

TEFRON LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT MARCH 31, 2016

TEFRON LTD.

Interim Consolidated Financial Statements as at March 31, 2016

Unaudited

Contents

	<u>Page</u>
Review of the interim consolidated financial statements	2
Consolidated balance sheets	3-4
Consolidated statements of income	5
Consolidated statement of comprehensive income	6
Consolidated statements of changes in shareholders' equity	7-8
Consolidated statements of cash flows	9-10
Notes to the interim consolidated financial statements	11-17

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, 2016, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the period of three months 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.

The financial statements of the Group as at March 31, 2015 and for the period of three months then ended were audited by other auditors whose review report, dated May 28, 2015, included an unqualified opinion.

Scope of the review

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

Conclusion

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

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

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Date: May 24, 2016

Tefron Ltd.

Consolidated Balance Sheet

	As at March 31,		As at December 31,
	2016	2015	2015
	Unaudited		Audited
	Dollars thousands		
<u>Current assets</u>			
Cash	1,451	3,171	764
Trade receivables, net	15,196	14,148	16,845
Other receivables	2,556	2,612	3,038
Inventory	28,132	15,255	18,822
	<u>47,335</u>	<u>35,186</u>	<u>39,469</u>
<u>Non-current assets</u>			
Property, plant and equipment, net	27,367	27,314	27,718
Inactive assets	-	2,414	-
Goodwill and intangible assets, net	269	449	304
Software, net	1,319	681	1,271
Deferred taxes, net	3,047	3,230	3,230
	<u>32,002</u>	<u>34,088</u>	<u>35,523</u>
	<u>79,337</u>	<u>69,274</u>	<u>71,992</u>

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

Tefron Ltd.

Consolidated Balance Sheet

	<u>As at</u> <u>March 31,</u>		<u>As at</u> <u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2015</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Dollars thousands</u>		
<u>Current Liabilities</u>			
Bank credit	10,541	9,631	11,400
Trade payables	24,471	13,576	14,469
Other payables	2,570	2,245	2,312
	<u>37,582</u>	<u>25,452</u>	<u>28,181</u>
<u>Non-current liabilities</u>			
Long-term loans from banks and vendors	12,037	13,428	12,441
Liabilities for bank options	127	102	104
Liabilities for benefits to employees, net	794	724	762
Long-term payables	1,646	2,888	2,173
	<u>14,604</u>	<u>17,142</u>	<u>15,480</u>
<u>Equity attributed to the Company's shareholders</u>			
Share capital	33,617	20,281	33,617
Additional paid-in capital	99,678	107,513	99,627
Capital reserve for remeasurement of defined benefit plan	(1,232)	(1,109)	(1,232)
Accumulated deficit	(97,694)	(92,834)	(96,510)
Treasury shares	(7,408)	(7,408)	(7,408)
Other capital reserves	190	237	237
<u>Total equity</u>	<u>27,151</u>	<u>26,680</u>	<u>28,331</u>
	<u>79,337</u>	<u>69,274</u>	<u>71,992</u>

May 24, 2016

Date of approval of
the financial statements

Arnon Tieberg
Chairman of the Board

Gil Shimon
CEO

Eliezer Parnafes
CFO

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

Tefron Ltd.

Consolidated statements of income

	For the three months ended March 31,		For the year ended December 31
	2016	2015	2015
	Unaudited		Audited
	Dollars thousands (excluding data on loss per share)		
Sales	26,607	24,669	93,086
Cost of sales	21,918	19,706	74,582
Gross profit	4,689	4,963	18,504
Development expenses, net	1,042	947	3,694
Selling and marketing expenses	2,795	2,870	12,760
General and administrative expenses	807	900	2,914
Other expenses	352	2	817
Operating income (loss)	(307)	244	(1,681)
Financial income	-	411	471
Financial expenses	(694)	(917)	(2,728)
Financial expenses, net	(694)	(506)	(2,257)
Loss before taxes on income	(1,001)	(262)	(3,938)
Tax expenses	(183)	-	-
Loss	(1,184)	(262)	(3,938)
<u>Loss per share attributed to the Company's shareholders (in dollars)</u>			
Basic and diluted loss per share	(0.10)	(0.04)	(0.41)

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

Tefron Ltd.

