbuch and Mr. Tomer Hefetz (hereinafter: the "additional investors"), according to which each of the additional investors shall invest in the Company a sum of US 175,000 dollars, and in total a sum of US 525,000 dollars, against a private offering of 163,551 ordinary shares of the Company to each of the additional investors, and in total 490,653 ordinary shares (hereinafter: the "additional investment agreement"), furthermore the Company signed an amendment to the agreement resulting from the additional investment agreement (hereinafter the agreement and the additional investment agreement shall be called together: "the private offer").

As at this date, Litef and Nouvelle Intimes Seamless Inc., a private company incorporated in Canada (hereinafter: "Nouvelle") (Litef and Nouvelle shall be called hereinafter jointly: "Nouvelle Group") jointly hold approximately 32.47% of the issued and paid up share capital of the Company and the voting rights therein and approximately 28.53% of the issued and paid up share capital of the Company and the voting rights therein on a fully diluted basis. In the framework of the transaction, 4,672,897 ordinary shares of the Company shall be allocated to Litef, so that upon the closing of the transaction, the Nouvelle Group shall jointly hold approximately 57.71% of the issued and paid up share capital of the Company and the voting rights therein and approximately 53.53% of the issued and paid up share capital of the Company and the voting rights therein on a fully diluted basis.

The principals of the agreement and the additional investment agreement are detailed as follows:

The principals of the agreement:

1. Litef shall invest a total of US 5 million dollars in the Company (hereinafter: the "investment amount") against an allocation of 4,672,897 ordinary shares of the Company, at a price of US 1.07 dollars per share, which would grant the Nouvelle Group more than 45% of the voting rights in the Company, while putting emphasis on the fact that as at the date of the report, there is no other person who holds more than 45% of the issued and paid up share capital of the Company. The price of the share was determined as the average share price of the Company’s share in US dollars during the 30 trading days preceding the date of signing the agreement.
   Upon the closing of the transaction, the Nouvelle Group shall jointly hold approximately 57.71% of the issued and paid up share capital of the Company and the voting rights therein and approximately 53.53% of the issued and paid up share capital of the Company and the voting rights therein on a fully diluted basis.

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

a. Private Offering (cont.)

2. Nouvelle and Messrs. Ben and Martin Lieberman, who are amongst the controlling shareholders of the Company, signed on 30 December 2010, a commitment not to compete with the Company in the field of seamless products for a limited period of 5 years as of the date of signing such non-competition letter of commitment. In the framework of the

   agreement it was agreed upon that Litef would join as a party to the letter of commitment and it will remain in force as long as Nouvelle, Messrs. Ben and Martin Lieberman, and Litef, each on its own, are amongst the controlling shareholders of the Company.

3. The closing of the transaction has been set to a date no later than five business days after the fulfillment of all the conditions precedent as specified in the agreement, including:
   a. The approval of the Stock Exchange regarding the registration for trading of the shares to be allocated under the agreement.
   b. The Company's engagement with its financing banks, Bank Leumi Le-Israel Ltd., Bank Hapoalim Ltd. and Israel Discount Bank Ltd. (hereinafter: the "banks") in an agreement to amend the existing financing agreement of the Company, as signed on May 18, 2015, as detailed in Note 7a as follows.

The principals of the additional investment agreement

As aforementioned, on April 2, 2015, the Company signed an additional investment agreement. According to this agreement at the closing date, the additional investors shall invest each a sum of US 175,000 dollars, and in total a sum of US 525,000 dollars, against an allocation of 490,653 of the Company's ordinary shares (163,551 ordinary shares to each of the additional investors), so that for each share the additional investors shall pay a sum of US 1.07 dollars.

b. Appointment of an independent director – Mr. Eytan Stiassnie

On January 27, 2015, Mr. Eytan Stiassnie was appointed as an independent director of the Company.

c. Expiry of rights to shares

On March 22, 2015, 100,000 of the 335,000 rights to shares granted to Professor Bodo W. Lambertz (hereinafter: “the consultant") in the framework of a consulting and development agreement in which the Company engaged with the consultant on September 27, 2012, expired. The rights to the shares have expired due to failure to meet the milestones.

d. Extending the service agreement with a related party for providing invoices

On March 22, 2015, the Company’s Board approved the extension of the term of the agreement for providing invoicing services with Lamour Global Inc. Limited (hereinafter: “Lamour”) in a non-extraordinary transaction, for an additional period of 3 years. Lamour shall serve as a channel for the sale of the Company’s products to Wal-Mart. The Board's approval was obtained after receiving the recommendation of the Audit Committee according to which the extension of the period, as aforesaid, is reasonable under the circumstances.

