TEFRON LTD

CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2016

IN DOLLARS THOUSANDS

TEFRON LTD.

Consolidated Financial Statements as at December 31, 2016

In Dollars Thousands

CONTENTS

Auditor's Report

To the Shareholders of Tefron Ltd.

We have audited the accompanying consolidated balance sheets of Tefron Ltd. (hereinafter -"the Company") as at December 31, 2015 and 2016, and the consolidated statements of income, comprehensive loss, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Company as at December 31, 2014 and for the year then ended were audited by another auditor whose report regarding them, dated March 22, 2015, included an unqualified opinion.

We have conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditor's Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2016 and 2015, and the results of their operations, changes in shareholders' equity and cash flows for the year ended December 31, 2016, in conformity with the International Financial Reporting Standards ("IFRS") and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Respectfully,

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

Haifa, March 28, 2017

Tefron Ltd.

Consolidated Balance Sheets

	Note	As at December 31 2016	2015
		Dollars thousands	
Current assets			
Cash		1,354	764
Trade receivables, net	5	16,681	16,845
Other receivables	6	4,129	3,038
Inventory	7	24,574	18,822
		46,738	39,469
Non-current assets			
Property, plant and equipment, net	8	24,348	27,718
Goodwill and intangible assets, net	9a	213	304
Computer software, net	9b	1,367	1,271
Deferred taxes, net	17	2,890	3,230
		28,818	32,523
		75,556	71,992

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

Tefron Ltd.

Consolidated Balance Sheets

	Note	As at December 31 2016	2015
		Dollars thousands	
Current liabilities			
Bank credit	10	15,156	11,400
Trade payables	11	17,898	14,469
Other payables	12	2,546	2,312
		35,600	28,181
Non-current liabilities			
Long-term loans from banks and vendors	13	10,826	12,441
Liabilities for bank options	15	95	104
Liabilities for benefits to employees, net	16	797	762
Long-term payables	18	1,043	2,173
		12,761	15,480
Equity attributed to the Company's shareholders	20		
Share capital		33,617	33,617
Additional paid-in capital		99,686	99,627
Capital reserve for remeasurement of defined benefit plans		(1,259)	(1,232)
Accumulated deficit		(97,631)	(96,510)
Treasury shares		(7,408)	(7,408)
Other capital reserves		190	237
Total equity		27,195	28,331
		75,556	71,992

March 28, 2017			
Date of approval of the financial statements	**Arnon Tieberg Chairman of the Board**	**Ben Lieberman Active CEO**	**Eliezer Parnafes CFO**

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

Tefron Ltd.

Consolidated Statements of Income

	Note	2016	2015	2014
		For the year ended December 31		
		Dollars thousands (excluding data on loss per share)		
Sales		116,402	93,086	93,915
Cost of sales	22a	92,531	74,582	77,081
Gross profit		23,871	18,504	16,834
Development expenses, net	22b	3,991	3,694	4,124
Selling and marketing expenses	22c	13,401	12,760	10,389
General and administrative expenses	22d	3,055	2,914	3,057
Other expenses (income)	22e	1,099	817	(959)
Operating profit (loss)		2,325	(1,681)	223
Financial income	22f	9	471	750
Financial expenses	22f	(2,673)	(2,728)	(2,202)
Financial expenses, net		(2,664)	(2,257)	(1,452)
Loss before taxes on income		(339)	(3,938)	(1,229)
(Taxes on income)/Tax benefit	17	(782)	-	429
Loss		(1,121)	(3,938)	(800)
Loss per share attributable to equity shareholders of the Company	23			
Basic and diluted loss per share		(0.09)	(0.41)	(0.12)

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

Tefron Ltd.

Consolidated Statements of Comprehensive Loss

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
Loss	(1,121)	(3,938)	(800)
Other comprehensive loss (after the effect of the tax):			
Amounts that will not be reclassified subsequently to the statements of income:			
Loss for remeasurement of defined benefit plan	(27)	(123)	(181)
Subtotal of items that will not be reclassified subsequently to the statements of income	(27)	(123)	(181)
Amounts that will be reclassified or are reclassified to the statements of income provided that specific terms are met:			
Loss not yet realized for cash flow hedging transactions	-	-	(30)
Realized loss (income) for cash flow hedging transactions	-	30	-
Income (loss) for investments in securities available for sale	-	-	(53)
Transfer to the statement of income on disposal of investments in securities available for sale	-	97	-
Subtotal of items that will be reclassified or are reclassified to the statements of income	-	127	(83)
Total other comprehensive income (loss)	(27)	4	(264)
Total comprehensive loss attributed to the Company's shareholders	(1,148)	(3,934)	(1,064)

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accumulated deficit	Treasury shares	Other capital reserves	Total equity
	Dollars thousands						
Balance as at January 1, 2016	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331
Loss	-	-	-	(1,121)	-	-	(1,121)
Total other comprehensive loss	-	-	(27)	-	-	-	(27)
Share-based payment to employees and directors	-	12	-	-	-	-	12
Expiry of rights to shares of the consultant	-	47	-	-	-	(47)	-
Balance as at December 31 , 2016	33,617	99,686	(1,259)	(97,631)	(7,408)	190	27,195

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

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

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Relating to the Company's shareholders								
	Share capital	**Additional paid-in capital**	**Reserve for actuarial losses**	**Accumulated 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	-	-	-	(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 at 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

Tefron Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
Cash flows from operating activities			
Loss	(1,121)	(3,938)	(800)
Adjustments required to present cash flows from operating activities:			
Adjustments to the statement of income items:			
Depreciation and amortization:			
Depreciation and amortization of fixed and intangible assets	5,257	4,898	5,127
Increase in provision for impairment of fixed assets, non-current assets held for sale and intangible assets	-	-	-
Gain on disposal of fixed assets	-	-	(974)
Cost of share based payments	12	36	114
Loss from impairment of slow inventory	436	433	758
Loss from disposal of securities available for sale	-	169	-
	5,705	5,536	5,025
Change in deferred taxes, net	340	-	(429)
Change in liabilities for benefits to employees, net	8	(144)	(87)
Change in fair value of liabilities for bank options	(9)	84	(11)
Taxes on income	303	291	242
Financial expenses, net	1,926	1,565	1,379
	2,568	1,796	1,094
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables	163	1,178	(4,332)
Decrease (increase) in other receivables	(1,091)	(502)	179
(Increase) in inventory	(6,186)	(3,908)	(3,483)
Increase (decrease) in trade payables	3,724	(867)	2,844
Increase (decrease) in other payables	234	(78)	(1,143)
	(3,156)	(4,177)	(5,935)
Cash paid and received during the year for:			
Interest paid	(1,897)	(1,524)	(1,333)
Interest received	6	2	23
Taxes paid	(303)	(291)	(330)
Taxes received	-	-	88
	(2,194)	(1,813)	(1,552)
Net cash provided from (used for) operating activities	1,802	(2,596)	(2,168)

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

Tefron Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
Cash flows from investing activities			
Purchase of fixed assets	(1,815)	(1,235)	(1,000) (*)
Energy efficiency grant received	-	-	72
Purchase of software	(286)	(887)	(356)
Proceeds from disposal of securities available for sale	-	310	-
Proceeds from disposal of fixed assets	-	-	448
Net cash used for investing activities	(2,101)	(1,812)	(836)
Cash flows from financing activities			
Short-term bank credit, net	3,756	2,265	(18)
Repayment of long-term loans	(1,650)	(1,923)	(2,718)
Repayment of long-term credit for fixed assets	(1,217)	(626)	(773) (*)
Debt settlement expenses	-	(193)	-
Proceeds from a private placement (less issue expenses)	-	5,425	-
Net cash provided by (used for) financing activities	889	4,948	(3,469)
Increase (decrease) in cash and cash equivalents	590	540	(6,473)
Balance of cash and cash equivalents at beginning of year	764	224	6,697
Balance of cash and cash equivalents at end of year	1,354	764	224

(*) Reclassified

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
(A) Non-cash significant transactions			
Acquisition of fixed assets on credit (see Note 8e as follows)	-	2,750	1,346
Acquisition of assets through an exchange	-	128	972
Disposal of assets through an exchange	-	-	163

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

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 1 - General

a. Tefron Ltd. (hereinafter: "the Company") is a company registered in Israel. The Company's production operations are carried out through subcontractors as well as by a self-production process in plants located in the Far East, Israel and Jordan. The Company and its subsidiaries focus on the development, production, marketing and sale of intimate apparel and activewear which are sold throughout the world to companies with leading brands. The Company operates in two operating business segments – brands and retail. For details regarding the business segments and operating markets, see Note 24 below.

The Company’s shares are traded on the Tel Aviv Stock Exchange. For additional details, also see Note 20.

The Company's head offices are located in the industrial area of "Misgav”, Israel.

b. Definitions

In these financial statements:

The Company	-	Tefron Ltd.
The Group	-	Tefron Ltd. and its subsidiaries as detailed in the attached list.
Subsidiaries	-	Companies in which the Company has control of (as defined in IFRS 10) and whose statements are consolidated with those of the Company.
Related parties	-	As defined in IAS 24.
Interested parties and controlling shareholders	-	As defined in the Securities Regulations (Annual Financial Statements), 2010.

