TEFRON LTD

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT SEPTEMBER 30, 2014

UNAUDITED

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ERNST & YOUNG

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 September 30, 2014 and the condensed consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for the periods of nine months and three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for 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, mainly with the 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, we are not aware of any fact which would cause us to think that the above financial information has not been prepared, in all significant aspects, in accordance with International Accounting Standard IAS 34.

In addition to the aforesaid in the previous paragraph, based on our review, we are not aware of anything which could cause us to think that the above financial information does not comply, in all material respects, with the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports) – 1970.

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

Haifa,
November 27, 2014

KOST FORER GABBAY & KASIERER
Certified Public Accountants

Consolidated balance sheets

	As at September 30,		As at December 31,
	2014	2013	2013
	Unaudited		Audited
	Dollars thousands		
Current assets			
Cash	1,977	5,502	6,697
Investment in securities available for sale	379	408	420
Trade receivables, net	17,329	15,729	13,691
Other receivables	2,720	2,893	2,711
Inventory	13,288	11,980	12,622
	35,693	36,512	36,141
Assets held for sale (see Note 5)	-	200	-
	35,693	36,712	36,141
Non current assets			
Property, plant and equipment, net	26,622	28,788	27,984
Inactive assets	2,479	2,574	2,555
Goodwill, and intangible assets, net	560	820	742
Software, net	299	356	329
Deferred taxes, net	3,265	2,579	2,825
	33,225	35,117	34,435
	68,918	71,829	70,576

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

Consolidated balance sheets

	As at September 30,		As at December 31,
	2014	2013	2013
	Unaudited		Audited
	Dollars thousands		
Current liabilities			
Bank credit	9,869	10,908	9,938
Trade payables	12,610	9,839	11,250
Other payables	2,617	3,074	3,058
	25,096	23,821	24,246
Non current liabilities			
Long-term loans from banks and vendors	14,787	16,662	16,342
Liabilities for bank options	79	234	67
Liabilities for benefits to employees, net	698	531	689
Long-term payables	1,772	1,628	1,478
	17,336	19,055	18,576
Equity attributed to the Company’s shareholders			
Share capital	20,281	19,995	19,995
Additional paid-in capital	107,446	107,425	107,444
Capital reserve for actuarial losses	(928)	(810)	(928)
Accumulated deficit	(92,775)	(90,510)	(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	(328)	44	-
Other capital reserves	272	272	467
Total capital	26,486	28,953	27,754
	68,918	71,829	70,576

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

Date of approval of the financial statements November 27, 2014	Arnon Tieberg Chairman of the Board	Gil Shimon CEO	Eliezer Parnafes CFO

Consolidated statements of Profit or Loss

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands (except for loss per share data)				
Sales	68,110	63,650	21,477	19,410	82,912
Cost of sales	56,205	52,582	17,749	15,912	68,086
Gross profit	11,905	11,068	3,728	3,498	14,826
Development expenses, net	3,123	3,131	914	1,081	4,446
Selling and marketing expenses	7,707	6,590	2,771	2,102	8,962
General and administrative expenses	2,290	2,547	728	843	3,660
Other income	(600)	(5)	(487)	-	(189)
Operating loss	(615)	(1,195)	(198)	(528)	(2,053)
Financial income	486	185	324	45	377
Financial expenses	(1,303)	(1,599)	(152)	(585)	(2,125)
Financial income (expenses), net	(817)	(1,414)	172	(540)	(1,748)
Loss before taxes on income	(1,432)	(2,609)	(26)	(1,068)	(3,801)
Tax benefit	429	508	-	22	639
Loss after taxes on income	(1,003)	(2,101)	(26)	(1,046)	(3,162)
Loss from continuing operations	(1,003)	(2,101)	(26)	(1,046)	(3,162)
Loss from discontinued operation, net	-	(70)	-	(176)	(271)
Net loss	(1,003)	(2,171)	(26)	(1,222)	(3,433)
Losses per share attributed to the Company's shareholders (in dollars)					
Basic and diluted losses per share from continued operations	(0.15)	(0.32)	-	(0.16)	(0.48)
Basic and diluted losses per share from discontinued operations	-	(0.01)	-	(0.02)	(0.04)
Basic and diluted losses per share	(0.15)	(0.33)	-	(0.18)	(0.52)

