

TEFRON LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2017

TEFRON LTD.

Interim Consolidated Financial Statements as at June 30, 2017

Unaudited

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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 June 30, 2017, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the periods of six months and three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods, in accordance with International Accounting Standard IAS 34, "Financial Reporting for Interim Periods", and are also responsible for the preparation of financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

Scope of the Review

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

Conclusion

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

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

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

Date: August 24, 2017

Tefron Ltd.

Consolidated Balance Sheet

	As at June 30,		As at
	2017	2016	December 31,
	Unaudited		2016
	Audited		
	Dollars thousands		
<u>Current assets</u>			
Cash	1,206	1,035	1,354
Trade receivables, net	16,441	17,992	16,681
Other receivables	3,305	2,590	4,129
Inventory	26,764	22,469	24,574
	<u>47,716</u>	<u>44,086</u>	<u>46,738</u>
<u>Non-current assets</u>			
Property, plant and equipment, net	23,123	26,272	24,348
Goodwill and intangible assets, net	119	234	213
Software, net	1,407	1,340	1,367
Deferred taxes, net	2,890	2,775	2,890
	<u>27,539</u>	<u>30,621</u>	<u>28,818</u>
	<u>75,255</u>	<u>74,707</u>	<u>75,556</u>

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

Tefron Ltd.

Consolidated Balance Sheet

	<u>As at June 30,</u>		<u>As at</u>
	<u>2017</u>	<u>2016</u>	<u>December 31,</u>
	<u>Unaudited</u>		<u>2016</u>
	<u>Audited</u>		
	<u>Dollars thousands</u>		
<u>Current liabilities</u>			
Bank credit	15,210	11,492	15,156
Trade payables	19,954	18,840	17,898
Other payables	2,087	1,839	2,546
	<u>37,251</u>	<u>32,171</u>	<u>35,600</u>
<u>Non-current liabilities</u>			
Long-term loans from banks and vendors	10,011	11,632	10,826
Liabilities for bank options	124	92	95
Liabilities for benefits to employees, net	776	771	797
Long-term payables	512	1,611	1,043
	<u>11,423</u>	<u>14,106</u>	<u>12,761</u>
<u>Equity attributed to the Company's shareholders</u>			
Share capital	33,617	33,617	33,617
Additional paid-in capital	99,686	99,682	99,686
Reserve for remeasurement of defined benefit plan	(1,259)	(1,232)	(1,259)
Accumulated deficit	(98,245)	(96,419)	(97,631)
Treasury shares	(7,408)	(7,408)	(7,408)
Other capital reserves	190	190	190
	<u>26,581</u>	<u>28,430</u>	<u>27,195</u>
<u>Total equity</u>	<u>75,255</u>	<u>74,707</u>	<u>75,556</u>

August 24, 2017

Date of approval of
the financial statements

Arnon Tieberg
Chairman of the Board

Ben Lieberman
CEO

Eliezer Parnafes
CFO

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

Tefron Ltd.

Consolidated Statements of Income

	<u>For the six months</u> <u>ended June 30,</u>		<u>For the three months</u> <u>ended June 30,</u>		<u>For the</u> <u>year ended</u> <u>December</u> <u>31,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>Dollars thousands</u>				
	<u>(excluding data on income (loss) per share)</u>				
Sales	65,210	65,490	32,104	38,883	116,402
Cost of sales	53,258	52,654	26,520	30,736	92,531
Gross profit	11,952	12,836	5,584	8,147	23,871
Development expenses, net	2,178	1,958	1,048	916	3,991
Selling and marketing expenses	7,324	6,743	3,698	3,948	13,401
General and administrative expenses	1,495	1,623	783	816	3,055
Other expenses	-	603	-	251	1,099
Operating profit (loss)	955	1,909	55	2,216	2,325
Financing income	-	35	-	35	9
Financing expenses	(1,558)	(1,353)	(772)	(659)	(2,673)
Financing expenses, net	(1,558)	(1,318)	(772)	(624)	(2,664)
Income (loss) before taxes on income	(603)	591	(717)	1,592	(339)
Tax benefit (taxes on income)	(11)	(500)	23	(317)	(782)
Net income (loss)	(614)	91	(694)	1,275	(1,121)
<u>Income (loss) per share attributable to</u> <u>Company's shareholders (in dollars)</u>					
Basic and diluted income (loss) per share	(0.05)	0.01	(0.06)	0.11	(0.09)

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

Tefron Ltd.