Note 2 – Significant accounting principles

The accounting principles as detailed as follows were used consistently throughout the financial statements, throughout all the periods presented, unless it is noted otherwise.

a. Basis of presentation of the financial statements

The financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter: "IFRS").
Furthermore, the financial statements are prepared in accordance with the Israeli Securities Regulations (Annual Financial Statements), 2010.

The Company's financial statements are prepared on the basis of cost, excluding derivatives and financial assets available for sale; financial assets and liabilities (including derivative instruments) which are presented at fair value through the statement of income which are measured according to their fair value and excluding liabilities for employee benefits.
The Company has chosen to present the items in the statements of income according to the nature-of-expense method.

Note 2 – Significant accounting principles (cont.)

b. Consolidated financial statements

The consolidated financial statements include the statements of companies controlled by the Company (wholly-owned subsidiaries). Control exists when the Company has influence on the investee entity, exposure or rights to variable returns as a result of its involvement in the investee entity, as well as the ability to use its power to influence the sum of returns that shall derive from the investee entity. While assessing control, one takes into account the influence of the potential voting rights, only if they are substantive. The consolidation of the financial statements commences as of the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and its subsidiaries are prepared for identical dates and periods. The Company's accounting policy in the financial statements of its subsidiaries was implemented uniformly and consistently with the one implemented in the Company's own financial statements. Significant intra-group balances and transactions, and any profits and losses resulting from intra-group transactions were eliminated in full in the consolidated financial statements.

c. Functional, presentation and foreign currency

1. Functional and presentation currency

The presentation currency of the financial statements is the US dollar.

The functional currency which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is determined separately for each entity in the Group, and according to this functional currency its financial position and operating results are measured.
The Group determines the functional currency of the Company for each entity of the Group.
The functional currency of the Company is the US dollar.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded initially at the exchange rate on the date of the transaction. After the initial recognition, monetary assets and liabilities that are denominated in foreign currency are translated on each balance sheet date into the functional currency, at the exchange rate on that date. Exchange rate differences, other than those that are discounted to qualifying assets or are recognized in equity in hedging transactions, are recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currency and presented by cost are retranslated according to the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the functional currency, in accordance with the rates of exchange on the date on which the fair value is determined.

Note 2 – Significant accounting principles (cont.)

d. Exclusion of separate financial information in the framework of the periodic reports

In the framework of the periodic reports for 2016 the Company did not include separate financial information in accordance with Regulation 9c and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, since the Company believes the information contained in it is negligible from a qualitative standpoint, in spite of its quantitative scope, the reason for which is mainly due to the fact that as stated in Note 13b, the Group's credit agreements with the lending banks refer to the Tefron Group as a whole with cross-guarantees between the entities of the Group and providing information regarding separate financial statements will not carry with it any additional material information to the reasonable investor (shareholder) or to the creditors regarding the liquidity risk of the parent company, that is not already included in the framework of the consolidated financial statements of the Company.

e. Allowance for doubtful accounts

The allowance for doubtful accounts is determined specifically in respect of trade receivables whose collection, in the opinion of the Company's management, is doubtful. Impaired trade receivables will be withdrawn once they are assessed as uncollectible. The Company does not carry out any further review at the level of the customer groups for those for which no allowance for impairment has been made separately, as aforementioned, since it believes that it has no material impact on the financial statements.

f. Inventory

Inventory is measured at the lower of cost or net realizable value. The cost of inventory includes the expenses for purchasing the inventory as well as other costs incurred in bringing it to its current location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to carry out the sale. The Company periodically evaluates the condition and age of inventory and records provisions for slow-moving inventory accordingly.

The cost of inventories is determined as follows:

Raw materials	-	Based on cost by the weighted average method.
Work in progress and finished goods	-	Based on average cost including material, labor and other direct and indirect manufacturing costs.

g. Revenue recognition

Revenues are recognized in the statement of income when they can be measured in a reliable fashion, it is expected that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured in a reliable fashion. The revenues are measured at the fair value of the consideration received in the transaction less any trade discounts, volume rebates and returns.
The specific criteria regarding revenue recognition which are required to be fulfilled prior to the revenue recognition are as follows:

Revenues from the sale of goods

Revenues from the sale of goods are recognized once the significant risks and rewards derived from the ownership of the goods have been transferred to the buyer and the seller no longer

Note 2 – Significant accounting principles (cont.)

g. Revenue recognition (cont.)

Revenues from the sale of goods (cont.)

retains any continued managerial involvement. Usually the date of the delivery is the date on which the ownership was transferred.

Discounts to customers

Discounts given to customers at the end of the year, for which the customer is not required to meet certain objectives, are included in the financial statements upon reaching the proportional sales which entitle the customer to these discounts and are deducted from the sales item.

h. Government grants

Government grants from the Office of the Chief Scientist in Israel for supporting development activities do not include an obligation for the payment of royalties to the State, and therefore have been reduced from the costs of the development. The grants are recognized when there is reasonable assurance that the grants will be received and the Company would meet all the relevant conditions for receiving the grant. Government grants relating to assets such as fixed assets have been presented as a deduction of the assets for which the grants were received.

i. Taxes on income

Taxes on income in the statements of income include deferred taxes. The tax results in respect of deferred taxes are recorded to the statement of income except to the extent that the tax arises from items which are recognized directly to shareholders' equity. In such cases, the tax effect is also recorded to the relevant item in shareholders' equity.

Deferred taxes

Deferred taxes are computed for temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.
Deferred tax balances are measured at the tax rate that is expected to apply once the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted until the balance sheet date.
Deferred tax assets are reviewed on each balance sheet date and reduced to the extent that it is not probable that they will be utilized, temporary differences for which deferred tax assets have not been recognized, are reassessed on each balance sheet date and if their recoverability has become probable, an appropriate deferred tax asset is recognized.
When computing deferred taxes, taxes that would have applied in the event of the sale of investments in investee companies have not been taken into account, as long as it is probable that the sale of the investments in investee companies is not expected in the foreseeable future. Moreover, deferred taxes that would have applied in the event of distribution of earnings by investee companies as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends by a subsidiary since it involves an additional tax liability.
Deferred tax assets and deferred tax liabilities are presented in the balance sheet as non-current assets and non-current liabilities, respectively. Deferred taxes are offset if there is a legally enforceable right to set off a current tax asset against a current tax liability and the deferred taxes relate to the same taxable entity and the same tax authority.

j. Discontinued operations

Discontinued operations is a component of the Company which constitutes operation that was realized or classified as held for sale, the results of the operations relating to the discontinued operations are presented separately in the statement of income, less the tax effect.

Note 2 – Significant accounting principles (cont.)

k. Leasing

The tests for classifying leases as finance or operating leases depend on the substance of the agreements and they are reviewed at the inception of the lease in accordance with the principles below as set out in IAS 17:

The Group as a lessee

Operating lease

Assets, for which all risks and rewards inherent in the ownership of the leased asset are not actually transferred, are classified as operating lease. The lease fees are recognized as an expense in the statement of income on a straight-line basis continuously over the lease period.

The Group as a lessor

Operating lease

Assets, for which all risks and rewards related to the ownership of the leased asset are not actually transferred, are classified as operating lease. The lease fees are recognized as an expense in the statement of income on a straight-line basis continuously over the lease period.

l. Fixed assets

Items of fixed assets are presented at cost plus direct acquisition costs less any accumulated depreciation, less accumulated impairment losses and less related investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with machinery and equipment:

	%
Land and buildings	2
Machinery and equipment (mainly 6.67%)	5-15
Office furniture and equipment (mainly 10%)	6-10
Leasehold improvements	see below

Leasehold improvements are depreciated using the straight-line method over the lease period or over the expected useful life of the improvement, whichever is shorter.

The useful life, depreciation method and residual value of an asset are reviewed at least at the end of each year and the changes are accounted for as a change in accounting estimate in way of prospective application. As for testing the impairment of fixed assets, see Clause o, as follows.

The depreciation of assets is discontinued on the earlier of the date when the asset is classified as held for sale and the date on which the asset is withdrawn.

m. Computer software

The Group's assets include computer systems that are comprised of software and licenses. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it, is classified as fixed assets. In contrast, stand-alone software licenses that add additional functionality to the hardware are classified as computer software.

Cost of software is measured on initial recognition at cost with the addition of costs directly attributable to the acquisition and capitalization of the expenses related to their cost.

The useful lifespan of the software is as follows:

	%
Computer software	25-33
ERP system	10

Note 2 – Significant accounting principles (cont.)

n. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost with the addition of costs directly attributable to the acquisition. Intangible assets acquired in a business combination are included at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The period of amortization and method of amortization of an intangible asset is examined at least at the end of each year.

The useful lifespan of the intangible assets is as follows:

	Years
Customer lists	8

Goodwill is not amortized methodically and is subject to consideration of its loss of impairment on a yearly basis, as well as any time there is an indication that there might be a loss from impairment (see also Note 9a, as follows).

Profits or losses arising from the derecognition of an intangible asset are measured by the difference between the proceeds from the realization, net and the cost of the asset, and are recorded in the statement of income.

o. Impairment of non-financial assets

The Company examines the need to record an impairment of the carrying amount of non-financial assets whenever there are indications resulting from events or changes in circumstances which indicate that the carrying amount in the financial statements is not recoverable. In cases where the carrying amount of non-financial assets in the financial statements exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of the fair value less costs for sale and the value of its use. In evaluating the value of use, the expected cash flows are discounted according to the discounting rate before tax, which reflects the specific risks of every asset. For an asset that does not create independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recorded in the statement of income in accordance with the nature of the item whose value declines.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last date on which the impairment loss was recognized. Reversal of an impairment loss, as aforementioned, is limited to the lower of the amount of impairment recognized in the past (less depreciation or amortization) or the asset’s recoverable amount. A reversal of that impairment loss, as aforementioned, is recognized in the statement of income in the same section in which the impairment was recognized.

