TEFRON LTD.

Interim Consolidated Financial Statements as at June 30, 2014

Unaudited

Contents

	Page
Review of the interim consolidated financial statements	2
Consolidated balance sheets	3-4
Consolidated statements of income	5
Consolidated statements 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	11-20

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, 2014, 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 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 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.

Without qualifying our above conclusion, we draw attention to Note 1b of the financial statements regarding the Company's operations and its outcomes, as well as to the Management's estimations regarding meeting the financial covenants with the banks, and its plans in that regard.

Haifa *KOST FORER GABBAY & KASIERER*
August 14, 2014 **Certified Public Accountants**

Consolidated balance sheets

	As at June 30,		As at December 31,
	2014	2013	2013
	Unaudited		Audited
	Dollars thousands		
Current assets			
Cash	1,680	5,843	6,697
Investments in securities available for sale	379	408	420
Trade receivables, net	18,284	18,068	13,691
Other receivables	2,686	3,231	2,711
Inventory	11,923	12,545	12,622
	34,952	40,095	36,141
Assets held for sale (see Note 5)	-	200	-
	34,952	40,295	36,141
Non-current assets			
Property, plant and equipment, net	27,220	28,358	27,984
Inactive assets	2,485	2,603	2,555
Goodwill and intangible assets, net	620	899	742
Software, net	234	271	329
Deferred taxes, net	3,265	2,608	2,825
	33,824	34,739	34,435
	68,776	75,034	70,576

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

Consolidated balance sheets

	As at June 30,		As at December 31,
	2014	2013	2013
	Unaudited		Audited
	Dollars thousands		
Current liabilities			
Bank credit	8,707	12,107	9,938
Trade payables	12,495	11,265	11,250
Other payables	2,776	3,337	3,058
	23,978	26,709	24,246
Non-current liabilities			
Long-term loans from banks and vendors	14,858	16,955	16,342
Liabilities for bank options	131	258	67
Employee benefits, net	748	521	689
Long-term payables	2,214	490	1,478
Deferred Taxes	-	22	-
	17,951	18,246	18,576
Equity attributed to the Company's shareholders			
Share capital	20,281	19,995	19,995
Additional paid-in capital	107,416	107,370	107,444
Capital reserve for actuarial losses	(928)	(810)	(928)
Accumulated deficit	(92,749)	(89,288)	(91,772)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for financial assets available for sale	(74)	(55)	(44)
Capital reserve for hedging transactions	37	-	-
Other capital reserves	272	275	467
Total equity	26,847	30,079	27,754
	68,776	**75,034**	**70,576**

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

Date of approval of the financial statements August 14, 2014	Arnon Tieberg Chairman of the Board	Gil Shimon CEO	Eliezer Parnafes CFO

Consolidated statements of income

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
Sales	46,633	44,240	24,604	23,472	82,912
Cost of sales	38,456	36,670	20,850	19,399	68,086
Gross profit	8,177	7,570	3,754	4,073	14,826
Development expenses, net	2,209	2,050	1,082	894	4,446
Selling and marketing expenses	4,936	4,488	2,362	2,417	8,962
General and administrative expenses	1,562	1,704	655	979	3,660
Other income	(113)	-	(119)	-	(189)
Operating loss	(417)	(672)	(226)	(217)	(2,053)
Financial income	162	140	53	130	377
Financial expenses	(1,151)	(1,009)	(444)	(663)	(2,125)
Financial expenses, net	(989)	(869)	(391)	(533)	(1,748)
Loss before taxes on income	(1,406)	(1,541)	(617)	(750)	(3,801)
Tax benefit	429	486	429	431	639
Loss from continuing operations	(977)	(1,055)	(188)	(319)	(3,162)
Income (loss) from discontinued operations, net	-	106	-	(264)	(271)
Loss	(977)	(949)	(188)	(583)	(3,433)
Net loss per share attributable to equity shareholders of the Company (in dollars)					
Basic and diluted net loss per share from continuing operations	(0.15)	(0.16)	(0.03)	(0.05)	(0.48)
Basic and diluted net earnings (loss) per share from discontinued operations	-	0.02	-	(0.04)	(0.04)
Basic and diluted net loss per share	(0.15)	(0.14)	(0.03)	(0.09)	(0.52)