Note 5 - Operating segments

In light of the decision of the discontinuation of the production in the Cut & Sew field in Israel, and the discontinuation of the swimwear operations, the scope of operations of the Cut & Sew field has diminished significantly, and so it no longer meets the definition of a reportable operating segment. As of January 1, 2014, the Company's Chief Operating Decision Maker (CODM hereinafter: the "Company's CEO") reviews only the consolidated Operations data and refers to the Company's entire operations as operations of the seamless segment.

The seamless operating segment includes two cash-generating units which are characterized by the production locations: production in Israel and production in the Far East (offshore).

These units were grouped into a single reportable segment based on the criteria in IFRS 8 – Section 12.

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 in order to make decisions regarding the resources to be allocated to the segment and in order to evaluate the segment's performance.

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 – Events subsequent to the balance sheet date

a. Agreement with the banks

In continuation of the agreement that had been signed between the Company and the banks on March 2, 2010, which included a reorganization of credit financing that the banks provide to the Company, and was amended on December 24, 2010 and March 27, 2014, the Company signed another amendment to the agreement on May 18, 2015. In the framework of the amendment to the agreement, the following clauses have been amended:

The following is a summary of the main provisions of the amendment that are material to the financing agreement:

1. A condition precedent to the entry into force of the financing agreement

A condition precedent to the entry into force of the financing agreement whose main provisions are detailed as follow, is the completion of the private offering in an amount no lees than US 5 million dollars (hereinafter: "the proceeds"), which would be channeled to the Company as equity, all as detailed in the private offering as detailed in Note 4a above.

If the completion of the private offering shall not be executed as detailed above until June 5, 2015, then the amendment to the financing agreement shall be cancelled.

The date on which all of the procedures detailed as follows (refinancing of the long-term loans and increasing the short-term credit lines) would be executed, has been set as to be within 7 business days as of the date on which the private offering would be completed (hereinafter: "the closing date").

Note 7 – Events subsequent to the balance sheet date (cont.)

a. Agreement with the banks (cont.)

2. Long-term loans from the banks

On the closing date, the balance of long-term loans from the banks in a total amount, as at January 1, 2015, of US 16 million dollars, shall be provided as a new loan for a period of 8 years, when the loan principal shall be repaid as follows: 1.7 million dollars in 2015 (out of this amount, 1.4 million dollars has been paid until the date of this report, in accordance to the clearing schedule of the existing long-term loans), an amount of 1.65 million dollars shall be repaid in each of the years as of 2016 until 2022 (inclusive), and a repayment of US 2.75 million dollars to be repaid in the first quarter of 2023.
The interest on the loans which will be variable interest shall be decided with each of the banks until the closing date and it will be paid on a quarterly basis.
The mechanisms for the early repayment of the long-term loans set out in the financing agreement (due to surplus cash flows, fundraising, etc.) have been cancelled in the framework of the amendment to the financing agreement.

3. Increasing the short-term credit lines

On the closing date the existing short-term credit lines in the amount of US 9.75 million dollars, will be increased to an amount of US 11.75 million dollars (hereinafter: "the base limit"). The base limit might be increased by an additional amount of up to US 3.5 million dollars, depending on the sales of the Company, as detailed as follows:

a. During each quarter there shall be an examination of the Company's sales on a cumulative basis in the last four quarters. In the event these sales shall exceed the sum of US 95 million dollars (hereinafter: the "base sales"), then the base limit shall increase by a sum equal to 30% of the sum of the increase in the sales which has exceeded the base sales. In any event the credit limit shall not exceed the sum of US 15.25 million dollars.

b. The aforementioned examination in Sub-clause a above, shall be carried out on a quarterly basis in comparison to the base sales, and as a result of such examination the credit limit might also be decreased in comparison to the previous quarter, as applicable. In any event, the credit limit, as a result of such a decrease, shall not be less than the base limit.