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

Consolidated statements of comprehensive income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
Loss	(1,003)	(2,171)	(26)	(1,222)	(3,433)
Other comprehensive loss (net of tax effect):					
Amounts that will not be reclassified subsequently to profit or loss:					
Actuarial loss from defined benefit program	-	-	-	-	(118)
Total components that will not be reclassified subsequently to profit or loss	-	-	-	-	(118)
Amounts that will be reclassified or that are reclassified to profit or loss when specific conditions are met:					
Transfer to income from cash flow hedging transactions	-	44	-	44	(55)
Income (loss) from cash flow hedging transactions	(328)	63	(365)	-	-
Income (loss) from investments in securities available for sale	(30)	(55)	-	-	74
Total components that will be reclassified or that are reclassified to profit or loss	(358)	52	(365)	44	19
Total other comprehensive income (loss)	(358)	52	(365)	44	(99)
Total comprehensive loss attributed to the Company's shareholders	(1,361)	(2,119)	(391)	(1,178)	(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	Retained 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 (audited)	19,995	107,444	(928)	(91,772)	(7,408)	(44)	-	467	27,754
Loss	-	-	-	(1,003)	-	-	-	-	(1,003)
Total other comprehensive loss	-	-	-	-	-	(30)	(328)	-	(358)
Share-based payment to employees and directors	-	93	-	-	-	-	-	-	93
Allocation of shares to the consultant	286	(91)	-	-	-	-	-	(195)	-
Balance as at September 30, 2014	20,281	107,446	(928)	(92,775)	(7,408)	(74)	(328)	272	26,486

	Relating to the Company's shareholders								
	Share capital	Additional paid-in capital	Capital reserve for actuarial losses	Retained 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 (audited)	19,818	107,321	(810)	(88,339)	(7,408)	(118)	55	380	30,899
Loss	-	-	-	(2,171)	-	-	-	-	(2,171)
Total other comprehensive loss	-	-	-	-	-	63	(11)	-	52
Share-based payment to employees and directors	-	71	-	-	-	-	-	-	71
Allocation of shares to the consultant	177	33	-	-	-	-	-	(210)	-
Share-based payment to the consultant	-	-	-	-	-	-	-	102	102
Balance as at September 30, 2013	19,995	107,425	(810)	(90,510)	(7,408)	(55)	44	272	28,953

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	Retained 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 July 1, 2014	20,281	107,416	(928)	(92,749)	(7,408)	(74)	37	272	26,847
Loss	-	-	-	(26)	-	-	-	-	(26)
Total other comprehensive loss	-	-	-	-	-	-	(365)	-	(365)
Share-based payment to employees and directors	-	30	-	-	-	-	-	-	30
Balance as at September 30, 2014	20,281	107,446	(928)	(92,775)	(7,408)	(74)	(328)	272	26,486

	Relating to the Company's shareholders								
	Share capital	Additional paid-in capital	Capital reserve for actuarial losses	Retained 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 July 1, 2013	19,995	107,370	(810)	(89,288)	(7,408)	(55)	-	275	30,079
Loss	-	-	-	(1,222)	-	-	-	-	(1,222)
Total other comprehensive loss	-	-	-	-	-	-	44	-	44
Share-based payment to employees and directors	-	22	-	-	-	-	-	-	22
Allocation of shares to the consultant	-	33	-	-	-	-	-	(33)	-
Share-based payment to the consultant	-	-	-	-	-	-	-	30	30
Balance as at September 30, 2013	19,995	107,425	(810)	(90,510)	(7,408)	(55)	44	272	28,953

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	Retained 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	-	-	-	(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 nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2014	2013	2014	2013	2013
	Unaudited				Audited
	Dollars thousands				
Cash flows from operating activities					
Loss	(1,003)	(2,171)	(26)	(1,222)	(3,433)
Reconciliations required to present cash flows from operating activities:					
Adjustments to the statement of income items:					
Depreciation and amortization of fixed assets and intangible assets	3,925	3,835	1,244	1,288	5,158
Impairment of fixed assets, non-current assets held for sale and intangible assets	-	294	-	-	294
Gain on sale of fixed assets	(609)	(5)	(487)	-	(78)
Cost of share-based payment	93	313	30	99	527
Loss from impairment of inventory	543	767	228	156	1,177
	3,952	5,204	1,015	1,543	7,078
Change in deferred taxes, net	(429)	(252)	-	7	(499)
Change in liabilities of employee benefits, net	9	(65)	(50)	10	(25)
Change in the fair value of liabilities for bank options	12	(84)	(52)	(24)	(251)
Taxes on income	166	142	77	138	114
Financial expenses, net	1,001	942	236	315	1,209
	759	683	211	446	548
Changes in assets and liabilities items:					
Decrease (increase) in trade receivables	(3,638)	2,627	955	2,339	4,665
Decrease (increase) in other receivables	(9)	(58)	(71)	335	80
Decrease (increase) in inventory	(1,209)	2,277	(1,593)	409	1,225
Increase (decrease) in trade payables	999	(3,349)	(384)	(1,735)	(2,315)
Decrease in other payables	(770)	(775)	(345)	(215)	(854)
	(4,627)	722	(1,438)	1,133	2,801
Cash paid and received during the period for:					
Interest paid	(962)	(862)	(228)	(292)	(1,104)
Interest received	17	15	5	5	20
Taxes paid	(254)	(142)	(77)	(138)	(126)
Taxes received	88	-	-	-	12
	(1,111)	(989)	(300)	(425)	(1,198)
Net cash provided from (used in) operating activities	(2,030)	3,449	(538)	1,475	5,796