Consolidated Statements of Comprehensive Income

	<u>For the six months ended June 30,</u>		<u>For the three months ended June 30,</u>		<u>For the year ended December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>Dollars thousands</u>				
Net income (loss)	<u>(614)</u>	<u>91</u>	<u>(694)</u>	<u>1,275</u>	<u>(1,121)</u>
Other comprehensive income (loss) (after the effect of the tax):					
<u>Amounts that will not be reclassified subsequently to the statements of income:</u>					
Loss from remeasurement of defined benefit plan	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27)</u>
Subtotal of items that will not be reclassified subsequently to the statements of income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27)</u>
Total other comprehensive income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27)</u>
Total comprehensive income (loss) attributable to the Company's shareholders	<u>(614)</u>	<u>91</u>	<u>(694)</u>	<u>1,275</u>	<u>(1,148)</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	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
<u>Unaudited</u>							
<u>Dollars thousands</u>							
<u>Balance as at January 1, 2017 (audited)</u>	33,617	99,686	(1,259)	(97,631)	(7,408)	190	27,195
Loss	-	-	-	(614)	-	-	(614)
<u>Balance as at June 30, 2017</u>	<u>33,617</u>	<u>99,686</u>	<u>(1,259)</u>	<u>(98,245)</u>	<u>(7,408)</u>	<u>190</u>	<u>26,581</u>

Relating to the Company's shareholders

	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
<u>Unaudited</u>							
<u>Dollars thousands</u>							
<u>Balance as at January 1, 2016 (audited)</u>	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331
Net income	-	-	-	91	-	-	91
Share-based payment to employees and directors	-	8	-	-	-	-	8
Expiry of rights to shares of the consultant	-	47	-	-	-	(47)	-
<u>Balance as at June 30, 2016</u>	<u>33,617</u>	<u>99,682</u>	<u>(1,232)</u>	<u>(96,419)</u>	<u>(7,408)</u>	<u>190</u>	<u>28,430</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	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
Unaudited							
Dollars thousands							
<u>Balance as at April 1, 2017</u>	33,617	99,686	(1,259)	(97,551)	(7,408)	190	27,275
Loss	-	-	-	(694)	-	-	(694)
<u>Balance as at June 30, 2017</u>	<u>33,617</u>	<u>99,686</u>	<u>(1,259)</u>	<u>(98,245)</u>	<u>(7,408)</u>	<u>190</u>	<u>26,581</u>

Relating to the Company's shareholders

	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
Unaudited							
Dollars thousands							
<u>Balance as at April 1, 2016</u>	33,617	99,678	(1,232)	(97,694)	(7,408)	190	27,151
Net income	-	-	-	1,275	-	-	1,275
Share-based payment to employees and directors	-	4	-	-	-	-	4
<u>Balance as at June 30, 2016</u>	<u>33,617</u>	<u>99,682</u>	<u>(1,232)</u>	<u>(96,419)</u>	<u>(7,408)</u>	<u>190</u>	<u>28,430</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	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
Audited							
Dollars thousands							
<u>Balance as at January 1, 2016</u>	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331
Loss	-	-	-	(1,121)	-	-	(1,121)
Total other comprehensive loss	-	-	(27)	-	-	-	(27)
Share-based payment to employees and directors	-	12	-	-	-	-	12
Expiry of rights to shares of the consultant	-	47	-	-	-	(47)	-
<u>Balance as at December 31, 2016</u>	<u>33,617</u>	<u>99,686</u>	<u>(1,259)</u>	<u>(97,631)</u>	<u>(7,408)</u>	<u>190</u>	<u>27,195</u>

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

Tefron Ltd.