4. Financial covenants and additional provisions

4.1 In the framework of the amendment to the financing agreement, an agreement has been reached regarding some of the financial covenants the Company is obligated to in accordance with the financing agreement, as detailed as follows:

a. Current investments - The Company shall not carry out investments in fixed assets, exceeding the following amounts on a cumulative basis:

1. The investment amount that shall be invested in the Company in shareholders' equity in accordance with the private offering.

2. An amount exceeding, as of the beginning of 2015, the amount of the aggregate balance of the Company's EBITDA, less payments of principal and interest on loans and taxes paid, while starting as of 2018 (inclusive), it shall be deducted each year of the said aggregate balance, an additional sum of 50% of the current maturities of the payments to the banks (principal and interest) of the following year.

Note 7 – Events subsequent to the balance sheet date (cont.)

a. Agreement with the banks (cont.)

Investments, as aforementioned, shall also be subject to the following terms:

1. Every single investment during the course of the year, in an amount exceeding US 5 million dollars, will be subject to a prior examination carried out by the banks.

2. The aggregate investments during the course of the year shall not exceed a sum of US 7 million dollars.

b. Shareholders’ equity - the rate of tangible shareholders' equity of the total balance sheet will not be less than 30%; but in any case, the tangible shareholders' equity will not be less than 27.5 million dollars. In any event in which the tangible shareholders’ equity shall be less than the aforementioned amount, however it shall not be less than 25.5 million dollars, then it shall not constitute as a violation of the obligation detailed in this clause as long as Tefron shall decrease its credit limit, which is relevant to such date (see Clause 3 above), in an amount equal to the difference between the sum of the tangible shareholders’ equity and a sum of 27.5 million dollars.

c. Balance of trade receivables - the Company’s trade receivables, according to the financial statements shall not be less at any time than a sum of 11.666 million dollars, plus a sum equal to one-third of the amount of the credit limit increase beyond the “base limit” (see Clause 3 above).

d. Factoring transactions – the Tefron Group shall be entitled to carry out factoring transactions whose total amount shall not exceed at any given time the sum of 4.5 million dollars, and this as long as the short-term credit limits remain in effect.

e. Balance of cash, inventory and trade receivables – the total amount of the balances of the Company's cash, inventory and trade receivables shall not be less at any given time than a sum of 32 million dollars plus an amount equal to the credit limit increase beyond the “base limit” (see Clause 3 above), or less the amount of the deduction of the credit limits from the base limit, in the event of a decline in the shareholders’ equity below a sum of 27.5 million dollars, as stated in Sub-clause b above.

f. Ratio of the debt to EBITDA –

1. As of 2015 until 2017 (inclusive) – will not exceed 6.5

2. As of 2018 and thereafter – will not exceed 5.5

g. No change shall be executed regarding the control of the Company in regards with the control structure, as it shall be on the closing date, without receiving the agreement of the aforementioned banks in advance and in writing. In spite of the aforementioned, a cumulative change whereas the holdings of the controlling shareholders as at the closing date, which shall not be less, at any given time, than 45% of the issued and paid up share capital of the Company, shall not constitute a violation of the obligations according to this clause.

In addition, it was agreed in the amendment to the financing agreement, that until no later than - 120 days as of the closing date, the terms of the 300,000 options that have been allocated to the banks on July 9, 2014, shall be amended, in such a manner that the exercise price of each option will 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).

Note 7 – Events subsequent to the balance sheet date (cont.)

a. Agreement with the banks (cont.)

Furthermore, the terms of the options shall also state that in every case whereas during the exercise period the Company’s share price on the Tel - Aviv Stock exchange shall be higher than an amount equal to US 3 dollars, the Company may require the banks to exercise the options and the banks undertake to do so immediately. The remaining terms of the options (including the options themselves being “cashless”) shall remain unchanged.

b. Extraordinary general meeting of the shareholders

On May 25, an extraordinary general meeting of the Company’s shareholders approved the Company's engagement in the agreement, which includes, among others, a transaction between the Company and Litef and between Mazouz and Weisselberger Genesis Investment, Limited Partnership, Mr. Erez Rozenbuch and Mr. Tomer Hefetz (hereinafter: the "**additional investors**"), and allocation of shares to Litef and the additional investors, as detailed in Note 4a above. Further to the approval of the private offering by the extraordinary general meeting of the Company’s shareholders, completion of the transaction is expected by the end of May 2015.