The following unique criteria are applied in assessing impairment of the goodwill:

Goodwill

The Company reviews goodwill for impairment once a year on December 31, or more frequently if events or changes in circumstances indicate that impairment can be recognized.
Impairment is recognized for goodwill by reviewing the recoverable amount of the cash-generating unit (or a group of cash-generating units) to which the goodwill has been allocated. When the recoverable amount of the cash-generating unit (or a group of cash-generating units) is lower than the carrying amount in the financial statements of the cash-generating unit (or a group

Note 2 – Significant accounting principles (cont.)

o. Impairment of non-financial assets (cont.)

Goodwill (cont.)

of cash-generating units), to which the goodwill has been allocated, it is recognized as a loss from impairment initially related to goodwill. Losses recognized for goodwill are not reversed in consecutive periods.

p. Financial assets

General:

Financial assets are recognized in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Where purchase or sale of an investment are under a contract whose terms require transfer of the investment within the timeframe acceptable by the related market, the investment is recognized or derecognized at the time of trade (the date on which the Group has committed to purchase or sell an asset).

Investments in financial assets are initially recognized at fair value plus directly attributable transaction costs, excluding financial assets which are measured at fair value through the statement of income, which are initially recognized at fair value.

When the estimated fair value of financial assets that are not traded in an active market including assumptions that are not supported by observable market prices or rates, the instrument is recognized initially at the transaction price which includes deferred gain or loss resulting from the difference between the estimated fair value and the consideration paid or received. In consecutive periods, the deferred gain or loss will be recognized in profit or loss only if there have been changes in variables, which market participants take into account when pricing financial assets.

Financial assets are classified into the following categories. The classification into these categories depends on the nature of and purpose of holding the financial asset and it is determined at the time of initial recognition of the financial asset, or at the consecutive reporting periods in cases where these financial assets can be reclassified into another category:

- Loans and receivables; as well as
- Financial assets available for sale

Regarding the publication of the final standard IFRS 9 "Financial Instruments", see Note 4b.

Loans and receivables:
Trade receivables, deposits, loans and other receivables with fixed payments or determinable payments that they are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method less impairment, if such is detected. Interest income is recognized using the effective interest method, except for short-term receivables when the interest amounts to be recognized are not material.

Financial assets available for sale
Investments in equity and debt instruments listed and unlisted, which are not derivative financial instruments that were not classified as financial assets at fair value through profit or loss, as investments held to maturity or as loans and receivables, are classified as financial assets available for sale.

Investments in equity and debt instruments that are traded in an active market are presented at fair value. Profits or losses arising from changes in fair value are recognized in other

Note 2 – Significant accounting principles (cont.)

p. Financial assets (cont.)

comprehensive income to the item: "Profits (loss) for financial assets available for sale", except for impairment losses which are recognized under certain conditions to profit or loss.

When the investments in these financial assets are realized or impairment is recognized in relation thereof, the profits or losses accrued up to the date of the realization or impairment, as applicable, and which have been recognized in other comprehensive income, are reclassified to profit or loss in the period when the realization or the impairment occurred.

Dividend income from investment in financial instruments available for sale are recognized in profit or loss when the Group's right to receive payment for them is established. Interest income on debt instruments available for sale are recognized in profit or loss according to the effective interest rate method.

The fair value of available for sale financial assets denominated in foreign currency is determined in that foreign currency and translated into the functional currency of the Company at the exchange rates at the end of the reporting period. Profits and losses resulting from changes in exchange rates are recognized in profit or loss based on the amortized cost of the financial item. Other profits and losses due to changes in exchange rates are recognized in other comprehensive income.

Regarding the method of determining the fair value of financial assets available for sale which are not traded in an active market, see Note 4b.

Impairment of financial assets

Financial assets, except for those classified as financial assets at fair value through profit or loss, are reviewed at the end of each reporting period in order to identify indications of impairment. Such impairment occurs when there are objective evidences that, as a result of one or more events that occurred after the initial recognition of the financial asset, the expected future cash flows of the investment were adversely affected by those.

In investments in equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value below their cost is an indication of impairment.

For other financial assets, including trade receivables and finance lease receivables, indications of impairment may include:

- Significant financial difficulties of the issuer or debtor;
- Failure to comply with current payments of principal or interest;
- Probability that the debtor will enter bankruptcy or restructuring of debt.

In respect of certain financial assets, such as trade receivables for whom no indications of impairment have been detected, the Group tests on a group basis, the existence of impairment, based on past experience with groups of debtors that have similar characteristics and changes in the arrears in installments, as well as economic changes related to the sector and the economic environment in which they operate.

For financial assets at amortized cost, impairment is recognized that is equal to the difference between the carrying amount of the financial assets and the current value of estimated future cash flows when they are discounted at the original effective interest rate.

When there is objective evidence of impairment as aforementioned, regarding financial assets available for sale, the cumulative loss recognized in other comprehensive income due to the decrease in the fair value of the financial assets is reclassified to profit or loss.

Note 2 – Significant accounting principles (cont.)

p. Financial assets (cont.)

Impairment of financial assets (cont.)

Impairment losses recognized in profit or loss, as aforementioned, in respect of an investment in an equity instrument classified as available for sale, are not reversed through profit or loss. Any increase in the fair value of investments in equity instruments classified as available for sale in the period following the period in which the impairment loss was recognized, is recognized in other comprehensive income.

With the exception of equity instruments classified as available for sale, if in a consecutive period the amount of impairment loss of financial assets is small, and the decrease is related objectively to an event occurring after the impairment was recognized, then in this case the impairment loss recognized in the past is reversed, in whole or in part, through profit or loss. The carrying amount of the investment in the asset at the date, on which the impairment loss is reversed, shall not exceed the amount of amortized cost of the asset which existed at that date if no impairment was previously recognized.
The impairment loss in respect of all the financial assets is reduced directly from the carrying amount of the financial asset, except for impairment loss of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is uncollectible, it is written off against the provision account. Collection in consecutive periods of amounts previously written off, are credited against the provision account. Changes in the carrying amount of the provision account are recognized in profit or loss.

q. Financial liabilities and equity instruments issued by the Group

Classification as a financial liability or an equity instrument:

Non-derivative financial instruments are classified as a financial liability or an equity instrument, in accordance with the nature of their contractual arrangements.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of costs directly related to the issuance of these instruments.

Financial liabilities are presented and measured in accordance with the following classification:

- Financial liabilities at fair value through profit or loss.
- Other financial liabilities.

Financial liabilities at fair value through profit or loss:

A financial liability is classified at fair value through profit or loss if it is a contingent consideration in a business combination that is not classified as equity or that it is held for trading purposes or that it is designated as a financial liability at fair value through profit or loss.

Financial liabilities held for trading include options to purchase shares of the Company and/or its subsidiaries with an exercise price linked to the CPI and/or foreign exchange and derivatives on equity instruments of the Company and the subsidiaries.

A financial liability is classified as held for trading if:

- It was created primarily for the purpose of repurchasing in the near future; or
- It is part of a portfolio of identified financial instruments that are managed together by the Group and for which there is evidence of a recent actual pattern of short term profit taking; or
- It is a derivative neither designated nor effective as a hedging instrument.

Note 2 – Significant accounting principles (cont.)

q. Financial liabilities and equity instruments issued by the Group (cont.)

Financial liabilities at fair value through profit or loss: (cont.)

A financial liability (the type of the financial liability must be specified) excluding a financial liability held for trading purposes or contingent consideration created in a business combination which is not classified as equity, designated as financial liability at fair value through profit or loss upon the initial recognition, when:

- Such designation eliminates or significantly reduces inconsistency in the measurement or recognition that would otherwise arise; or
- The financial liability is a part of a group of assets or liabilities or both, whose management and performances are evaluated on a fair value basis, in accordance with a documented policy of risk management or investment strategy of the group, and information regarding the group of financial instruments is provided internally according to the aforementioned basis to key management personnel of the Group; or
- It is part of a contract which includes one embedded derivative or more and the entire contract can be designated (asset or liability) at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are presented at fair value. Any profits or losses arising from changes in the fair value are recognized in profit or loss. The net profits or losses which are recognized in profit or loss consist of interest paid in respect of the financial liability. Transaction costs are expensed at the time of initial recognition to profit or loss.

Other financial liabilities:

Other financial liabilities are recognized initially at fair value after deducting transaction costs. After the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the flow of estimated future cash flows over the expected life of the financial liability to the carrying amount thereof, or, where appropriate, over a shorter period.

Derecognition of financial liabilities

A financial liability is removed when, and only when, it is extinguished - that is, when the liability specified in the contract is either discharged, cancelled or expires.
Equity instruments issued by the Company in exchange for the removal of a financial liability are consideration paid against the settlement of the liability. Accordingly, the difference between the fair value of the equity instruments issued, and the carrying amount of the liability is recognized in profit or loss.

r. Derivative financial instruments for hedging purposes (hedging)

The Group often carries out engagements in derivative financial instruments such as forward contracts and trading in foreign currency options in order to hedge itself against the risks connected with fluctuations in the rates of exchange of foreign currency. These financial derivatives are first recognized at fair value. After the initial recognition, the financial derivatives are measured at fair value. Derivatives are recognized in the consolidated balance sheets as assets when their fair value is positive and as liabilities when their fair value is negative.