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

Consolidated statements of comprehensive income

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
Loss	(977)	(949)	(188)	(583)	(3,433)
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	-	-	-	-	(118)
Subtotal of items that will not be restated thereafter to the statements of income	-	-	-	-	(118)
Subtotal of items that will be restated or are restated to the statements of income provided that specific terms are met:					
Transfer to income from cash flow hedging transactions	-	(55)	-	-	(55)
Income from cash flow hedging transactions	37	-	4	-	-
Income (loss) from investments in securities available for sale	(30)	63	(30)	63	74
Subtotal of items that will be restated or are restated to the statements of income	7	8	(26)	63	19
Total other comprehensive income (loss)	7	8	(26)	63	(99)
Total comprehensive loss attributed to the Company's shareholders	(970)	(941)	(214)	(520)	(3,532)

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

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
		Unaudited							
		Dollars thousands							
Balance as at January 1, 2014	19,995	107,444	(928)	(91,772)	(7,408)	(44)	-	467	27,754
Loss	-	-	-	(977)	-	-	-	-	(977)
Total other comprehensive income (loss)	-	-	-	-	-	(30)	37	-	7
Share-based payment to employees and directors	-	63	-	-	-	-	-	-	63
Allocation of shares to the consultant	286	(91)	-	-	-	-	-	(195)	-
Balance as at June 30, 2014	20,281	107,416	(928)	(92,749)	(7,408)	(74)	37	272	26,847

	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							
Balance as at January 1, 2013	19,818	107,321	(810)	(88,339)	(7,408)	(118)	55	380	30,899
Loss	-	-	-	(949)	-	-	-	-	(949)
Total other comprehensive income (loss)	-	-	-	-	-	63	(55)	-	8
Share-based payment to employees and directors	-	49	-	-	-	-	-	-	49
Allocation of shares to the consultant	177	-	-	-	-	-	-	(177)	-
Share-based payment to the consultant	-	-	-	-	-	-	-	72	72
Balance as at June 30, 2013	19,995	107,370	(810)	(89,288)	(7,408)	(55)	-	275	30,079

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

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
	Unaudited								
	Dollars thousands								
Balance as at April 1, 2014	20,281	107,390	(928)	(92,561)	(7,408)	(44)	33	272	27,035
Loss	-	-	-	(188)	-	-	-	-	(188)
Total other comprehensive income (loss)	-	-	-	-	-	(30)	4	-	(26)
Share-based payment to employees and directors	-	26	-	-	-	-	-	-	26
Balance as at June 30, 2014	20,281	107,416	(928)	(92,749)	(7,408)	(74)	37	272	26,847

	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	Other capital reserves	Total equity
	Unaudited							
	Dollars thousands							
Balance as at April 1, 2013	19,818	107,348	(810)	(88,705)	(7,408)	(118)	422	30,547
Loss	-	-	-	(583)	-	-	-	(583)
Total other comprehensive income	-	-	-	-	-	63	-	63
Share-based payment to employees and directors	-	22	-	-	-	-	-	22
Allocation of shares to the consultant	177	-	-	-	-	-	(177)	-
Share-based payment to the consultant	-	-	-	-	-	-	30	30
Balance as at June 30, 2013	19,995	107,370	(810)	(89,288)	(7,408)	(55)	275	30,079

	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								
Balance as at January 1, 2013	19,818	107,321	(810)	(88,339)	(7,408)	(118)	55	380	30,899
Loss	-	-	-	(3,433)	-	-	-	-	(3,433)
Total other comprehensive income (loss)	-	-	(118)	-	-	74	(55)	-	(99)
Share-based payment to employees and directors	-	90	-	-	-	-	-	-	90
Allocation of shares to the consultant	177	33	-	-	-	-	-	(210)	-
Share-based payment to the consultant	-	-	-	-	-	-	-	297	297
Balance as at December 31, 2013	19,995	107,444	(928)	(91,772)	(7,408)	(44)	-	467	27,754

