TEFRON LTD.

Interim Consolidated Financial Statements as of June 30, 2015

Unaudited

Contents

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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 of June 30, 2015, 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.

Haifa
August 17, 2015

KOST FORER GABBAY & KASIERER
Certified Public Accountants

Consolidated balance sheets

	As of June 30, 2015	As of June 30, 2014	As of December 31, 2014
	Unaudited	Unaudited	Audited
	Dollars thousands		
Current assets			
Cash	3,527	1,680	224
Investments in securities available for sale	-	379	347
Trade receivables, net	18,303	18,284	18,023
Other receivables	3,756	2,686	2,536
Inventory	15,314	11,923	15,347
	40,900	34,952	36,477
Non-current assets			
Property, plant and equipment, net	26,577	27,220	25,857
Inactive assets	2,260	2,485	2,442
Goodwill and intangible assets, net	401	620	499
Software, net	805	234	549
Deferred taxes, net	3,230	3,265	3,265
	33,273	33,824	32,612
	74,173	68,776	69,089

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

Consolidated balance sheets

	As of June 30, 2015	As of June 30, 2014	As of December 31, 2014
	Unaudited	Unaudited	Audited
	Dollars thousands		
Current liabilities			
Bank credit	9,086	8,707	9,185
Trade payables	15,310	12,495	13,933
Other payables	2,049	2,776	2,257
	26,445	23,978	25,375
Non-current liabilities			
Long-term loans from banks and vendors	12,936	14,858	14,428
Liabilities for bank options	66	131	56
Liabilities for benefits to employees, net	718	748	783
Long-term payables	2,888	2,214	1,643
	16,608	17,951	16,910
Equity attributed to the Company's shareholders			
Share capital	33,617	20,281	20,281
Additional paid-in capital	99,611	107,416	107,467
Reserve for remeasurement of defined benefit plan	(1,109)	(928)	(1,109)
Accumulated deficit	(93,871)	(92,749)	(92,572)
Treasury shares	(7,408)	(7,408)	(7,408)
Capital reserve for financial assets available for sale	-	(74)	(97)
Capital reserve for hedging transactions	43	37	(30)
Other capital reserves	237	272	272
Total equity	31,120	26,847	26,804
	74,173	68,776	69,089

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

August 17, 2015			
Date of approval of the financial statements	Arnon Tieberg Chairman of the Board	Gil Shimon CEO	Eliezer Parnafes CFO

Consolidated statements of income

	For the six months ended June 30, 2015	For the six months ended June 30, 2014	For the three months ended June 30, 2015	For the three months ended June 30, 2014	For the year ended December 31, 2014
	Unaudited				Audited
	Dollars thousands				
Sales	47,432	46,633	22,763	24,604	93,915
Cost of sales	38,251	38,456	18,545	20,850	77,081
Gross profit	9,181	8,177	4,218	3,754	16,834
Development expenses, net	1,864	2,209	917	1,082	4,124
Selling and marketing expenses	5,955	4,936	3,085	2,362	10,389
General and administrative expenses	1,581	1,562	679	655	3,057
Other income	-	(113)	-	(119)	(959)
Operating income (loss)	(219)	(417)	(463)	(226)	223
Financing income	294	162	12	53	750
Financing expenses	(1,374)	(1,151)	(586)	(444)	(2,202)
Financing expenses, net	(1,080)	(989)	(574)	(391)	(1,452)
Loss before taxes on income	(1,299)	(1,406)	(1,037)	(617)	(1,229)
Tax benefit	-	429	-	429	429
Loss	(1,299)	(977)	(1,037)	(188)	(800)
Net loss per share attributable to equity shareholders of the Company (in dollars)					
Basic and diluted loss per share	(0.17)	(0.15)	(0.12)	(0.03)	(0.12)