Profits or losses resulting from changes in the fair value of derivatives which are not used for hedging purposes are immediately recorded to the statement of income.

Note 2 – Significant accounting principles (cont.)

r. Derivative financial instruments for hedging purposes (hedging) (cont.)

Hedging transactions which meet the criteria of hedging transactions (hedging) are treated as follows:

Hedging fair value

A change in the fair value of the derivative (the hedging item) and the hedged item are recognized in the statement of income. In the events of hedging fair value which relates to the hedged item presented at amortized cost, the adjustments to the carrying amount in the financial statements are recognized in the statement of income over the remaining period until repayment. Adjustments to hedged financial instruments presented using the effective interest method, are recognized in the statement of income. When the hedged item is derecognized, the balance of the adjustments of fair value not yet amortized is recognized in the statement of income at that time.

Hedging cash flows

The effective part of a profit or a loss from the hedging instrument is recognized in equity as other comprehensive income (loss) while the ineffective part is immediately recognized in the statement of income.

Other comprehensive income (loss) is transferred to the statement of income when the results of the hedging transaction are recorded to the statement of income; for example when the hedged revenue or expense is recognized in the statement of income or when a forecasted transaction occurs. When the hedged item is the cost of a non- financial asset or liability, this cost includes also the amount of the other relative comprehensive income (loss) which is transferred from shareholders' equity on the date of the recognition of the asset or liability.

In those cases where a forecasted transaction or a firm commitment are no longer expected to occur, the amounts recognized in shareholder' equity in the past, are transferred to the statement of income. Once the hedging instrument expires or is sold, terminated or exercised, or when it is no longer designated as a hedging instrument, the amounts recognized in shareholders' equity in the past, remain in shareholders' equity until the date on which the forecasted transaction or the firm commitment occur.

s. Fair value measurement

Fair value is the price that would have been received for selling an asset or the price that would have been paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction takes place in the principal market of the asset or liability, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured while using the assumptions that market participants would use while pricing the asset or liability, assuming that market participants operate for the benefit of their own economic interests.

Fair value measurement for a non-financial asset takes into account the ability of the market participant to produce economic benefits by using the asset in its highest and best use or by selling it to another market participant who would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate under the circumstances, and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Note 2 – Significant accounting principles (cont.)

s. Fair value measurement (cont.)

All of the assets and liabilities that are measured at fair value or that a disclosure related to their fair value has been provided, are categorized within the fair value hierarchy, based on the lowest source of input significant to the measurement of the fair value as a whole:

Level 1	Quoted prices (unadjusted) in an active market for identical assets or liabilities.
Level 2	Data other than quoted prices included within Level 1 that are observable either directly or indirectly.
Level 3	Data that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

t. Treasury shares

The shares of the Company which are held by a subsidiary are measured at their acquisition cost and are presented as a deduction in shareholders' equity. Any profit or loss resulting from the acquisition, sell, issue or cancellation of treasury shares is recorded directly to shareholders' equity.

u. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or implied) as a result of a past event and it is probable that economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense shall be recognized in the statement of income less the reimbursement of the expense.

The following are the types of provisions that have been included in the financial statements:

Legal claims

Provision for claims is recognized when the Group has a legal obligation in the present or an implied obligation as a result of a past event, and it is more likely than not that the Group will require its financial resources to settle the obligation and it can be estimated reliably.

Restructuring Costs

Provisions for restructuring costs are recognized when the Group has formulated a detailed formal plan for restructuring, and has created a valid expectation among those affected by it for the execution of the plan by way of commencing the implementation of the plan or by way of giving notice to those affected by it.
The provision for restructuring costs includes the direct expenditures arising from it. As part of the provision the costs which are needed for the execution of the restructuring and which are unrelated to the Group's continuing operations, are included.

v. Liabilities for benefits to employees

The Group has several employee benefits:

1. Short-term employee benefits:

   Short-term employee benefits are benefits which are expected to be fully paid, up to 12 months after the end of the annual reporting period during which the employees provide the relating services. These benefits include salaries, leave pay, paid sick leave, paid annual leave and social security contributions and are recognized as expenses as the services are

Note 2 – Significant accounting principles (cont.)

v. Liabilities for benefits to employees (cont.)

1. Short-term employee benefits (cont.)

rendered. Liability for a cash grant is recognized when the Group has a legal or implied obligation to pay the aforesaid amount for a service that was provided by the employee in the past and the amount can be estimated in a reliable fashion.

2. Post-employment benefits

The plans are usually fund by contributions to insurance companies and they are classified as defined contribution plans and defined benefit plans.

The Group in Israel has defined contribution plans pursuant to Section 14 of the Israeli Severance Pay Law under which the Group pays fixed contributions and without having legal or implied obligation to pay further contributions even if the fund does not hold sufficient amounts to pay all employee benefits relating to the employee service in the current period and prior periods.

Contributions in the defined contribution plan in respect of severance pay or compensation are recognized as an expense when contributed to the plan simultaneously with receiving the employee's services.
In addition, the Group also has a defined benefit plan with regard to severance pay pursuant to the Israeli Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability in regards with termination of employment is determined using the actuarial value of the projected entitlement unit method. The actuarial calculation takes into account future salary increases and rates of employee turnover based on the estimated time of payment. The amounts are presented based on discounted expected future cash flows, at interest rates in accordance with the expected yield at the reporting date of index-linked high quality corporate bonds with maturity dates that are close to the liability period of the severance pay.
In November 2014 the Israel Securities Authority has published a Staff Accounting Bulletin no. 21-1 regarding the existence of a deep market in a high quality corporate bonds in Israel (hereinafter: “the bulletin”), in order to determine the discount rate of defined benefit liabilities and other long-term benefits that are shekel-denominated in accordance with IAS 19. According to the bulletin, the transition from using the return rate of government bonds to the return rate of index-linked high quality corporate bonds should be treated, while using a prospective application, as a change in accounting estimate.
Consequently, the interest rate used by the Company to discount expected future cash flows for the calculation of the liability in respect of defined benefit plans in the financial statements at the end of 2014 was based on the interest rates of shekel-denominated high quality corporate bonds. The impact of the change regarding the discount rate for the aforementioned liabilities was recorded to other comprehensive income under the “remeasurement of defined benefit plans”.

The Company makes current deposits in respect of its liabilities to pay severance pay to certain of its employees regularly in pension funds and insurance companies (hereinafter- “the plan’s assets"). The plan’s assets consist of assets held in eligible insurance policies. The plan’s assets are not available to the Group's own creditors and cannot be paid directly to the Group.

The liability for employee benefits which is presented in the balance sheet represents the present value of the defined contribution plan liability less the fair value of the plan’s assets.

Remeasurement of the liability net is recorded as other comprehensive income in the period in which they occur.

Note 2 – Significant accounting principles (cont.)

w. Share-based payment transactions

The Company's employees, directors and service providers are entitled to benefits in the form of share-based payment which are settled with equity instruments.

x. Transactions settled with equity instruments

The cost of transactions settled with equity instruments with employees, directors and service providers is measured at the fair value of the equity instruments on the granting date. Fair value is determined using an accepted pricing model, for additional details see Note 21, as follows.

The cost of transactions to service providers is measured at the fair value on the date of granting, and thereafter, at the date of providing the service, it is revalued to fair value with the changes being recorded to the statement of income.

The cost of transactions settled with equity instruments is recognized in the statement of income, together with a corresponding increase in equity, over the period in which the performance conditions exist, and ends on the date on which the relevant employees and directors become entitled to the benefit (hereinafter – “the vesting period"). The cumulative expense recognized for transactions settled with equity instruments on each reporting date until the vesting date, reflects the extent to which the vesting period has expired, and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of income represents the change in cumulative expense recognized at the beginning and end of that reported period.

No expense is recognized for grants that do not ultimately vest, except for grants where vesting is dependent on market conditions, which are treated as grants which vested irrespective of whether the market conditions are met, provided that all other vesting conditions (service and/or performance) were fulfilled.

When the Company modifies the conditions of a grant settled with equity instruments, the additional expense is recognized in addition to the original expense that was calculated for any modification that increases the total fair value of the benefit granted or is otherwise beneficial to the employee or director according to the fair value on the modification date.

Cancellation of the grant settled with an equity instrument is handled as if it vested on the date of the cancellation and the expense not yet recognized for the grant is immediately recognized. Nevertheless, if the grant that was cancelled is replaced by a new grant which is designated as an alternative grant on the date on which it is granted, the cancelled grant and the new grant will both be handled as a change in the original grant as described above.

y. Earnings (loss) per share

Earnings (loss) per share are calculated by dividing the net income (loss) attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.
Potential ordinary shares are included in the computation of diluted earnings per share only if they result in diluted earnings per share from continuing operations. Potential ordinary shares that have been converted during the period are included in diluted earnings per share only until the conversion date and from that date they are included in basic earnings per share.