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

Consolidated statements of cash flows

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
Cash flows from operating activities					
Loss	(977)	(949)	(188)	(583)	(3,433)
Reconciliations required to present cash flows from operating activities:					
Adjustments to the statement of income items:					
Depreciation and amortization:					
Depreciation and amortization of fixed assets and intangible assets	2,681	2,547	1,327	1,379	5,158
Impairment of fixed assets, non-current assets held for sale and intangible assets	-	294	-	-	294
Income from disposal of fixed assets	(122)	(5)	(122)	(5)	(78)
Cost of share-based payment	63	214	26	99	527
	2,622	3,050	1,231	1,473	5,901
Loss from impairment of inventory	315	611	115	370	1,177
Change in deferred taxes, net	(429)	(259)	(429)	(233)	(499)
Change in liabilities of employee benefits, net	59	(75)	17	(20)	(25)
Change in fair value liabilities for bank options	64	(60)	(34)	(112)	(251)
Taxes on income	89	4	(1)	2	114
Financial expenses, net	765	627	337	330	1,209
	863	848	5	337	1,725
Changes in assets and liabilities items:					
Decrease (increase) in trade receivables	(4,593)	288	(4,786)	326	4,665
Decrease (increase) in other receivables	62	(393)	260	(474)	80
Decrease in inventory	384	1,868	3,174	961	1,225
Increase (decrease) in trade payables	1,383	(1,614)	(209)	110	(2,315)
Decrease in other payables	(425)	(560)	(496)	(633)	(854)
	(3,189)	(411)	(2,057)	290	2,801
Cash paid and received during the period for:					
Interest paid	(734)	(570)	(322)	(299)	(1,104)
Interest received	12	10	7	5	20
Taxes paid	(177)	(4)	(87)	(2)	(126)
Taxes received	88	-	88	-	12
	(811)	(564)	(314)	(296)	(1,198)
Net cash provided from (used for) operating activities	(1,492)	1,974	(1,323)	1,221	5,796

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

Consolidated statements of cash flows

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
Cash flows from investing activities					
Acquisition of fixed assets	(1,215)	(610)	(765)	(363)	(1,375)
Fixed assets down-payments	-	(450)	-	(450)	-
Acquisition of intangible assets	-	(34)	-	(34)	(134)
Proceeds from disposal of fixed assets	448	86	448	86	373
Net cash used for investing activities	(767)	(1,008)	(317)	(761)	(1,136)
Cash flows from financing activities					
Short-term bank credit, net	(789)	1,335	94	846	466
Repayment of long-term loans	(1,969)	(2,044)	(652)	(749)	(4,015)
Net cash provided from (used for) financing activities	(2,758)	(709)	(558)	97	(3,549)
Increase (decrease) in cash	(5,017)	257	(2,198)	557	1,111
Balance of cash at beginning of period	6,697	5,586	3,878	5,286	5,586
Balance of cash at end of period	1,680	5,843	1,680	5,843	6,697

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
(a) Non-cash significant transactions					
Acquisitions of assets on credit	1,346	392	1,346	392	2,081

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

Note 1 - General

a. These financial statements were prepared in a condensed format, as at June 30, 2014 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, 2013 and for the year then ended, and the notes accompanying them (hereinafter -"Annual Financial Statements").

b. During the six-month and three-month periods ended June 30, 2014, and for the year ended at December 31, 2013, the Company recorded losses of 977 thousand dollars, 188 thousand dollars, and 3,433 thousand dollars, respectively.

On March 27, 2014, the Company and the banks signed on an 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 (see Note 6b, as follows).

As at June 30, 2014, the Company meets all the financial covenants that were determined in the amendment to the financial agreement as aforementioned.

The Company’s management estimates that as of the date of signing this report, the chance of the Company meeting the amended financial covenants as aforementioned and its obligations in the coming year, is greater than 50%, however, there is no certainty of that, since the latter is subject to events occurring in the future.

Note 2 – Significant accounting principles

a. 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.

b. New IFRS which were implemented by the Company for the first time

The accounting policy used in preparing the interim consolidated financial statements is consistent with the one used in preparing the annual financial statements.

Amendments to IAS 32 - financial instruments: presentation, in regards with financial assets and liabilities offsetting

The IASB has published amendments to IAS 32 (hereinafter –“the Amendments to IAS 32”) on the subject of offsetting financial assets and financial liabilities. The Amendments to IAS 32 clarify, *inter alia*, the meaning of the term “currently has a legally enforceable right to set off” (hereinafter – “the Right to Set-off”). The Amendments to IAS 32 stipulate, *inter alia*, that the Right to Set-off must be legally enforced not only in the normal course of business of the parties to the contract but also in the event of bankruptcy or insolvency of all of the counterparties. In addition, the Amendments to IAS 32 stipulate that in order for the Right to Set-off to exist immediately, it must not be contingent on a future event or that there will be periods of times in which it will not apply, or that there will be events which will cause its expiry.