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,
	2015	2014	2015	2014	2014
	Unaudited				Audited
	Dollars thousands				
Loss	(1,299)	(977)	(1,037)	(188)	(800)
Other comprehensive loss (after the effect of the tax):					
Amounts that will not be restated thereafter to the statements of income:					
Loss from remeasurement of defined benefit plan	-	-	-	-	(181)
Subtotal of items that will not be restated thereafter to the statements of income	-	-	-	-	(181)
Subtotal of items that will be restated or are restated to the statements of income provided that specific terms are met:					
Transfer to the statement of income from cash flow hedging transactions	30	37	-	4	(30)
Income not yet realized from cash flow hedging transactions	43	-	43	-	-
Loss from investments in securities available for sale	-	(30)	-	(30)	(53)
Transfer to the statement of income on disposal of investments in securities available for sale	97	-	-	-	-
Subtotal of items that will be restated or are restated to the statements of income	170	7	43	(26)	(83)
Total other comprehensive income (loss)	170	7	43	(26)	(264)
Total comprehensive loss attributed to the Company's shareholders	(1,129)	(970)	(994)	(214)	(1,064)

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	Reserve for remeasure-ment of defined benefit plan	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 of January 1, 2015 (Audited)	20,281	107,467	(1,109)	(92,572)	(7,408)	(97)	(30)	272	26,804
Loss	-	-	-	(1,299)	-	-	-	-	(1,299)
Total other comprehensive income	-	-	-	-	-	97	73	-	170
Share-based payment to employees and directors	-	20	-	-	-	-	-	-	20
Expiry of rights to shares to the consultant	-	35	-	-	-	-	-	(35)	-
Private placement (less issue expenses of 100 thousand dollars)	13,336	(7,911)	-	-	-	-	-	-	5,425
Balance as of June 30, 2015	33,617	99,611	(1,109)	(93,871)	(7,408)	-	43	237	31,120

	Relating to the Company's shareholders								
	Share capital	Additional paid-in capital	Reserve for remeasure-ment of defined benefit plan	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 of January 1, 2014 (Audited)	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 of June 30, 2014	20,281	107,416	(928)	(92,749)	(7,408)	(74)	37	272	26,847

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	Reserve for remeasure-ment of defined benefit plan	Accum. deficit	Treasury shares	Capital reserve for hedging transactions	Other capital reserves	Total equity
	Unaudited							
	Dollars thousands							
Balance as of April 1, 2015	20,281	107,513	(1,109)	(92,834)	(7,408)	-	237	26,680
Loss	-	-	-	(1,037)	-	-	-	(1,037)
Total other comprehensive income	-	-	-	-	-	43	-	43
Share-based payment to employees and directors	-	9	-	-	-	-	-	9
Private placement (less issue expenses of 100 thousand dollars)	13,336	(7,911)	-	-	-	-	-	5,425
Balance as of June 30, 2015	33,617	99,611	(1,109)	(93,871)	(7,408)	43	237	31,120

	Relating to the Company's shareholders								
	Share capital	Additional paid in capital	Reserve for remeasure-ment of defined benefit plan	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 of 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 of 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	Reserve for remeasure-ment of defined benefit plan	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 of January 1, 2014	19,995	107,444	(928)	(91,772)	(7,408)	(44)	-	467	27,754
Loss	-	-	-	(800)	-	-	-	-	(800)
Total other comprehensive loss	-	-	(181)	-	-	(53)	(30)	-	(264)
Share-based payment to employees and directors	-	114	-	-	-	-	-	-	114
Allocation of shares to the consultant	286	(91)	-	-	-	-	-	(195)	-
Balance as of December 31, 2014	20,281	107,467	(1,109)	(92,572)	(7,408)	(97)	(30)	272	26,804