Note 3 – The key estimates and assumptions in preparing the financial statements

While implementing the Group's accounting policies, as described in Note 2 above, the Company’s management is required, in some cases, to exercise comprehensive accounting discretion concerning the accounting estimates and assumptions regarding the carrying amounts of assets and liabilities that are not necessarily available from other sources. The related estimates and assumptions are based on historical experience as well as other relevant factors. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly by the management. Revisions to the accounting estimates are recognized only at the period of time in which a change in the estimate was carried out, provided that the change has an impact only on that period of time or are recognized at the aforementioned period of time and in future periods of time, provided that the change has an impact on both the current period and future periods.

The following are the key assumptions made in the financial statements concerning uncertainties on the balance sheet date, and the critical estimates computed by the Group and that a significant adjustment in the estimates and assumptions is likely to change the value of the assets and liabilities in the financial statements in the consecutive reporting year:

Impairment of fixed assets

The Company examines the need to record an impairment of the carrying amount of fixed assets whenever there are indications resulting from events or changes in circumstances which indicate that the carrying amount in the financial statements is not recoverable. In cases where the carrying amount of fixed assets in the financial statements exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of the fair value less costs for sale and the value of its use. In evaluating the value of use, the expected cash flows are discounted according to the discounting rate before tax, which reflects the specific risks of every asset. For an asset that does not create independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recorded to the statement of income in accordance with the nature of the item whose value declines.

Deferred tax assets

Deferred tax assets are recognized for carry forward tax losses and deductible temporary differences not yet utilized to the extent that it is probable that future taxable income will be available against which the losses could be utilized. The management's careful consideration is required to determine the amount of deferred tax assets that can be recognized, based upon the timing, the amount of future taxable income expected, its origin and the tax planning strategies.

Note 4 – Disclosure to new IFRS during the period prior to their implementation

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

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

Note 4 – Disclosure to new IFRS during the period prior to their implementation (cont.)

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

The standard sets out a five-stage model for implementing this principal:
1. Identifying the contract (or contracts) with the customer.
2. Identifying the performance obligations in the contract.
3. Determining the transaction price.
4. Allocation of the transaction price to the performance obligation.
5. Recognizing revenue when the entity completes a performance obligation.

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

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

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

The company examines the impact of the IFRS15 its financial statements which in its opinion, not expected to be material.

b. IFRS 9 – Financial Instruments

General

International Financial Reporting Standard IFRS 9 (2014) "Financial Instruments" (hereinafter – "the standard") is the final Standard of the financial Instruments project. The Standard cancels the previous stages of IFRS 9 published in the years 2009, 2010 and 2013. The final standard includes directives for classifying and measuring financial assets which were amended regarding those published in the first stage in 2009, and, includes the directives for classifying and measuring financial liabilities as published in the second stage in 2010, it proposes a more updated model and based on principles regarding hedging accounting and presents a new model to examine a forecasted loss from an impairment in value as detailed as follows. In addition the standard cancels the interpretation of IFRIC 9 "Re-examination of embedded derivatives".

Financial assets

The standard establishes that the financial assets will be recognized and measured in the following manner:

- Debt instruments will be classified and measured after the initial recognition under one of the following alternatives: amortized cost, fair value through profit or loss or at fair value through other comprehensive income. Determining the measurement model shall be while taking into account the entity's business model regarding the management of financial assets and in accordance with the characteristics of the contractual cash flows arising from these financial assets.

- A debt instrument that according to the tests was measured at amortized cost or at fair value through other comprehensive income can be designated to fair value through profit or loss

Note 4 – Disclosure to new IFRS during the period prior to their implementation (cont.)

b. IFRS 9 – Financial Instruments (cont.)

Financial assets (cont.)

only when the designation cancels any inconsistency in the recognition and measurement that would have occurred if the asset was measured at amortized cost or at fair value through other comprehensive income.

- In general, equity instruments shall be measured at fair value through profit or loss.
- Equity instruments can be designated at the initial recognition to fair value through other comprehensive income. Instruments designated as aforesaid shall no longer be subject to examination for impairment and resulting profit or loss will not be transferred to profit or loss, including upon the realization.
- Embedded derivatives shall not be separated from a host contract covered by the standard. In lieu of this, hybrid contracts would be measured in their entirety at amortized cost or at fair value, in accordance with the business model tests and contractual cash flows.
- Debt instruments will be reclassified only when the entity changes its business model for managing financial assets.
- Investments in equity instruments without a quoted price in an active market including derivatives of these instruments shall be measured at fair value. The option to measure by cost under certain circumstances has been canceled. At the same time, the standard notes that under specific circumstances measurement by cost may be an appropriate estimate of fair value.

Financial liabilities

The standard also stipulates the following provisions concerning financial liabilities:

- The change in the fair value of a financial liability which is designated upon initial recognition at fair value through profit or loss, attributable to changes in credit risk of the liability, will be recorded directly to other comprehensive income unless it creates or increases accounting mismatch.
- When the financial liability is repaid or extinguished, amounts recorded to other comprehensive income will not be classified to profit or loss
- All derivatives, whether assets or liabilities, will be measured at fair value through profit or loss, including derivative financial instruments constituting a liability connected to an unquoted equity instrument the fair value of which cannot be measured reliably.

Impairment

The new model for impairment which is based on expected credit losses will be applied to debt instruments measured at amortized cost or at fair value through other comprehensive income, receivables in respect of lease, contract assets recognized under IFRS 15 and written obligations to provide loans and financial guarantee contracts.

The provision for impairment shall be for expected losses according to the probability of default in the following 12 months (next year), or according to the probability of default throughout the lifetime of the instrument (lifetime). Examination over the lifetime of the instrument is required if the credit risk has increased significantly from the initial recognition date of the asset. Another approach applies regarding purchased or originated credit-impaired financial assets.

Note 4 – Disclosure to new IFRS during the period prior to their implementation (cont.)

b. IFRS 9 – Financial Instruments (cont.)

Impairment (cont.)

The standard adds presentation guidelines and disclosure relating to the impairment of financial instruments.

Effective date and early adoption possibilities

This standard shall take effect for annual reporting periods beginning on January1, 2018, or thereafter. Earlier application is permitted.

In general, the standard's provisions regarding financial assets and liabilities shall be implemented retrospectively, with certain exceptions prescribed in the transitional provisions of the standard. It was also decided that despite the retroactive implementation, companies implementing the standard for the first time shall not be required to amend their comparison numbers for previous periods. Moreover, the comparison numbers can only be corrected when their correction makes no use of hindsight. Provisions referring to hedging shall be implemented, as a rule, on a prospective basis, with limited retrospective application.

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

c. IFRS 16 – Leases

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

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

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

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

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

The Company has not evaluated yet the impact of the provisions of the standard on asset lease contracts that it holds.

Note 4 – Disclosure to new IFRS during the period prior to their implementation (cont.)

d. Amendment to IAS 7 "Statement of Cash Flows" (Disclosure of Changes in Liabilities arising from Financing Activities)

The amendment states that it is required to provide disclosure of information that enables the users of the financial statements to evaluate the changes in liabilities arising from financing activities, whether changes relating to cash flows or changes not relating to cash flows.
The amendment shall be applied through prospective application for annual reporting periods beginning on January 1, 2017 or thereafter.
Early adoption is permitted. On the initial application of the amendment it is not required to present comparative information.
The Company estimates that the amendment to IAS 7 is not expected to have a material impact on the financial statements.

Note 5 - Trade receivables, net

	As at December 31,	
	2016	2015
	Dollars thousands	
Open receivables	16,736	17,000
Checks for collection	58	53
	16,794	17,053
With deduction - provision for doubtful debts	(113)	(208)
Trade receivables, net	16,681	16,845

The Company has an agreement with financial corporations in a factoring contract in respect of certain debts of its customers.
As at December 31, 2016, the total sum of debts for which a discount was carried out amounted to US 1.924 million dollars. As at December 31, 2015, a total sum of US 2.4 million dollars. The balance of trade receivable is shown net of the aforementioned amounts.

Trade receivables whose collection is in doubt are accounted for through recording a provision for doubtful debts.

The movement in the provision for doubtful debts is as follows:

	Dollars thousands
Balance as at January 1, 2015	242
Provision during the year	36
Amounts returned during the year	(41)
Recognition of written off doubtful debts	(29)
Balance as at December 31, 2015	208
Provision during the year	-
Amounts returned during the year	-
Amounts of written off doubtful debts	(95)
Balance as at December 31, 2016	113

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 5 - Trade receivables, net

The following is the analysis of the balances of trade receivables for which no impairment was recorded (provision for doubtful debts), trade receivables net, according to the period of delay in collection in relation to the reporting date:

	Trade receivables whose debts have not yet fallen due (no delay in collection)	Past due trade receivables and the delay in their collection is					
		Under 30 days	30 – 60 days	60 – 90 days	90 – 120 days	Over 120 days	Total
	Dollars thousands						
December 31, 2016	15,314	478	501	239	53	96	16,681
December 31, 2015	16,076	67	12	13	26	651	16,845

Note 6 - Other receivables

	December 31,	
	2016	2015
	Dollars thousands	
Prepaid expenses	919	862
Advances to vendors	1,093	951
Institutions	942	657
Derivatives for forward transactions	-	23
Revenues receivable	571	38
Other receivables	604	507
	4,129	3,038

Note 7 - Inventories

	December 31,	
	2016	2015
	Dollars thousands	
Raw Materials	3,338	3,714
Work in process	6,899	5,419
Finished goods	14,335	9,689
	24,572	18,822

(*) An impairment of inventory recognized as part of cost of sales amounted to 436 thousand dollars (2015 – 433 thousand dollars).