The implementation of the amendments has had no significant effect on the Company.

Note 3 – Disclosure of new IFRS standards in the period prior to their adoption

IFRS 15, "Revenue from Contracts with Customers"

IFRS 15 ("the Standard") was issued by the IASB in May 2014.

IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts, and the related Interpretations: IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The Standard introduces the following five-step model that applies to revenue from contracts with customers:

Step 1: **Identify the contract(s) with a customer**, including reference to contract consolidation and accounting for contract modifications.

Step 2: **Identify the distinct performance obligations in the contract**

Step 3: **Determine the transaction price**, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: **Allocate the transaction price to the separate performance obligations** on a relative stand-alone selling price basis using observable information, if it is available, or by making estimates and assessments.

Step 5: **Recognize revenue when (or as) the entity satisfies a performance obligation** over time or at a point in time.

IFRS 15 also establishes the accounting treatment of incremental costs involving obtaining a contract and the costs directly related to fulfilling a contract.

The Standard will apply retrospectively to annual periods beginning on or after January 1, 2017. Early adoption is permitted. The Standard may be applied to existing contracts beginning with the current period and thereafter. No restatement of the comparative periods will be required as long as comparative disclosures about the current period's revenues under existing IFRS are included.

The Company believes that the Standard is not expected to have a material impact on the financial statements.

IFRS 9, "Financial Instruments"

In keeping with the matters discussed in Note 3 to the annual financial statements as of December 31, 2013 regarding disclosure of new IFRS Standards in the period prior to their adoption in the issue of IFRS 9, in July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("the final Standard") which includes the following elements: classification and measurement, impairment and hedge accounting.

Note 3 – Disclosure of new IFRS standards in the period prior to their adoption (cont.)

IFRS 9, "Financial Instruments" (cont.)

The main changes between the final Standard and the previously published phases of the Standard are:

Classification and measurement:

The final version of IFRS 9 includes another category for the classification and measurement of financial assets that represent debt instruments. Financial assets classified in this category will be measured at fair value through other comprehensive income ("FVOCI") and the differences previously carried to other comprehensive income as above will be reclassified to profit or loss under specific conditions such as when the asset is derecognized. Finance income, exchange rate differences and impairment losses on financial assets, however, will be recognized in profit or loss. The classification in this category is allowed for debt instruments that meet the following tests on a cumulative basis:

- Based on the financial asset's contractual terms and on specific dates, the entity is entitled to receive cash flows that represent solely principal payments and interest payments on the principal balance.
- The asset is held in the context of a business model whose aim is both to collect the contractual cash flows generated from the asset and to dispose of the asset.

Impairment:

The final Standard addresses the issue of impairment of financial assets by introducing the expected credit loss impairment model to replace the incurred loss model prescribed in IAS 39. The expected credit loss model applies to debt instruments measured at amortized cost or at FVOCI and to trade receivables. The model introduces a simpler and economic approach for measuring impairment:

- General approach - credit losses due to default which are expected to occur in the subsequent 12-month period will be recognized provided that there has not been a significant increase in credit risk since the date of initial recognition of the instrument. On the other hand, if there has been a significant increase in credit risk since the date of initial recognition of the instrument, a provision should be recognized for credit losses that are expected to occur over the remaining life of the exposure in respect of said instrument.

- A simpler approach (applies in certain cases and for certain groups of assets only, including trade receivables) - according to this approach, the credit losses that are expected to occur over the remaining life of the exposure in respect of said instrument should be recognized, regardless of the occurrence of credit risk changes since the date of initial recognition of said instrument.