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
	2015	2014	2015	2014	2014
	Unaudited				Audited
	Dollars thousands				
Cash flows from operating activities					
Loss	(1,299)	(977)	(1,037)	(188)	(800)
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	2,440	2,681	1,311	1,327	5,127
Income from disposal of fixed assets	-	(122)	-	(122)	(974)
Cost of share-based payment	20	63	9	26	114
Loss from impairment of inventory	230	315	107	115	758
Loss from disposal of securities available for sale	169	-	-	-	-
	2,859	2,937	1,427	1,346	5,025
Change in deferred taxes, net	-	(429)	-	(429)	(429)
Change in liabilities for benefits to employees, net	(65)	59	(6)	17	(87)
Change in fair value liabilities for bank options	46	64	-	(34)	(11)
Taxes on income	146	89	75	(1)	242
Financing expenses, net	875	765	405	337	1,379
	1,002	548	474	(110)	1,094
Changes in assets and liabilities items:					
Increase in trade receivables	(280)	(4,593)	(4,155)	(4,786)	(4,332)
Decrease (increase) in other receivables	(1,147)	62	(1,101)	260	179
Decrease (increase) in inventory	(197)	384	(166)	3,174	(3,483)
Increase (decrease) in trade payables	375	1,383	1,501	(209)	2,844
Decrease in other payables	(361)	(425)	(282)	(496)	(1,143)
	(1,610)	(3,189)	(4,203)	(2,057)	(5,935)
Cash paid and received during the period for:					
Interest paid	(855)	(734)	(393)	(322)	(1,333)
Interest received	2	12	-	7	23
Taxes paid	(146)	(177)	(75)	(87)	(330)
Taxes received	-	88	-	88	88
	(999)	(811)	(468)	(314)	(1,552)
Net cash used for operating activities	(47)	(1,492)	(3,807)	(1,323)	(2,168)

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
	2015	2014	2015	2014	2014
	Unaudited				Audited
	Dollars thousands				
Cash flows from investing activities					
Purchase of property, plant and equipment	(236)	(828) (*)	(148)	(652) (*)	(1,000) (*)
Energy efficiency grant received	-	-	-	-	72
Acquisition of intangible assets	(327)	-	(153)	-	(356)
Proceeds from disposal of securities available for sale	310	-	-	-	-
Proceeds from disposal of property, plant and equipment	-	448	-	448	448
Net cash used for investing activities	(253)	(380)	(301)	(204)	(836)
Cash flows from financing activities					
Short-term bank credit, net	51	(789)	(545)	94	(18)
Repayment of long-term loans	(1,507)	(1,969)	(347)	(652)	(2,718)
Repayment of long-term credit for property, plant and equipment	(337)	(387) (*)	(40)	(113) (*)	(733) (*)
Financing agreement fees	(129)	-	(129)	-	-
Proceeds from a private placement	5,525	-	5,525	-	-
Net cash provided from (used for) financing activities	3,603	(3,145)	4,464	(671)	(3,469)
Increase (decrease) in cash and cash equivalents	3,303	(5,017)	356	(2,198)	(6,473)
Balance of cash and cash equivalents at beginning of period	224	6,697	3,171	3,878	6,697
Balance of cash and cash equivalents at end of period	3,527	1,680	3,527	1,680	224

(*) Reclassified

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	Dollars thousands				
(a) Non-cash significant transactions					
Acquisitions of fixed assets on credit	2,573	1,346	195	1,346	1,346
Unpaid expenses for a private placement and financing agreement fees	(164)	-	(164)	-	-
Acquisitions of assets through an exchange	-	-	-	-	972
Disposal of assets through an exchange	-	-	-	-	163

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

Note 1 - General

a. These financial statements were prepared in a condensed format, as of June 30, 2015 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 of December 31, 2014 and for the year then ended, and the notes accompanying them (hereinafter -"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. For details regarding the amendment to the financing agreement with the banks, as aforementioned, see Note 4b as follows.

As at June 30, 2015, the Company meets all the financial covenants that were determined in the amendment to the financing agreement as aforementioned.

On May 25, 2015, the general meeting of shareholders of the Company approved the allocation of 4,672,897 ordinary shares to Litef Holdings, its controlling shareholder, for an amount of US 5 million dollars and 490,653 ordinary shares to additional investors, in exchange for the US 525 thousand dollars, in accordance with the terms of the private placement as detailed in Note 4a as follows. The private placement was executed on June 1, 2015.

Note 2 – Significant accounting principles

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.