Note 8 – Fixed assets

a. Composition and movement:

The year of 2016:

	Land and buildings	Machinery and equipment (*)	Office furniture and equipment	Leasehold improve-ments	Total
	Dollars thousand				
Cost					
Balance as at January 1, 2016	3,863	125,805	2,528	7,227	139,423
Additions during the year	-	1,021	370	234	1,625
Balance as at December 31, 2016	3,863	126,862	2,898	7,461	141,048
Accumulated depreciation					
Balance as at January 1, 2016	1,674	102,495	1,927	2,940	109,036
Additions during the year	50	4,217	177	571	5,015
Balance as at December 31, 2016	1,724	106,712	2,104	3,511	114,051
Provision for impairment					
Balance as at January 1, 2016	470	2,075	124	-	2,669
Additions during the year	-	20	-	-	20
Balance as at December 31, 2016	470	2,055	124	-	2,649
Balance of amortized cost as at December 31, 2016	1,669	18,059	670	3,950	24,348

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 8 – Fixed assets (cont.)

a. Composition and movement: (cont.)

The year of 2015:

	Land and buildings	Machinery and equipment (*)	Office furniture and equipment	Leasehold improve-ments	Total
	Dollars thousand				
Cost					
Balance as at January 1, 2015	3,863	80,651	2,501	10,833	97,848
Additions during the year	-	3,551	143	263	3,957
Withdrawals	-	(3,447)	(116)	(3,869)	(7,432)
Classification of inactive assets	-	45,050	-	-	45,050
Balance as at December 31, 2015	3,863	125,805	2,528	7,227	139,423
Accumulated depreciation					
Balance as at January 1, 2015	1,626	59,579	1,934	6,210	69,349
Additions during the year	48	3,532	109	599	4,288
Withdrawals	-	(3,447)	(116)	(3,869)	(7,432)
Classification of inactive assets	-	42,831	-	-	42,831
Balance as at December 31, 2015	,1674	102, 495	1,927	2,940	109,036
Provision for impairment					
Balance as at January 1, 2015	470	2,048	124	-	2,642
Classification of inactive assets	-	45	-	-	45
Amortization during the year	-	(18)	-	-	(18)
Balance as at December 31, 2015	470	2,075	124	-	2,669
Balance of amortized cost as at December 31, 2015	1,719	21,235	477	4,287	27,718

b. Impairment of fixed assets

Due to the continuing gap between the shareholders' equity of the Company and the stock exchange value of the Company which has not been amended following the private placement which was carried out in the second quarter of 2015, the Company performed a valuation of the Company's industrial equipment by an independent external evaluator. The evaluation was performed as at September 30, 2015, at fair values less cost of sale in accordance with the provisions of IAS 36. On the basis of the valuation, it was determined that there is no need to change the carrying amount of the fixed assets in the Company's books.

c. Regarding liens see Note 19d.

Note 8 – Fixed assets (cont.)

a. Inactive assets

On March 3, 2011 the Company decided to discontinue the production in the Cut & Sew field in Israel. This decision was due to the decline in the levels of production in Israel of this field until reaching minor production at the end of 2010. The Company took a decision to realize the production assets and started a process of locating a potential buyer. Accordingly the Company reclassified the machines used in these operations from the fixed assets item to current assets held for sale item. Since a long period of time has passed and the Company was successful in a partial realization of those assets, the Company reclassified in 2012 the rest of the assets that were yet to be realized, to the non-current assets item. This was done based on an evaluation of an independent qualified evaluator who evaluated the value of the equipment as at that day. Accordingly the Company recorded in 2012 an impairment loss in the amount of US 33 thousand dollars.

As of the first quarter of 2013 the equipment is treated as inactive fixed assets and is amortized on a regular basis. As at September 30, 2015, the Company classified the inactive assets as fixed assets due to the fact they have been put into use in the production process.

e. Purchase of fixed assets on credit

In 2016 the Company did not purchase fixed assets on credit. In 2015 the Company purchased fixed assets on credit on the sum of US 2,750 thousand dollars in credit for the automation machines that have been purchased is for a period of three years and nine months, therefore as of March 31, 2016 till September 30, 2018 the principal will be repaid and interest shall be paid.
In 2014 the Company purchased fixed assets on credit on the sum of US 1,346 thousand dollars. The credit for the automation machines that have been purchased is for a period of four years, so over this period the principal will be repaid and interest shall be paid.

Note 9 - Other assets

a. Goodwill and intangible assets

The year of 2016

	List of customers	Goodwill	Total
	Dollars thousand		
Cost			
Balance as at January 1, 2016	2,037	49	2,086
Additions during the year	-	-	-
Balance as at December 31, 2016	2,037	49	2,086
Accumulated amortization			
Balance as at January 1, 2016	1,782	-	1,782
Amortization recognized during the year	91	-	91
Balance as at December 31, 2016	1,873	-	1,873
Amortized balance as at December 31, 2016	164	49	213

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 9 - Other assets (cont.)

a. Goodwill and intangible assets (cont.)

The year of 2015

	List of customers	Goodwill	Total
	Dollars thousand		
Cost			
Balance as at January 1, 2015	2,037	49	2,086
Additions during the year	-	-	-
Balance as at December 31, 2015	2,037	49	2,037
Accumulated amortization			
Balance as at January 1, 2015	1,587	-	1,587
Amortization recognized during the year	195	-	195
Balance as at December 31, 2015	1,782	-	1,782
Amortized balance as at December 31, 2015	255	49	304

The list of customers and goodwill were bought through business combinations. The customer list is amortized over a period of 8 years.

b. Computer software

The year of 2016

	Computer software
	Dollars thousand
Cost	
Balance as at January 1, 2016	3,144
Additions during the year	267
Balance as at December 31, 2016	3,411
Accumulated amortization	
Balance as at January 1, 2016	1,837
Amortization recognized during the year	171
Balance as at December 31, 2016	2,044
Amortized balance as at December 31, 2016	1,367

Note 9 - Other assets (cont.)

b. Computer software (cont.)

The year of 2015

	Computer software
	Dollars thousand
Cost	
Balance as at January 1, 2015	2,257
Additions during the year	887
Balance as at December 31, 2015	3,144
Accumulated amortization	
Balance as at January 1, 2015	1,708
Amortization recognized during the year	165
Balance as at December 31, 2015	1,873
Amortized balance as at December 31, 2015	1,271

Note 10 - Credit from banks

a. Composition

	In NIS	Unlinked	Total
	Dollars thousands		
December 31, 2016			
Short-term credit from banks	876	12,630	13,506
Current maturities of long-term loans	-	1,650	1,650
	876	14,280	15,156
December 31, 2015			
Short-term credit from banks	123	9,627	9,750
Current maturities of long-term loans	-	1,650	1,650
	123	11,277	11,400

b. Regarding collateral and liens see Note 19d, as follows.

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 11 - Trade payables

	As at December 31	
	2016	2015
	Dollars thousands	
Open accounts	17,341	14,357
Notes payable	557	112
	17,898	14,469

Note 12 - Other payables

	As at December 31	
	2016	2015
	Dollars thousands	
Liability to employees and other liabilities for wages and salaries	1,840	2,119
Accrued expenses	337	73
Institutions	369	120
	2,546	2,312

Note 13 - Long-term loans from banks and vendors

a. Composition:

As at December 31, 2016

	Nominal rate of interest	Balance	Balance less current maturities
	%	Dollars thousands	
Loans from banks	Libor + 5-3.9	12,476	10,826

As at December 31, 2015

	Nominal rate of interest	Balance	Balance less current maturities
	%	Dollars thousands	
Loans from banks	Libor + 5-3.9	14,091	12,441

b. Agreement with the banks regarding the reorganization of the credit lines

On March 2, 2010, the Company signed an agreement with its financing banks which included a reorganization of credit financing that the banks provide for the Company. The Company has adopted the provisions of IAS 39 (while examining the quantitative and qualitative criteria) and handled the new arrangement as an insignificant change in conditions. The agreement was amended on December 24, 2010, on December 27, 2011, on March 27, 2014 and on May 18, 2015 (hereinafter jointly: the "agreement").

Note 13 - Long-term loans from banks and vendors (cont.)

b. Agreement with the banks regarding the reorganization of the credit lines (cont.)

The following is a summary of the main provisions of the signed agreement and the amendments thereto:

1. The long term credit line which was provided for the Company was divided into loans and credit lines as follows:

1.1 Long-term loans

The outstanding balance of the long-term loans from the banks on a total sum of 16 million dollars, as at January 1, 2015, was refinanced as a new loan for a period of eight years, when the principal of the loan will be repaid as follows: a sum of 1.7 million dollars was repaid in 2015, 1.65 million dollars will be repaid on each year as of 2016 till 2022 (inclusive) and a sum of 2.75 million dollars will be repaid in the first quarter of 2023.
The interest on the loans which shall be variable interest was determined with each of the banks and it will be paid quarterly.
It was determined in the agreement that in any event in which the Company will decide to sell an asset, not in the normal course of business, then the full net proceeds of the sale of the asset will serve for the purpose of early repayment

1.2 Short-term credit lines

On June 11, 2015, the short-term credit lines were increased from a sum of US 9.75 million dollars to a sum of US 11.75 million dollars (hereinafter: the “base limit”). 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. On each quarter an examination of the Company’s sales on a cumulative basis in the last four quarters will be carried out. As 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. In practice, as at February 1, 2016, the credit lines is USD 14.75 million, which constitutes the maximum credit limit under the agreement, in view of the reduction made during 2016 pursuant to the provisions of 4.1 in this note below.