The final Standard will be applied retrospectively, subject to certain exemptions stipulated therein, in the financial statements for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

Note 4 – Seasonality

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

Note 5 – Discontinued operations

On March 20, 2013, the Company and Macro Clothing Ltd. (hereinafter – "the Seller"), a subsidiary of the Company, signed on an agreement with Gottex Swimwear Brands Ltd. (hereinafter – "the Purchaser"), in the framework of which the Seller would sell the Purchaser its operations in the field of developing, manufacturing and marketing of beachwear and swimwear, including the intellectual property and goodwill of the Seller in regards to the aforementioned operations, the clients and suppliers list, and all of the Seller's rights in the incorporated companies in Hong Kong and China (hereinafter: "the Agreement" or "the Transaction" and "the Operations", respectively).
Furthermore, the Agreement includes clauses regarding non-competition by the Seller or any
of the companies related to it in the field of swimwear, for a limited period of time, as well as clauses regarding indemnity the Purchaser would be entitled to from the Seller for damages that might be caused to it due to false presentations and/or legal claims and/or demands by any third party, and all of the above as detailed in the Agreement.
On November 14, 2013, the Seller completed its engagement in the Agreement, in return of the sum of US 280 thousand dollars.
It should be noted that the proceeds resulting from the Agreement, were used on November 18, 2013, for an early repayment of the Company's credit at the Company's financing banks (Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd. and Israel Discount Bank Ltd.), respectively to the share of each bank as was determined in the agreement of re-organization of credit terms which was signed between the Company and its financing banks on March 2, 2010 (and as it was amended occasionally).

Furthermore, on September 30, 2013, and October 1, 2013, the Seller repaid US 513 thousand dollars and US 487 thousand dollars, respectively, as part of its obligations to the lending banks, according to which upon the completion of the transaction of selling the Operations, the Seller shall repay a total sum of one million dollars at the expense of long term credit.

Note 5 – Discontinued operations (cont.)

The following are the details regarding the operations' results relating to the discontinued operations:

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
Sales	-	7,953	-	2,063	8,190
Cost of sales	-	6,006	-	1,857	6,207
Gross profit	-	1,947	-	206	1,983
Selling and marketing expenses	-	1,276	-	426	1,508
General and administrative expenses	-	133	-	20	292
Other expenses	-	294	-	-	218
Operating profit (loss)	-	244	-	(240)	(35)
Financing expenses, net	-	(138)	-	(24)	(215)
Taxes on income	-	-	-	-	(21)
Net income (loss) relating to discontinued operations	-	106	-	(264)	(271)

The following is the data regarding the cash flows, net, relating to the discontinued operations and provided from (used for the operations):

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
Operating	-	440	-	(264)	(17)
Investing	-	-	-	-	280

The following is the data regarding the balances of other comprehensive loss, net, attributed to the Company's shareholders, which were recorded to the Shareholders' equity, relating to the discontinued operations:

	As at June 30,		As at December 31
	2014	2013	2013
	Unaudited		Audited
	Dollars thousands		
Actuarial loss from defined benefit plan	-	(73)	(73)

Note 6 – Additional significant events during the period of the report

a. Termination of the agreement with Cifra S.P.A

On January 8, 2014, Cifra S.P.A (hereinafter - "Cifra") announced the termination of the engagement with the Company as of April 1, 2014.

To the best of the Company's knowledge, Cifra is a world-wide leading manufacturer in the warp knitting field – flat knitting using the Seamless technology, and in January 2012 the Company and Cifra signed a cooperation agreement. In the framework of the cooperation, Cifra and the Company developed and designed, jointly, flat knitting products in the activewear and apparel field. The termination of the agreement, as aforementioned, is in accordance with the agreement's provisions. It is noted that in practice, the actual volume of sales under the agreement is not material, and the parties are reviewing the manner in which they might continue their cooperation.

b. The amendment to the agreement with banks

In continuation of the agreement that was signed between the Company and the banks on March 2, 2010, which included the re-organization of credit financing that the banks had provided to the Company, and was amended on December 24, 2010, the Company signed on an additional amendment to the agreement on March 27, 2014. In the framework of the amendment to the agreement the following changes in the following clauses were noted:

The following is the summery of the material amendment provisions to the financing agreement:

1. Amendment to some of the financial covenants

1.1. Shareholders' equity- The rate of the tangible shareholders' equity to the total balance sheet will not be less than 30%, at any time; however in any case, the tangible shareholders' equity defined in the agreement will not be less – at any time – than the amounts stated below:

1.1.1 As of the date of signing the amendment to the financial agreement – US 25.5 million dollars.

1.1.2 As of 31.12.2015 - US 26 million dollars.

1.1.3 As of 31.12.2016 – US 26.5 million dollars.

1.1.4 As of 31.12.2017 and thereafter - US 27.5 million dollars.

"Tangible shareholders' equity": The total issued and paid up share capital in addition with the capital reserves and the balance of the retained earnings, as well as the balance of the owners' loans for which subordination was signed to the banks by the Company and its shareholders, in addition to liabilities for options that were granted and/or shall be granted to the banks, less intangible assets (such as goodwill, copyrights, patents, trademarks and trade names etc.), less the treasury shares and receivables which are interested parties in the Company and/or its subsidiaries and/or related companies (as those are defined in the Securities Law- 1968).