Consolidated statements of comprehensive income

	For the three months ended March 31		For the year ended December 31
	2016	2015	2015
	Unaudited		Audited
	Dollars thousands		
Loss	<u>(1,184)</u>	<u>(262)</u>	<u>(3,938)</u>
Other comprehensive loss (after the effect of the tax):			
<u>Amounts that will not be restated thereafter to the statements of income:</u>			
Loss from remeasurement of defined benefit plan	<u>-</u>	<u>-</u>	<u>(123)</u>
Subtotal of items that will not be restated thereafter to the statements of income	<u>-</u>	<u>-</u>	<u>(123)</u>
<u>Subtotal of items that will be restated or are restated to the statements of income provided that specific terms are met:</u>			
Loss realized for cash flow hedging transactions	-	30	30
Transfer to the statement of income on disposal of investments in securities available for sale	<u>-</u>	<u>97</u>	<u>97</u>
Subtotal of items that will be restated or are restated to the statements of income	<u>-</u>	<u>127</u>	<u>127</u>
Total other comprehensive income	<u>-</u>	<u>127</u>	<u>4</u>
Total comprehensive loss relating to the Company's shareholders	<u>(1,184)</u>	<u>(135)</u>	<u>(3,934)</u>

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

Tefron Ltd.

Consolidated statements of changes in shareholders' equity

	Share capital	Additional paid-in capital	Capital reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity		
Unaudited									
Dollars thousands									
<u>Balance as at January 1, 2016 (Audited)</u>	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331		
Loss	-	-	-	(1,184)	-	-	(1,184)		
Share-based payment to employees and directors	-	4	-	-	-	-	4		
Expiry of rights to shares of the consultant	-	47	-	-	-	(47)	-		
<u>Balance as at March 31, 2016</u>	<u>33,617</u>	<u>99,678</u>	<u>(1,232)</u>	<u>(97,694)</u>	<u>(7,408)</u>	<u>190</u>	<u>27,151</u>		
Relating to the Company's shareholders									
	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
Unaudited									
Dollars thousands									
<u>Balance as at January 1, 2015 (Audited)</u>	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 of the consultant	-	35	-	-	-	-	-	(35)	-
<u>Balance as at March 31, 2015</u>	<u>20,281</u>	<u>107,513</u>	<u>(1,109)</u>	<u>(92,834)</u>	<u>(7,408)</u>	<u>-</u>	<u>-</u>	<u>237</u>	<u>26,680</u>

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

Tefron Ltd.

Consolidated statements of changes in shareholders' equity

Relating to the Company's shareholders									
Share capital	Additional paid in capital	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	
Audited									
Dollars thousands									
<u>Balance as at January 1, 2015 (Audited)</u>	20,281	107,467	(1,109)	(92,572)	(7,408)	(97)	(30)	272	26,804
Loss	-	-	-	(3,938)	-	-	-	-	(3,938)
Total other comprehensive income (loss)	-	-	(123)	-	-	97	30	-	4
Share-based payment to employees and directors	-	36	-	-	-	-	-	-	36
Expiry of rights to shares of the consultant	-	35	-	-	-	-	-	(35)	-
Private placement (less issue expenses of 100 thousand dollars)	13,336	(7,911)	-	-	-	-	-	-	5,425
<u>Balance as at December 31, 2015</u>	33,617	99,627	(1,232)	(96,510)	(7,408)	-	-	237	28,331

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

Tefron Ltd.

Consolidated statements of cash flows

	For the three months ended March 31,	For the year ended December 31	
	2016	2015	
	Unaudited	Audited	
	Dollars thousands		
<u>Cash flows from operating activities:</u>			
Loss	(1,184)	(262)	(3,938)
Adjustments required to present cash flows from operating activities:			
Adjustments to statement of income items:			
Depreciation and amortization of fixed assets and intangible assets	1,355	1,129	4,898
Cost of share based payment	4	11	36
Loss due to impairment of inventory	122	123	433
Loss from disposal of securities available for sale	-	169	169
	1,481	1,432	5,536
Change in deferred taxes, net	183	-	-
Change in liabilities for benefits to employees, net	32	(59)	(144)
Change in fair value of liabilities for bank options	23	46	84
Taxes on income	72	71	291
Financial expenses, net	381	470	1,565
	691	528	1,796
Changes in assets and liabilities items:			
Decrease in trade receivables	1,649	3,875	1,178
Decrease (increase) in other receivables	482	(46)	(502)
Increase in inventory	(9,432)	(31)	(3,908)
Increase (decrease) in trade payables	9,609	(1,126)	(867)
Increase (decrease) in other payables	258	(79)	(78)
	2,566	2,593	(4,177)
Cash paid and received during the period for:			
Interest paid	(373)	(462)	(1,524)
Interest received	-	2	2
Taxes paid	(72)	(71)	(291)
	(445)	(531)	(1,813)
Net cash provided from (used for) operating activities	3,109	3,760	(2,596)

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

Tefron Ltd.