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

Consolidated statements of cash flows

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2014	**2013**	**2014**	**2013**	**2013**
	Unaudited				**Audited**
	Dollars thousands				
Cash flows from investing activities					
Purchase of property, plant and equipment	(1,458)	(1,250)	(243)	(190)	(1,375)
Energy efficiency grant received	72	-	72	-	-
Purchase of intangible assets	(72)	(140)	(72)	(106)	(134)
Proceeds from sale of property, plant and equipment	448	86	-	-	373
Net cash used for investing activities	(1,010)	(1,304)	(243)	(296)	(1,136)
Cash flows from financing activities					
Short-term bank credit, net	670	669	1,459	(666)	466
Repayment of long-term loans	(2,350)	(2,898)	(381)	(854)	(4,015)
Net cash provided by (used for) financing activities	(1,680)	(2,229)	1,078	(1,520)	(3,549)
Increase (decrease) in cash and cash equivalents	(4,720)	(84)	297	(341)	1,111
Balance of cash and cash equivalents at beginning of period	6,697	5,586	1,680	5,843	5,586
Balance of cash and cash equivalents at end of period	1,977	5,502	1,977	5,502	6,697

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2014	**2013**	**2014**	**2013**	**2013**
	Unaudited				**Audited**
	Dollars thousands				
(A) Significant non cash transactions					
Acquisition of assets on credit	1,346	1,791	-	1,399	2,081
Acquisition of assets through an exchange	734	-	734	-	-

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 September 30, 2014, and for the periods of nine months and three months then ended (hereinafter: "interim consolidated financial statements"). These statements should be studied 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 consolidated financial statements").

b. During the nine-month and three-month periods ended September 30, 2014, and for the year that ended at December 31, 2013, the Company recorded losses of 1,003 thousand dollars, 26 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 7b, as follows).

As at September 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 consolidated financial statements, except for the following:

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 any 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 the new IFRS standards in the period prior to their adoption

An amendment to IAS 39 financial instruments: Recognition and Measurement, in regards with the replacement of hedging transactions and the continuation of the implementation of hedge accounting

The amendment to IAS 39 (hereinafter: the "standard") addresses the exception to the standard's requirement of discontinuing the implementation of hedge accounting. The amendment has added conditions that must be met in order for a replacement or a rollover of a hedging instrument with another hedging instrument shall not constitute an expiration or termination. The amendment is applied retrospectively.

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

IFRS 15 – Revenue from contracts with customers

IFRS 15 (hereinafter: the "standard") was issued by the IASB in May, 2014.

The standard replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmers', IFRIC 15 'Agreements for the Construction of Real Estate', IFRIC 18 'Transfer of Assets from Customers' and SIC 31 'Revenue – Barter Transactions Involving Advertising Services'.

The standard presents a five-step model that shall apply to revenues from contracts with customers:

Step 1 – **Identify the contract with the customer**, including reference as to when to combine contracts and how to handle modifications in contracts.

Step 2 – **Identify several distinct performance obligations in the contract**.

Step 3 – **Determine the transaction price**, including recognition of variable consideration, a significant financing component, consideration in a form other than cash and consideration payable to the customer.

Step 4 – **Allocation of the transaction price to each distinct performance obligation**, on the basis of the relative stand-alone selling price while using observable prices if available, or estimates and assumptions.

Step 5 – **Recognize revenue when a performance obligation is satisfied**, while making a distinction when a performance obligation is satisfied at a point in time or over time.

Furthermore, the standard determines the accounting treatment of incremental costs involved in obtaining a contract and costs directly related to the fulfillment of the contract.

The standard would be implemented retrospectively as of the financial statements for annual periods beginning on January 1, 2017 or thereafter. Early adoption is permitted. The standard allows selecting a partial retrospective application with some exemptions, according to which the standard will be implemented to existing contracts starting from the initial application and thereafter, and no restatement of the comparative figures would be required, as long as comparative disclosures required by the standard are included.

The Company estimates that the standard is not expected to have a material effect on the financial statements.

IFRS 9 – Financial Instruments

In continuation of the aforesaid in Note 3 of the annual financial statements as at December 31, 2013, regarding the disclosure of new IFRS in the period prior to their adoption in regards with,

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

IFRS 9 – Financial Instruments (cont.)

IFRS 9, in July 2014 the IASB issued the final and complete form of IFRS 9 'Financial Instruments' (hereinafter: the "final standard"), which includes the following elements: classification and measurement, impairment and hedge accounting.