Note 3 – Seasonality

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

Note 4 – Significant events during the period of the report

a. A private placement

On February 17, 2015, the Company signed an agreement with Litef Holdings Inc., a private company incorporated in Canada, who is among the controlling shareholders of the Company (hereinafter: "**Litef**"), according to which, Litef will invest a total of US 5 million dollars in the Company against an extraordinary private placement of 4,672,897 ordinary shares of the Company of NIS 10 par value each (hereinafter: "**ordinary shares**") (hereinafter: "**the agreement**"), as detailed as follows.

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

a. A private placement (cont.)

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

At the eve of the allocation of shares, Litef and Nouvelle Intimes Seamless Inc., a private company incorporated in Canada (hereinafter: "Nouvelle") (Litef and Nouvelle shall be called hereinafter jointly: "Nouvelle Group") jointly hold approximately 32.47% of the issued and paid up share capital of the Company and the voting rights therein and approximately 28.53% of the issued and paid up share capital of the Company and the voting rights therein on a fully diluted basis.

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

The principals of the agreement:

1. On the closing date (as this term is defined as follows) Litef shall invest a total of US 5 million dollars (hereinafter: the "**investment amount**") against an allocation of 4,672,897 ordinary shares of the Company, so that Litef shall pay a price of US 1.07 dollars per share. Upon the closing of the transaction, the Nouvelle Group shall jointly hold approximately 57.71% of the issued and paid up share capital of the Company and the voting rights therein and approximately 53.53% of the issued and paid up share capital of the Company and the voting rights therein on a fully diluted basis.
2. Nouvelle and Messrs. Ben and Martin Lieberman, who are amongst the controlling shareholders of the Company, signed on December 30, 2010, a commitment not to compete with the Company in the field of seamless products for a limited period of 5 years as of the date of signing such non-competition letter of commitment. In the framework of the agreement it was agreed upon that Litef would join as a party to the letter of commitment regarding the non-competition, and it will remain in force as long as Nouvelle, Messrs. Ben and Martin Lieberman, and Litef, each on its own, are amongst the controlling shareholders of the Company.
3. The closing of the transaction has been set to a date no later than five business days after the fulfillment of all the conditions precedent as specified in the agreement (hereinafter: the "**closing date**"), as detailed in the agreement including:
   a. The approval of the Stock Exchange regarding the registration for trading of the shares to be allocated under the agreement.
   b. The Company's engagement with its financing banks, Bank Leumi Le-Israel Ltd., Bank Hapoalim Ltd. and Israel Discount Bank Ltd. (hereinafter: the "banks") in an agreement to amend the existing financing agreement of the Company.

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

a. A private placement (cont.)

On May 18, 2015, the Company and its subsidiaries, Macro Clothing Ltd and Hi-Tex founded by Tefron Ltd., engaged in an amendment to the financing agreement with the banks which allows the existence of all the conditions precedent. For details see note 4b as follows.

The principals of the additional investment agreement:

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

The closing of the additional investment agreement has been set to the closing date of the transaction with Litef, and in any event, no later than May 31, 2015 or a postponed date as shall be agreed between the Company and Litef (provided that as long as the closing date shall be postponed to a date later than August 31, 2015, then the other investors will have the right to terminate the agreement), and all subsequent to the fulfillment of all the conditions precedent as specified in the agreement, including:

a. An approval, in accordance with any law, for the private placement, including an approval for the allocation of the shares in accordance with the agreement and the additional investment agreement, by the Company’s Audit Committee and Board of Directors (that have granted their approval at their meetings on February 18, 2015, and April 1, 2015) and the approval of the general meeting of the Company’s shareholders (that granted its approval at its meeting on May 25, 2015).
b. The approval of the Stock Exchange regarding the registration for trading of the shares to be allocated under the agreement.
c. The closing of the transaction according to the agreement.

On May 25, 2015, a special meeting of the shareholders of the Company approved the Company’s engagement in the agreement, which includes a transaction between the Company and Litef and the additional investors, as well as the allocation of shares to Litef and the other investors, as aforesaid.