Consolidated statements of cash flows

	For the three months ended March 31,		For the year ended December 31
	2016	2015	2015
	Unaudited		Audited
	Dollars thousands		
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment	(816)	(88)	(1,235)
Purchase - software	(85)	(174)	(887)
Proceeds from disposal of securities available for sale	-	310	310
Net cash provided from (used for) investing activities	(901)	48	(1,812)
<u>Cash flows from financial activities:</u>			
Short term bank credit, net	(319)	596	2,265
Repayment of long term loans	(952)	(1,160)	(1,923)
Repayment of long-term credit for property, plant and equipment	(250)	(297)	(626)
Debt settlement expenses	-	-	(193)
Proceeds from a private placement (less issue expenses)	-	-	(5,425)
Net cash provided from (used for) financial activities	(1,521)	(861)	4,948
<u>Increase in cash</u>	687	2,947	540
Cash at beginning of period	764	224	224
<u>Cash at end of period</u>	1,451	3,171	764

Appendix A - non-cash significant transactions

	For the three months ended March 31,		For the year ended December 31
	2016	2015	2016
	Unaudited		Audited
	Dollars thousands		
Acquisition of fixed assets on credit	325	2,378	2,750
Acquisition of assets through an exchange	-	-	128

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

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 1 - General

- a. These financial statements were prepared in a condensed form as at March 31, 2016 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, 2015 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, since it believes that including such information shall not carry with it any additional material information to the investor.
- c. On May 18, 2015, the Company and the banks signed an additional appendix to the amendment to the financial agreement, in the framework of which the financial covenants the Company is obligated to meet, were amended, amongst else. In accordance with this aforementioned appendix, according to the data in the interim consolidated financial statements, the Company's short term credit line from the banks is supposed to decrease by a sum of half a million dollars.

As at March 31, 2016, the Company meets all the financial covenants that have been determined in the amendment to the aforementioned financial agreement.

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 - Disclosure to new IFRS during the period prior to their implementation

a. IFRS 15 – “Recognizing Revenue from Contracts with Customers”

The new standard sets out a comprehensive mechanism that regulates the accounting treatment of revenues arising from contracts with customers. The standard supersedes IAS 18 “Revenue” and IAS 11 “Construction Contracts” and the commentaries thereto. The core principle of the standard is that the recognition of revenue shall reflect the transfer of goods or services to customers in an amount that represents the economic benefits that the entity expects to receive in exchange for them. For this purpose, the standard stipulates that the revenue recognition shall take place when the entity transfers to the customer the goods and/or services listed in its contract in such a manner that the customer obtains control of those goods or services.

The standard sets out a five-stage model for implementing this principal:

1. Identifying the contract (or contracts) with the customer.
2. Identifying the performance obligations in the contract.
3. Determining the transaction price.
4. Allocation of the transaction price to the performance obligation.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 3 - Disclosure to new IFRS during the period prior to their implementation (cont.)

a. IFRS 15 – “Recognizing Revenue from Contracts with Customers” (cont.)

5. Recognizing revenue when the entity completes a performance obligation.

The Implementation of the model depends on the specific facts and circumstances of the contract and requires, occasionally, the exercise of extensive discretion.

In addition, the standard stipulates extensive disclosure requirements regarding contracts with customers, the significant estimates and changes therein which were used when applying the provisions of the standard, and this in order to allow the users of the financial statements to understand the nature, quantity, timing and reliability of revenue and cash flows arising from contracts with customers.

The standard shall take effect for annual reporting periods beginning on January 1, 2018 or thereafter. Early adoption is permitted. In general, the standard will be applied retrospectively; however, entities will be allowed to choose certain adjustments in the framework of the transitional provisions of the standard with regard to the implementation thereof for previous reporting periods.