Consolidated Statements of Cash Flows

	<u>For the six months ended June 30,</u>		<u>For the three months ended June 30,</u>		<u>For the year ended December 31</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>Dollars thousands</u>				
<u>Cash flows from operating activities</u>					
Net income (loss)	(614)	91	(694)	1,275	(1,121)
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	2,383	2,683	1,186	1,328	5,257
Cost of share-based payment	-	8	-	4	12
Loss from impairment of slow inventory	256	223	112	101	436
	<u>2,639</u>	<u>2,914</u>	<u>1,298</u>	<u>1,433</u>	<u>5,705</u>
Change in deferred taxes, net	-	455	-	272	340
Change in liabilities for benefits to employees, net	(21)	9	(35)	(23)	8
Change in fair value liabilities for bank options	29	(12)	(5)	(35)	(9)
Taxes on income	130	145	128	73	303
Financing expenses, net	772	937	387	556	1,926
	<u>910</u>	<u>1,534</u>	<u>475</u>	<u>843</u>	<u>2,568</u>
Changes in assets and liabilities items:					
Decrease (increase) in trade receivables	240	(1,147)	(1,260)	(2,796)	163
Decrease (increase) in other receivables	824	448	716	(34)	(1,091)
Decrease (increase) in inventory	(2,446)	(3,870)	(395)	5,562	(6,186)
Increase (decrease) in trade payables	2,113	4,218	(1,881)	(5,391)	3,724
Increase (decrease) in other payables	(459)	(473)	(525)	(731)	234
	<u>272</u>	<u>(824)</u>	<u>(3,345)</u>	<u>(3,390)</u>	<u>(3,156)</u>
<u>Cash paid and received during the period for:</u>					
Interest paid	(762)	(921)	(379)	(548)	(1,897)
Interest received	-	-	-	-	6
Taxes paid	(130)	(145)	(128)	(73)	(303)
	<u>(892)</u>	<u>(1,066)</u>	<u>(507)</u>	<u>(621)</u>	<u>(2,194)</u>
Net cash provided from (used for) operating activities	<u>2,315</u>	<u>2,649</u>	<u>(2,773)</u>	<u>(460)</u>	<u>1,802</u>

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

Tefron Ltd.

Consolidated Statements of Cash Flows

	<u>For the six months ended June 30,</u>		<u>For the three months ended June 30,</u>		<u>For the year ended December 31</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>Dollars thousands</u>				
<u>Cash flows from investing activities</u>					
Purchase of property, plant and equipment	(837)	(1,137)	(461)	(322)	(1,815)
Purchase of software	(267)	(145)	(203)	(60)	(286)
Net cash used for investing activities	<u>(1,104)</u>	<u>(1,282)</u>	<u>(664)</u>	<u>(382)</u>	<u>(2,101)</u>
<u>Cash flows from financing activities</u>					
Short-term bank credit, net	54	517	171	836	3,756
Repayment of long-term loans	(825)	(1,250)	(515)	(298)	(1,650)
Repayment of long-term credit for property, plant and equipment	(588)	(363)	-	(113)	(1,217)
Net cash provided from (used for) financing activities	<u>(1,359)</u>	<u>(1,096)</u>	<u>(344)</u>	<u>425</u>	<u>889</u>
<u>Increase (decrease) in cash</u>	(148)	271	(3,781)	(416)	590
Balance of cash at beginning of period	<u>1,354</u>	<u>764</u>	<u>4,987</u>	<u>1,451</u>	<u>764</u>
<u>Balance of cash at end of period</u>	<u><u>1,206</u></u>	<u><u>1,035</u></u>	<u><u>1,206</u></u>	<u><u>1,035</u></u>	<u><u>1,354</u></u>

	<u>For the six months ended June 30,</u>		<u>For the three months ended June 30,</u>		<u>For the year ended December 31</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>Dollars thousands</u>				
<u>Appendix A - non-cash significant transactions</u>					
Acquisitions of fixed assets on credit	<u>-</u>	<u>163</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 1 - General

- a. These financial statements were prepared in a condensed format, as at June 30, 2017 and for the periods of six months and three months then ended (hereinafter – “interim consolidated financial statements”). These statements should be read together with Tefron Ltd.'s (hereinafter- “the Company”) annual financial statements as at December 31, 2016 and for the year then ended, and the notes accompanying them (hereinafter – the “annual consolidated financial statements”).
- b. The Company did not include separate financial information in the interim financial statements in accordance with Regulation 38d of the Securities Regulations (“Periodic and Immediate Reports”), 1970, since the Company believes that the inclusion of such information shall not constitute as additional significant information to the investor.
- c. On May 18, 2015, the Company and the banks signed on an additional appendix to the amendment to the financing agreement, in the framework of which, amongst else, the financial covenants the Company is obligated to meeting, were amended. In accordance with the aforementioned appendix, according to the interim consolidated financial statements’, the Company’s short-term credit line in the banks should decrease by an amount of at least 400 thousand dollars.

As at June 30, 2017, the Company meets all the financial covenants that were determined in the amendment to the financing agreement as aforementioned.