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. As at December 31, 2016, the short-term credit line with the banks was approximately 14.75 million dollars. Out of the total credit lines the Company utilized, as at December 31, 2016, through loans and short-term credit lines, a sum of 14.7 million dollars. In addition to the aforesaid, the Company has long-term loans from banks on the sum of 12.6 million dollars. The Company is in compliance with all the repayments of the aforementioned loans.

It should be noted that in accordance with the agreement with the banks, there is a mechanism for increasing the short-term credit line as detailed in Note 13b1.2 to the consolidated financial statements as at December 31, 2016, according to which the short-term credit line can be increased to a sum of up to US 15.25 million dollars.

Note 13 - Long-term loans from banks and vendors (cont.)

b. Agreement with the banks regarding the reorganization of the credit lines (cont.)

2. Factoring

In accordance with the agreement, the Company may carry out factoring transactions (liens and/or sale of customers' notes in favor of third parties to provide financing) whose total amount shall not exceed 4.5 million dollars and this provided that the short-term credit lines remain in effect.

3. Options to banks

In accordance with the provisions of the amendment to the agreement dated March 27, 2014, the Company issued to the banks, free of charge, a total of 300,000 option warrants, non-tradable and non-transferable, exercisable into ordinary shares of the Company of NIS 10 par value each, in accordance with the cashless mechanism against payment of an exercise price of US 2.5 dollars per share. The options shall be exercisable (in whole or in part) until December 31, 2019. On September 9, 2015, and in accordance with the provisions of the amendment to the financing agreement, the Company issued an amendment to the allocation letters that were given to the banks and according to which the terms of the options were amended in such a way that the exercise price of each option shall be US 1.43 dollars (instead of US 2.5 dollars), and the options shall be exercisable until March 31, 2023 (instead of December 31, 2019).

Furthermore, the terms of the options stipulate that in any case in which during the exercise period the Company's share price on the Tel Aviv Stock Exchange Ltd. shall be higher than an amount equal to US 3 dollars, the Company may require the banks to exercise the options and the banks are committed to do so immediately. For details, see Note 16 below.
It should be noted that according to the provisions of the agreement and its previous amendments, the Company issued to the banks, without charge, a total of 300,000 option warrants, which as at this date have expired, exercisable into 300,000 ordinary shares of the Company of NIS 10 par value each (1) 200,000 options allocated to the banks on October 11, 2011, expired on July 9, 2014, simultaneously with the grant of the new option warrants, (2) 100,000 option warrants which were allocated to the banks on August 17, 2010, which expired after 48 months passed and in accordance with the terms of the grant.

4. Financial covenants

The following are the financial covenants (which will be calculated according to the quarterly and annual financial reports (consolidated), audited or reviewed by the Company), as set out in the agreement.
The breach of each of the undertakings detailed as follows shall be considered as a breach of the financial ratios.
The banks may inform of a change in the financial covenants in the event of a change in accounting standards, and this without requiring the Company's consent.

4.1 The rate of tangible shareholders' equity of the total balance sheet will not be less than 30% at any given time; however, in any case, the tangible shareholders' will not be less than US 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 US 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 1.2(a)(b) above), in an amount equal to the difference between the sum of the tangible shareholders’ equity and a sum of US 27.5 million.

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 13 - Long-term loans from banks and vendors (cont.)

b. Agreement with the banks regarding the reorganization of the credit lines (cont.)

"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 its 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 who are interested parties in the Company and/or its subsidiaries and/or related companies (as those are defined in the Securities Law- 1968).

4.2 The Company's balances of trade receivables, in accordance with the financial statements shall not be less at any given time than a sum of US 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 1.2 above).

4.3 The 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 US 32 million dollars plus an amount equal to the sum of the credit limit increase beyond the "base limit" (see Clause 1.2 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 US 27.5 million dollars, as stated in Sub-clause 4.1 above.

4.4. The ratio between the Company's total debts and liabilities to the banks and other financial organizations and the Company's annual EBITDA according to the consolidated annual statements:

a) In 2013 – will not exceed 7.5
b) As of 2014 until 2017 (inclusive) – will not exceed 6.5.
c) As of 2018 and thereafter – will not exceed 5.5.

4.5 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.

The breach of each of the undertakings to maintain the financial ratios detailed above (hereinafter: "the financial ratios"), will be considered as a breach of the financial ratios.

5. Additional provisions:

In addition to the detailed above, the Company has undertaken, amongst other things, the following additional obligations:

a. As long as the bank credit has not been repaid, the Company will not pay and not commit to pay dividends to its shareholders without receiving the written consent of the banks in advance;

b. No change shall be executed regarding the control of the Company in regards with the control structure, as it was upon the completion of the private placement (as detailed in Note 20a as follows), and this without receiving the agreement of the banks in advance and in writing. Despite the aforementioned, a cumulative change whereas the holdings of the controlling shareholders as at the closing date, which shall not be less, at any given

Note 13 - Long-term loans from banks and vendors (cont.)

b. Agreement with the banks regarding the reorganization of the credit lines (cont.)

5. Additional provisions:

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;

c. Not to hold subsidiaries or other related companies, unless those companies shall sign a letter of commitment to the banks, unless the consent of the banks is granted.

d. Unless the banks grant their consent, Tefron Group shall not carry out investments in fixed assets, exceeding the sums detailed as follows, on a cumulative basis:

1. The investment amount invested in the Company in shareholders' equity in accordance with the private placement as detailed in Note 20b.

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), an additional sum of 50% of the current maturities of the payments to the banks (principal and interest) of the consecutive year, shall be deducted each year of the said aggregate balance.

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

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

As at December 31, 2016, the Company met the financial covenants that were determined in the amendment to the agreement with the banks.

Note 14 - Financial instruments

a. Classification of financial assets and financial liabilities

The financial assets and financial liabilities in the balance sheet are classified by groups of financial instruments pursuant to IAS 39, as follows:

	As at December 31,	
	2016	**2015**
	Dollars thousands	
Financial assets		
Financial assets measured at amortized cost:		
Trade receivables	16,681	16,845
Loans and receivables	1,175	2,359
Total financial assets measured at amortized cost	17,856	19,204
Financial assets at fair value through the statement of income:		
Derivatives for hedging transactions	-	23
Total financial assets at fair value through the statement of income	-	23
Total current financial assets	17,856	19,227
Financial liabilities		
Financial liabilities measured at amortized cost:		
Loans and short-term credit from banks	25,982	23,842
Trade payables	17,898	16,642
Payables	2,546	1,935
Total financial liabilities measured at amortized cost	46,426	42,419
Financial liabilities at fair value through statement of income:		
Liabilities for bank options	95	104
Total financial liabilities at fair value through the statement of income	95	104
Total financial liabilities	46,521	42,523
Total current financial liabilities	34,557	27,804
Total non-current financial liabilities	11,964	14,719

Note 14 - Financial instruments (cont.)

b. Financial risk factors

The Group's activities expose it to various financial risks such as market risks (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible negative effects on the Group's financial performance. The Group utilizes derivative financial instruments in order to hedge certain exposures to risks.

The Board discusses the overall risk management principles, including the specific policy for certain risks such as foreign exchange risk, interest rate risk, credit risk and liquidity risk, and the use of derivative financial instruments and non-derivative financial instruments.

1. Foreign currency risk

The Group operates in a large number of countries and is exposed to foreign currency risk resulting from the exposure to different currencies, mainly the NIS and the Euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities denominated in a different currency from the functional and the reporting currency (US Dollar) of the Company. The finance department is responsible for managing the net position of each foreign currency by the use of forward contracts and currency options, according to the Company's hedging policy. In general, the management's policy is to hedge the forecasted payroll expenses denominated in NIS, payments in NIS to vendors and payments in Euro to vendors. The hedging level is examined each period, according to the market conditions and the Company's ability to provide collateral for hedging transactions. In 2016 there no hedging transactions were carried out due to working capital limitation.

2. Credit risk

The Group has no significant concentrations of credit risk. The Group has a policy to ensure the sales of its products are carried out to customers with an appropriate credit history

Credit risk may arise from the exposure of holding several financial instruments with a single entity or from entering into transactions with several groups of debtors with similar economic characteristics whose ability to discharge their obligations will likely be similarly affected by changes in economic or other conditions. Factors that have the potential of creating concentrations of risks consist of the nature of the debtors' activities, such as their business sector, the geographical area of their operations and the level of their financial strength.

Terms of sale to customers

Management of customer credit risk is managed in accordance with the policy, procedures and controls of the Company with respect to the management of customer credit risk. The evaluation of the credit quality of a customer is based on performance analysis and credit rating of each customer, according to which credit terms are determined for each specific customer. Outstanding customer balances that have yet to be repaid are reviewed regularly and shipments to major customers are usually covered by credit insurance. It shall be noted that the sales to a material customer that are carried out through an interested party, are not insured.

The Company's revenues are mainly from customers in the USA and Canada. The Group follows trade receivable debts on a regular basis, and the financial statements include provisions for doubtful debts which properly reflect, in the Company's opinion, the loss inherent in the debts whose collection is in doubt.