At this stage, the Company examines the impact of the provisions of the standard on its contracts with its customers and the procedure of the recognition of revenue arising from them. This examination has not been completed yet.

b. IFRS 9 – Financial Instruments

The IFRS 9 “Financial Instruments” (2014) (hereinafter: the “standard”) is the final standard of the financial instruments project. The standard supersedes the previous versions of IFRS 9 which were published in 2009, 2010 and 2013. The final standard includes provisions for the classification and measurement of financial assets that have been modified in relation to those published in the first version in 2009, and it also includes the provisions for the classification and measurement of financial liabilities as published in the second version in 2010; the standard offers an updated model which is based on principals in respect of hedge accounting and it presents a new model for examining expected loss impairment. In addition, the standard supersedes the interpretation of IFRIC 9 “Reassessment of Embedded Derivatives”.

The standard shall take effect for annual reporting periods beginning on January 1, 2018 or thereafter. Early adoption is permitted.

In general, the provisions of the standard will be applied retrospectively, except for certain exceptions prescribed in the transitional provisions of the standard. It was also determined that despite the retrospective application, companies implementing the standard for the first time will not be obligated to restate their comparative figures for previous periods. Moreover, restatement of the comparative figures shall be permitted only when such restatement does not involve the usage of hindsight. Provisions relating to hedging shall be implemented, in general, using a prospective application, with a limited retrospective application.

At this stage the management of the Company is not able to assess the impact of the implementation of the standard on its financial position and results of operations.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 3 - Disclosure to new IFRS during the period prior to their implementation (cont.)

c. IFRS 16 – Leases

The new standard which was issued in January 2016 replaces IAS 17 “leases” and the related interpretations, and sets out the principles for the recognition, measurement, presentation and disclosure of leases in relation to both parties of a transaction, meaning the customer (‘lessee’) and the supplier (‘lessor’).

The new standard eliminates the existing distinction regarding lessee, between finance leases and operating leases and provides a uniform accounting model in relation to all types of leases. In accordance with the new model, for every leased asset, the lessee is required to recognize the asset for right-of-use on the one hand, and on the other hand, the financial liability for the lease.

The requirements for recognizing the asset and liability, as aforementioned, shall not apply in respect of assets leased for a period of up to 12 months and in relation to leases of low-value assets (for example, personal computers).

The standard does not change the current accounting treatment of the books of the lessor.

The standard shall take effect regarding annual reporting periods beginning on January 1, 2019 or thereafter. Early adoption is permitted, provided that IFRS 15 "Revenue from Contracts with Customers" is also applied. In general, the standard will be applied retrospectively; however entities will be allowed to choose certain adjustments in the framework of the transitional provisions of the standard with regard to the implementation thereof for previous reporting periods.

The Company has not evaluated yet the impact of the provisions of the standard on leasing contracts in respect of assets in its possession.

d. Amendment to IAS 12 “Income Taxes” (Recognition of Deferred Tax Assets for Unrealized Losses)

The amendment clarifies that unrealized losses related to debt instruments that are measured in the financial statements at fair value and for tax purposes at cost, can give rise to deductible temporary differences, whether the entity that holds the debt instrument expects to recover the carrying amount of the debt instrument by holding it to maturity or by selling it.

In addition, the amendment clarifies that:

- The carrying amount of an asset does not limit the estimation of probable future taxable profits;
- When comparing deductible temporary differences with future taxable profits, the future taxable profits excludes tax deductions resulting from the reversal of those deductible temporary differences; and
- In circumstances in which tax laws restrict the utilization of tax losses in such a way that they may be deducted only against income of a specified type, one should assess whether a deferred tax asset can be recognized in combination with deferred taxes resulting from deductible temporary differences of the same type.

The amendment shall take effect regarding annual reporting periods beginning on January 1, 2017 or thereafter. Early adoption is permitted. On the initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings without allocating the change between opening retained earnings and other components of equity, while providing disclosure for the application of this relief.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 3 - Disclosure to new IFRS during the period prior to their implementation (cont.)

- d. Amendment to IAS 12 “Income Taxes” (Recognition of Deferred Tax Assets for Unrealized Losses) (cont.)

The Company estimates that the amendment IAS 12 is not expected to have a material impact on the financial statements.