1.2. The balance of trade receivables in accordance with the financial statements of the Company, will not be less than a total sum of US 11 million dollars.

1.3. The Company will be entitled to carry out factoring of a total sum that shall not exceed, at any time, the sum of US 2.5 million dollars.

1.4. The total amount of the balances of the Tefron Group's cash, inventory and trade receivables will not be less, at any time, than the total sum of US 30 million dollars.

Note 6 – Additional significant events during the period of the report (cont.)

b. The amendment to the agreement with banks (cont.)

1.5. The ratio between the Company's debt and EBITDA – as of 2016 and thereafter shall not exceed 5.

1.6. The current ratio (current assets divided by current liabilities) of the Company, according to its annual financial statements or quarterly reports, shall not be less than 1.2.

2. Amendments to additional provisions

2.1. Not to execute a change in the control of the Company in regards with the control structure (by Intimess Nouvelle Seamless Inc., Mivtach Shamir Holdings Ltd., Ben Lieberman and Martin Lieberman) as at 1.1.2014, and this without receiving the agreement of the banks in advance and in writing. In spite of the aforementioned, cumulative change whereas the holdings of the controlling shareholders as at 1.1.2014, shall not be less than 38.9% of the issued and paid up share capital of the Company, shall not constitute a violation of this obligation.

2.2. Early repayment:

2.2.1. In any case in which the total cash flows surplus, according to the financial statements, will exceed the determining amount, then, a total comprising 60% (sixty percent) of the total difference between the surplus cash flows and the determining amount, will be used as early repayment, according to the determining ratio, on account of the last payment of principal Loan A, as it may be from time to time.

"Surplus cash flows" – the total EBITDA of the aforementioned corporations according to the financial statements, in every calendar year (hereinafter - “Calendar Year”), less: (a) the total repayments of principal loans of the aforementioned corporations from the aforementioned banks in a Calendar Year; (b) financing expenses in cash, including fees and exchange rate differences according to the financial statements of the Calendar Year; and (c) repayment on account of principal and interest for current debts arrangements.

“The determining amount” – US 4.5 million dollar.

2.2.2 On December 18 of every Calendar Year, the Tefron Group obligates to repay by an early repayment, at the expense of long term credit, the following sums:

2.2.2.1 On 18.12.2015, an early repayment on the sum of US 300 thousand dollars.

2.2.2.2 On 18.12.2016, an early repayment on the sum of US 400 thousand dollars.

2.2.2.3 On 18.12.2017, and on December 18 of each Calendar Year thereafter, an early repayment on the sum of US 500 thousand dollars.

2.3. Current investments – The Tefron Group shall not carry out investments in fixed assets, including in the normal course of business, in an annual aggregate amount, relating to Tefron Group as a whole, exceeding the sum detailed as follows:

2.3.1 In each of the years of 2014 and 2015, a sum of US 3 million dollars, in a cumulative calculation over two years.

2.3.2 In each of the years as of 2016 and thereafter, a sum of US 2 million dollars, in a cumulative calculation over two years.

Note 6 – Additional significant events during the period of the report (cont.)

b. The amendment to the agreement with banks (cont.)

2.4. In addition to the amendment to the financing agreement, it was agreed upon with the banks on the following: (a) reducing by US 1 million dollars the sums of the short term credit lines in the banks, and it shall be US 9.75 million dollars (b) to allocate to the banks (in accordance with the determining ratio), without return, a total sum of 300,000 options, non-tradable, non-transferable and which can be exercised to shares of NIS 10 par value each of the Company, in accordance with the cashless mechanism, against payment of an exercise price of US 2.5 dollars per share. The options shall be excersiable (fully or partially) until December 31, 2019. The terms of the options shall be as detailed in the acceptable option warrant terms, as it shall be agreed upon between the Company and the banks. It is noted that the allocation of the options is subject to receiving all the appropriate approvals required by law (including the approval of the Stock Exchange to list the shares that shall arise from the exercise of the options in the Stock Exchange). The allocation of the options, as aforesaid, 200,000 options which were allocated to the banks on October 11, 2011, and that have yet to expire, shall expire.