Note 2 – Significant accounting principles

Form of preparation of the interim consolidated financial statements

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

Regarding IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” and further to the aforesaid in Note 4 to the annual financial statements as at December 31, 2016, the company examines the impact of the initial implementation of the standards on its financial statements.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 4 – Significant events during the period of the report

- a. On March 27, 2017, the General Meeting of the Company approved the updated remuneration policy for officers of the Company (see also Note 7a as follows).
- b. On May 4, 2017, the General Meeting of the shareholders of the Company approved the engagement of the Company with Mr. Ben Lieberman, who is amongst the controlling shareholders of the Company, through a private company he owns, in an agreement to provide management services to the Company as Acting CEO. On June 18, 2017, the Company's Board decided to appoint Mr. Lieberman as the Company's CEO as of June 19, 2017. (See also Note 7b as follows).
- c. A plea bargain regarding an indictment in the Labor Court

On November 23, 2016, the Company reported that an indictment was submitted to the Labor Court against the Company's subsidiary, the Company's former CEO and a former employee of the subsidiary, claiming that the defendants have violated the workplace safety regulations in connection with a work accident, which occurred at the subsidiary in 2013. On April 7, 2017, the Company reached a plea bargain concerning the said indictment, which was approved by the Court, and according to which the former CEO of the Company was deleted from the indictment, the Company's subsidiary was fined NIS 15,000 and the former employee was fined NIS 10,000 NIS.

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.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 5 – Operating segments (cont.)

b. Reporting in respect of operating segments

	<u>For the six month period ended June 30, 2017</u>			<u>For the six month period ended June 30, 2016</u>		
	<u>Brands</u>	<u>Retail</u>	<u>Total</u>	<u>Brands</u>	<u>Retail</u>	<u>Total</u>
Unaudited						
Dollars thousand						
Total segment revenues	22,956	42,254	65,210	23,141	42,349	65,490
Direct profit (loss)	(4,123)	7,180	3,057	(2,482)	6,495	4,013
Indirect costs	(745)	(1,357)	(2,102)	(780)	(1,324)	(2,104)
Segment results	(4,868)	5,823	955	(3,262)	5,171	1,909
Financing expenses, net			(1,558)			(1,318)
Tax expenses			(11)			(500)
Net profit (loss)			(614)			91

	<u>For the three month period ended June 30, 2017</u>			<u>For the three month period ended June 30, 2016</u>		
	<u>Brands</u>	<u>Retail</u>	<u>Total</u>	<u>Brands</u>	<u>Retail</u>	<u>Total</u>
Unaudited						
Dollars thousand						
Total segment revenues	10,215	21,889	32,104	11,429	27,454	38,883
Direct profit (loss)	(3,125)	4,230	1,105	(2,269)	5,537	3,268
Indirect costs	(340)	(710)	(1,050)	(309)	(743)	(1,052)
Segment results	(3,465)	3,520	55	(2,578)	4,794	2,216
Financing expenses, net			(772)			(624)
Tax benefit (expenses)			23			(317)
Net profit (loss)			(694)			1,275

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, 2016</u>		
	<u>Brands</u>	<u>Retail</u>	<u>Total</u>
	<u>Audited</u>		
	<u>Dollars thousand</u>		
Total segment revenues	<u>40,302</u>	<u>76,100</u>	<u>116,402</u>
Direct profit (loss)	(5,211)	11,767	6,556
Indirect costs	(1,485)	(2,746)	(4,231)
Segment results	<u>(6,696)</u>	<u>9,021</u>	<u>2,325</u>
Financing expenses, net			<u>(2,664)</u>
Tax expenses			<u>(782)</u>
Loss			<u>(1,121)</u>

Note 6 – Financial instruments

a. Fair value

The carrying amounts in the financial statements of the cash, trade receivables, other receivables, bank credit and long-term loans, trade payables and other payables match or approximate their fair value.

- b. Further to the aforesaid in Note 5 to the annual financial statements as at December 31, 2016 in regards with the Company's entering into factoring transactions, as at June 30, 2017, the Company deducted debts of trade receivables in the amount of US 2.6 million dollars (US 2.5 million dollars as at June 30, 2016). The balance of trade receivables is presented net of such amounts, as aforesaid.

Note 7 – Events subsequent to the balance sheet date

- a. On August 3, 2017, the General Meeting of the Company approved the amendment of the annual grant clause in the remuneration policy for officers of the Company, subject to the recommendation of the Remuneration Committee at its meeting dated June 18, 2017.
- b. On August 3, 2017, the General Meeting of the Company approved the Company's engagement with Mr. Ben Lieberman in an agreement to provide management services to the Company as CEO.