On June 1, 2015 the shares were allocated against the proceeds received.

b. Agreement with the banks

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

<u>Note 4 – Significant events during the period of the report (cont.)</u>

b. <u>Agreement with the banks (cont.)</u>

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

1. <u>A condition precedent to the entry into force of the financing agreement</u>

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

   If the closing of the private placement in the Company is not executed as detailed above until June 5, 2015, then the amendment to the financing agreement shall be terminated.

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

2. <u>Long-term loans from the banks</u>

   On the closing date, the balance of long-term loans from the banks in a total amountof US 16 million dollars, as at January 1, 2015, shall be provided as a new loan for a period of 8 years, when the loan principal shall be repaid as follows: 1.7 million dollars in 2015 (out of this amount, 1.4 million dollars has already been paid until the date of this report, in accordance to the clearing schedule of the existing long-term loans), an amount of 1.65 million dollars shall be repaid in each of the years as of 2016 until 2022 (inclusive), and a repayment of 2.75 million dollars to be repaid in the first quarter of 2023.

   The interest on the loans which will be variable interest shall be decided with each of the banks until the closing date and it will be paid on a quarterly basis.

   The mechanisms for the early repayment of the long-term loans set out in the financing agreement (due to surplus cash flows, fundraising, etc.) have been cancelled in the framework of the amendment to the financing agreement.

3. <u>Increasing the short-term credit lines</u>

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

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

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

b. Agreement with the banks (cont.)

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

4. Financial covenants and additional provisions

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

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

1. The investment amount that shall be invested in the Company in shareholders' equity in accordance with the private placement.
2. An amount exceeding, as of the beginning of 2015, the amount of the aggregate balance of the Company's EBITDA, less payments of principal and interest on loans and taxes paid, and starting as of 2018 (inclusive), it shall be deducted each year of the said aggregate balance, an additional sum of 50% of the current maturities of the payments to the banks (principal and interest) of the following year.

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

1. Every single investment during the course of the year, in an amount exceeding US 5 million dollars, will be subject to a prior examination carried out by the banks.
2. The aggregate investments during the course of one year shall not exceed a sum of US 7 million dollars.

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

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

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

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

b. Agreement with the banks (cont.)

4. Financial covenants and additional provisions (cont.)

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

f. Ratio of the debt to EBITDA –

1. As of 2015 until 2017 (inclusive) – will not exceed 6.5
2. As of 2018 and thereafter – will not exceed 5.5

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

In addition, it was agreed in the amendment to the financing agreement, that until no later than 120 days as of the closing date, the terms of the 300,000 options that were allocated to the banks on July 9, 2014, shall be amended, in such a manner that the exercise price of each option will be US 1.43 dollars (instead of US 2.5 dollars) and the exercise period for each option shall be until March 31, 2023 (instead of December 31, 2019). Furthermore, the terms of the options shall also state that in every case whereas during the exercise period the Company’s share price on the Tel - Aviv Stock exchange shall be higher than an amount equal to US 3 dollars, the Company may require the banks to exercise the options and the banks undertake to do so immediately. The remaining terms of the options (including the options themselves being “cashless”) shall remain unchanged.

The day of June 11, 2015 was the "closing day" of the agreement. On this day the long-term loans of the Company were refinanced and the short-term credit lines of the Company were increased.

c. Changes in the composition of the Company’s Board of Directors

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

On June 1, 2015, members of the Board, Guy Shamir and Avi Zigelman announced their resignations from the Company’s Board as of that date, and this following the termination of the voting agreement between Mivtach Shamir Holdings Ltd. and the Nouvelle Group.

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

d. Expiry of rights to shares

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

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

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

Note 5 – Operating segments

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

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

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

The information that the Company provides in accordance with the IFRS 8 definitions is based on the available financial information which is reviewed regularly and is used by the Company's CEO in order to make decisions regarding the resources to be allocated to the segment and in order to evaluate the segment's performance.

Note 6 – Financial instruments

Fair value

The carrying 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.

Note 7 – Events subsequent to the balance sheet date

Changes in the composition of the Company's Board of Directors

On August 12, 2015, Messrs. Ben Lieberman and Martin Lieberman were appointed as directors of the Company.