c. Granting options to the banks

On March 27, 2013 the Company's Board of Directors approved the granting of 300,000 Cash Less options to the banks, as detailed in Note 6b(2.4) above. As at March 31, 2014, the value of the benefits inherent in the granting of the options aggregated to an amount of US 165 thousand dollars and was recorded as a liability in respect of options to the banks against financial expenses' registration. This liability is measured periodically, in accordance with the option evaluation model.

d. Granting options to an officer

On March 27, 2014, the Company's Board of Directors approved the granting to the Deputy VP of Business Development, who is not an interested party in the Company and will not become an interested party in the Company after the granting, 32,500 option warrants, which can be exercised to shares of NIS 10 par value each of the Company, in accordance with the cashless mechanism. The exercise price for each option will stand at 3.2 dollars. The entitlement to exercise the options vests over a three-year period as of the date of the granting, in accordance with the option plan of the Company. The benefit value inherent in the granting of these options, in accordance with the price of the share on the date of trading on the Stock Exchange, aggregated to an amount of US 8 thousand dollars.

e. Signing a joint-venture agreement

On June 20, 2014, the Company engaged in a joint venture agreement (hereinafter – "the Agreement") with Clover Group International Limited, a company incorporated in Hong Kong, specializing in the development, design and manufacturing of bras (hereinafter - "Clover") (hereinafter – "the Parties").

In accordance with the agreement, utilizing the knowledge and experience of the Company in developing and manufacturing of products using the Seamless technology, and in conjunction with the knowledge and experience of Clover which is considered to be a leading company in the development and manufacturing of bras, the Parties will work to establish a jointly owned company, in equal shares, in Hong Kong, which first goal is designing, developing, manufacturing and selling bras as well as other apparel products made by the Seamless technology

In the framework of the Agreement, arrangements were determined with regard to the management of the company and with regard to the rights and obligations of the Parties as shareholders in it, which naturally, due to the fact that the Parties hold equal shares in the company, these arrangements are based on an agreement between the Parties. In addition, the Agreement includes provisions to regulate disagreements as well as provisions regarding the

Note 6 – Additional significant events during the period of the report (cont.)

e. Signing a joint-venture agreement (cont.)

right of first refusal and the right to participate in the sale of shares as well as provisions relating to non-competition.

On July 15, 2014, all the preconditions stipulated in the Agreement were fulfilled, and this after receiving the approval of the Company's Board of Directors and Clover's Board of Directors regarding the engagement in the Agreement.

Note 7 – 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 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. Based on the criteria in IFRS 8 regarding determining the reportable segments' operations, and the available financial information which is reviewed by the Company's CEO, the Company has determined that it operates in one reportable operating segment.

Note 8 – 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. Classification of financial instruments by fair value levels:

Financial assets measured at fair value

	Level 2	Level 3	Total
	Dollars thousands		
Financial assets measured at fair value			
Investment in securities available for sale	-	379	379
Derivatives for hedging transactions	74	-	74
	74	379	453
Financial liabilities measured at fair value			
Liabilities for bank options	(131)	-	(131)

Note 9 – Events subsequent to the balance sheet date

a. Engagement in an agreement for a real estate property rental to a related party

On July 10, 2014, the Company's Board of Directors approved, subject to the approval of the Company's shareholders' meeting, which will convene on September 1, 2014, the engagement of Tefron USA, Inc., a wholly-owned private company, indirectly, of the Company (hereinafter – "Tefron USA"), with Trimfit Global Inc., a private company incorporated in Delaware, USA
related to the Nouvelle Group who are amongst the controlling shareholders of the Company (hereinafter: "Trimfit") in an agreement for a real estate property rental which is owned by Tefron USA in Valdese, North Carolina, USA, an area of about 170,000 square feet, which is used as a center for logistics, for a consideration of US 108 thousand dollars per year, for a period of two years as of September 1, 2014 with an option of extension for an additional year. Furthermore, it was agreed between the Parties in the framework of the aforementioned engagement, that Trimfit would provide Tefron USA, according to its needs, sorting, picking and delivering services (Pick and Pack), for a consideration that is equal to the cost of these services through a subcontractor.