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

Classification and Measurement

The final standard includes an additional category for the classification and measurement of financial assets that represent debt instruments. Financial assets which are 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 aforesaid will be reclassified to profit or loss under specific conditions such as when the asset is derecognized. It should be noted that finance income, exchange rate differences and impairment losses on financial assets, as aforementioned, will be recognized in profit or loss. The classification to this category is permitted for debt instruments that meet the following tests, on a cumulative basis:

- According to the contractual terms of the financial asset, the Company is entitled, on specified dates, to receive cash flows that constitute solely payments of principal and interest on the balance of the principal.
- The financial asset is held within a business model whose objective is both collecting contractual cash flows generated from the asset as well as selling it.

Impairment

The final standard addresses the issue of impairment of financial assets, which determines the expected credit loss impairment model and this *in lieu* of the existing IAS 39 model which is an incurred loss model. The expected credit loss model applies to assets which are debt instruments measured at amortized cost or at FVOCI as well as to trade receivables. The model introduces a simpler and more general approach for measuring impairment:

- General approach

  Credit losses due to default events 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 the initial recognition of the instrument. However, 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 the said instrument.

- A simpler approach (applies in certain cases and only for certain groups of assets, 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 the said instrument should be recognized, regardless of the occurrence of credit risk changes since the date of initial recognition of the said instrument.

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

Note 4 – Other income

During the third quarter of 2014, the company approved executing a transaction of replacing old machines for a new machines and upgrading old machines.
As a result of the transaction the company will have capital gain for a total amount of 880 thousand dollar.
During the third quarter the company shipped part of the old machines and received part of the new machines and recognized in the relevant part of the capital gain, in the amount for 487 thousand dollars.

Note 5 – Seasonality

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

Note 6 – 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 sold 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).

For further details regarding the selling transaction see Note 4 in the consolidated financial statements as at December 31, 2013.

Note 7 – 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 intimate 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 the 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:

Note 7 – Additional significant events during the period of report (cont.)

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

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 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.), and 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, at any time, 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.

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,

Note 7 – Additional significant events during the period of report (cont.)

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

2. Amendments to additional provisions (cont.)

2.2.2 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.

2.2.3 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:

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

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

2.2.3.3 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.

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 banks’ short term credit lines, and it shall be US 9.75 million dollars (b) to allocate to the banks (in accordance with the determining ratio), without any 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.

Note 7 – Additional significant events during the period of report (cont.)

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 7b(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 Business Development VP, 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 settlement agreement

On June 19, 2014, the Company and its subsidiary Hi-Tex founded by Tefron Ltd. (hereinafter: "Hi-Tex") signed on a settlement agreement with a former supplier who had filed a lawsuit against the Company and Hi-Tex on May 12, 2012. In the framework of the settlement agreement it was agreed upon that the Company shall pay the former supplier a sum of 463 thousand NIS.

f. 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 field of developing and manufacturing of bras, the parties will work to establish a jointly owned company, in equal shares, in Hong Kong, which main goal is designing, developing, manufacturing and selling bras made by the Seamless technology as well as other apparel products made by this technology.
In the framework of the agreement, arrangements were determined regarding 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 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 upon receiving the approval of the Company's Board of Directors and Clover's Board of Directors regarding the engagement in the agreement.

Note 7 – Additional significant events during the period of report (cont.)

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

On September 7, 2014, the Company's shareholders' meeting approved the engagement of the company 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 upon 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.

Note 8 – 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 9 – 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		
Investment in securities available for sale	-	379	379
Financial liabilities measured at fair value			
Derivatives for hedging transactions	(549)	-	(549)
Liabilities for bank options	(79)	-	(79)
	(628)	-	(628)

Note 10 – Events subsequent to the balance sheet date

a. Signing a strategic cooperation agreement

On November 12, 2014, the Company signed with a company incorporated in China, which operates in the Seamless clothing segment and is a subcontractor of the Company in China, a strategic cooperation agreement that would be carry out in China in the field of production and development of intimate apparel using the Seamless technology. The signing of this agreement is in continuation of the Letter of Intent on which the Company and the subcontractor signed on November 25, 2013.

b. Filing a lawsuit against the Company

On November 24, 2014, the company received the statement claim according to the company ILODEL who operates in Sri Lanka, is prosecute the Company and its subsidiary. The lawsuit is in the amount of 4 million NIS, claiming the respondents have violated a contractual arrangement with the plaintiff.
According to the statement of claim, the plaintiff claims that she deserves a fee for presenting the company BRANDIX from Sri Lanka to the Company.
In the past such claims have already been brought by the plaintiff to the Company and the Company has rejected these claims and has made it clear to the plaintiff, based on the opinion of its legal counsel, amongst else, that there is no truth to his claims.