- e. Amendment to IAS 7 “Statement of Cash Flows” (Disclosure of Changes in Liabilities arising from Financing Activities)

The amendment states that it is required to provide disclosure of information that enables the users of the financial statements to evaluate the changes in liabilities arising from financing activities, whether changes relating to cash flows or changes not relating to cash flows.

The amendment shall be applied by way of prospective application for annual reporting periods beginning on January 1, 2017 or thereafter. Early adoption is permitted. On the initial application of the amendment it is not required to present comparative information.

The Company estimates that the amendment to IAS 7 is not expected to have a material impact on the financial statements

Note 4 – Significant events during the period of the report

- a. Granting letters of indemnity to directors

On February 11, 2016, the General Meeting of the shareholders of the Company approved, after obtaining the approval of the Remuneration Committee and the Company’s Board of Directors, the granting of letters of indemnity to Messrs. Lieberman in the Company’s customary text and form for its officeholders.

- b. Expiry of rights to shares

In continuation of the aforesaid in Note 20b4 to the financial statements as at December 31, 2015, on March 20, 2016, the final 135,000 out 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.

- c. Taxes on income

In the beginning of January 2016, the Law for the Amendment of the Israeli Tax Ordinance was published, according to which the corporate income tax rate will be reduced to 25% (instead of 26.5%). The new corporate income tax rate will apply to income that was generated or accrued as of January 1, 2016. The amendment is not relevant to tax rates on income pursuant to the Law for the Encouragement of Capital Investments, 1959, (income from preferred\benefited\approved enterprise).

As a result of the aforesaid legislation a decrease has occurred in the deferred taxes of the Company as at March 31, 2016, on the sum of 183 thousand dollars, which was recorded against tax expenses for the period.

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.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 5 - Operating segments (cont.)

a. General (cont.)

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 brand segment.

b. Reporting in respect of operating segments

	For the three month period ended March 31, 2016			For the three month period ended March 31, 2015		
	Brands	Retail	Total	Brands	Retail	Total
Unaudited						
Dollars thousand						
Total segment revenues	11,695	14,912	26,607	14,059	10,610	24,669
Direct profit (loss)	(215)	957	742	733	561	1,294
Indirect costs	(470)	(579)	(1,049)	(604)	(446)	(1,050)
Segment results	(685)	378	(307)	129	115	244
Financial expenses, net			(694)			(506)
Tax expenses			(183)			-
Loss			(1,184)			(262)

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 5 - Operating segments (cont.)

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

	<u>For the year ended December 31, 2015</u>		
	<u>Brands</u>	<u>Retail</u>	<u>Total</u>
	<u>Audited</u>		
<u>Dollars thousand</u>			
Total segment revenues	<u>41,670</u>	<u>51,416</u>	<u>98,086</u>
Direct profit (loss)	(1,669)	4,185	2,516
Indirect costs	(1,879)	(2,318)	(4,197)
Segment results	<u>(3,548)</u>	<u>1,867</u>	<u>(1,681)</u>
Financial expenses, net			<u>(2,257)</u>
Loss			<u>(3,938)</u>

Note 6 - Financial Instruments

a. 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.

- b. In continuation of the aforementioned in Note 6 to the financial statements as at December 31, 2015, in regards with the engagement of the Company in factoring transactions, as at March 31, 2016, the Company reduced customers' debts on the sum of 1.4 million dollars (2.4 million dollars as at December 31, 2015). The balance of trade receivables is presented net of the aforementioned amounts.

Note 7 – Events subsequent to the balance sheet date

a. Signing a cancellation of a memorandum of understanding with Brandix Lanka Limited (hereinafter: “**Brandix**”)

In continuation of the aforesaid in Note 20b3 to the financial statements as at December 31, 2015, on April 7, 2016, the parties signed a cancellation of the memorandum of understanding with Brandix, a company incorporated in Sri Lanka which specializes in the development, production and distribution of apparel products to the best brands in the world, with whom the Company formed an engagement on December 12, 2013.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

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

b. Abatement of claim that was served by ILODEL Inc. against the Company and its subsidiary

In continuation of the aforesaid in Note 20a2(a) to the financial statements as at December 31, 2015, on April 11, 2016, the claim which had been served on November 20, 2014, on the sum of 1,040 thousand dollars by ILODEL Inc. against the Company and its subsidiary Macro Clothing Ltd., to the Tel Aviv District Court for breach for contractual agreement, was abated.