Note 14 - Financial instruments (cont.)

b. Financial risk factors (cont.)

3. Interest risk

The Group is exposed to the risk of changes in market interest rates resulting from short-term and long-term loans that were received which bear adjustable interest rate (the loans are linked to the Libor and Prime base interest rate).

4. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities on due dates. The responsibility for managing liquidity risk is handled by the Company's management which carries out a plan of managing financial and liquidity risks for the short, medium and long terms according to the Company's needs. The Company manages the liquidity risk by carrying out current financial forecasts.

The Company holds cash and other financial instruments with various financial institutions in Israel and in additional countries in which the Group operates. The Group's policy as a borrower of credit is an action that is subject to the limitations of the financing agreement with the banks.

As at December 31, 2016 the cash balance amounted to US 1,354 thousand dollars.

The table below presents the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

As at December 31, 2016

	Up to one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	Dollars thousands						
Loans from banks	15,156	1,622	1,619	1,622	1,613	4,350	25,982
Trade payables	17,836	1,043	-	-	-	-	18,879
Other payables	4,809	-	-	-	-	-	4,809
	37,801	2,665	1,619	1,622	1,613	4,350	49,670

As at December 31, 2015

	Up to one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	Dollars thousands						
Loans from banks	11,400	1,624	1,621	1,624	1,627	5,946	23,842
Trade payables	14,469	1,194	979	-	-	-	16,642
Other payables	1,935	-	-	-	-	-	1,935
	27,804	2,818	2,600	1,624	1,627	5,946	42,419

c. Fair Value

The carrying amount of cash, trade receivables, other receivables, short-term and long-term bank credit, short-term and long-term trade payables and other payables matches or approximates their fair value.

Note 14 - Financial instruments (cont.)

d. Classification of financial instruments by fair value levels:

The financial instruments presented in the balance sheet at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring the fair value:

Level 1 - Quoted prices (unadjusted) in active market for identical assets or liabilities.

Level 2 - Data other than quoted prices included within Level 1 that is observable either directly or indirectly.

Level 3 - Data that is not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

December 31, 2016

	Level 2
	Dollars thousand
Liabilities for bank options	(95)
Derivatives for hedging transactions (options)	-
Total	(95)

December 31, 2015

	Level 2
	Dollars thousand
Liabilities for bank options	(104)
Derivatives for hedging transactions (options)	23
Total	(81)

.

Note 14 - Financial instruments (cont.)

e. Cash flow hedging

Changes in interest rates for financial liabilities as at December 31 would have increased (decreased) the shareholders' equity and the profit or loss by the following amounts. This analysis assumes that all other variables are constant and ignores tax effects.

	Sensitivity test to changes in interest rates	
	Profit (loss) from change	
Changes	**10% increase in interest**	**10% decrease in interest**
	Dollars thousands	
2016	(130)	130
2015	(27)	27

f. Foreign currency risk

Foreign currency risk is the risk that fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.
As at December 31, 2016, the Company has surplus of financial liabilities in NIS over financial assets in the amount of US 2,500 thousand dollars (as at December 31, 2015 – US 4,913 thousand dollars).

Changes in Dollar - NIS exchange rates as at December 31 would have increased (decreased) the shareholders' equity and profit or loss by the following amounts. This analysis assumes that all other variables are constant and ignores tax effects.

	Sensitivity test to changes in NIS exchange rates	
	Profit (loss) from change	
	10% increase in exchange rate	**10% decrease in exchange rate**
	Dollars thousands	
2016	250	(250)
2015	404	(404)

Changes in Dollar - NIS exchange rates as at December 31 would have increased (decreased) the shareholders' equity and profit or loss by the following amounts. This analysis assumes that all other variables are constant and ignores tax effects.

	Profit (loss) from change	
	10% increase in market factor	**10% decrease in market factor**
Foreign currency	**Dollars thousands**	
US dollar		
2016 - for option transactions	-	-
2015 - for option transactions	42	577

Note 14 - Financial instruments (cont.)

f. Foreign currency risk (cont.)

Sensitivity tests and principal work assumptions:

The selected changes in the relevant risk variables were determined based on the management's estimates as to reasonably possible changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or reported financial condition. The sensitivity tests present the profit or loss and/or change in shareholders' equity (before tax), in respect of each financial instrument for the relevant risk variable chosen for that instrument as at each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

The sensitivity test for long-term loans with variable interest was performed on the variable component of interest.

Note 15 - Liability for options to banks

On July 9, 2014 the Company issued 300,000 cashless option warrants to the lending banks exercisable into 300,000 shares, in accordance with the provisions of the amended re-organization of the credit lines agreement with the financing banks dated March 27, 2014. These options replace two series of 100,000 and 200,000 cashless option warrants which were allocated in March 2010 and December 2010, respectively.
On September 9, 2015, and in accordance with the provisions of the amended financing agreement as at May 18, 2015, the Company issued to the banks an amendment to the allocation letters that were granted to them, according to which the terms of the options were changed, in such a manner that the exercise price of each option shall be US 1.43 dollars (instead of US 2.5 dollars) and the exercise period of each option shall be until March 31, 2023 (instead of December 31, 2019).
The value of the benefits inherent in granting these options amounted to US 95 thousand dollars as at December 31, 2016, and was recorded as a liability for options to banks, against the recording of financial expenses. This liability is measured periodically, according to the option evaluation model. In 2016, the Company recorded financial expenses of US 9 thousand dollars as a result of the revaluation of the liability for the banks' options (2015 - financial expenses on the sum of US 83 thousand dollars).

Note 16 - Assets and liabilities for employee benefits

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits

According to the Labor Laws and Severance Pay Law in Israel, the Company is required to pay severance pay to an employee upon dismissal or retirement or to make current contributions to defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below. The Company's liability for the aforementioned is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is carried out in accordance with a valid employment contract and based on the employee's salary and term of service of the employment which establish the entitlement to receive the severance pay.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans, as detailed below.

Note 16 - Assets and liabilities for employee benefits (cont.)

Post-employment benefits (cont.)

1. Defined contribution plans

The provisions of Section 14 of the Severance Pay Law, 1963, apply to part of the severance pay payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies, release the Group from any additional liability to employees for whom such contributions were made as aforementioned. These contributions as well as contributions for compensation represent defined contribution plans.

	For the year ended December 31		
	2016	**2015**	**2014**
	Dollars thousands		
Expenses in respect of defined contribution plans	471	494	575

2. Defined benefit plans

The Group accounts for that part of the payment of compensation that is not covered by contributions to defined contribution plans, as aforementioned, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group contributes amounts in central severance pay funds and in qualifying insurance policies.

Note 16 - Assets and liabilities for employee benefits (cont.)

Post-employment benefits (cont.)

2. Defined benefit plans (cont.)

a. Changes in the defined benefit plan’s liabilities and in fair value of the plan’s assets

The year of 2016

		Expenses recorded in the statements of income					Loss due to remeasurement in other comprehensive income							
	Balance as at January 1,	Cost of current service	Interest expenses net	Cost of past service and effect of clearing	Total expenses recognized in statement of income in the period	Payments from the plan	Return on plan’s assets (excluding amounts recognized in interest expenses, net)	Actuarial loss due to changes in demographic assumptions	Actuarial loss due to changes in financial assumptions	Actuarial loss due to experience deviations	Total effect on other compreh-ensive income in the period	Effect of changes in the exchange rate of foreign currency	Contributions deposited by the employer	Balance as oat December 31, 2016
Liabilities for defined benefit	953	64	29	-	(93)	116	-	-	(4)	27	23	(2)	-	951
Fair value of plan’s assets	(191)	-	(4)	-	(4)	(36)	5	-	-	-	5	2	(2)	(154)
Liability (asset) net for defined benefit	762	64	25	-	89	80	5	-	(4)	27	28	-	(2)	797

The year of 2015

		Expenses recorded in the statements of income					Loss due to remeasurement in other comprehensive income							
	Balance as at January 1,	Cost of current service	Interest expenses net	Cost of past service and effect of clearing	Total expenses recognized in statements of income in the period	Payments from the plan	Return on plan’s assets (excluding amounts recognized in interest expenses, net)	Actuarial loss due to changes in demographic assumptions	Actuarial loss due to changes in financial assumptions	Actuarial loss due to experience deviations	Total effect on other compreh-ensive income in the period	Effect of changes in the rate exchange of foreign currency	Contributions deposited by the employer	Balance as of December 31, 2015
Liabilities for defined benefit	1,008	51	36	(90)	(3)	166	-	46	70	2	118	(4)	-	953
Fair value of plan’s assets	(225)	-	(5)	-	(5)	(39)	5	-	-	-	5	1	(7)	(191)
Liability (asset) net for defined benefit	783	51	31	(90)	(8)	127	5	46	70	2	123	(3)	(7)	762

Note 16 - Assets and liabilities for employee benefits (cont.)

Post-employment benefits (cont.)

2. Defined benefit plans (cont.)

b. Principal assumptions used in determining the defined benefit plan

	2016	2015
	%	%
Discount rate (1)	4.2%	4.1%
Expected salary increase rate	2%	2%

(1) The discount rate is based on index-linked high quality corporate bonds.

c. Amounts, timing and uncertainties of future cash flows

The following are possible changes which are considered reasonable for the end of the reporting period, for each actuarial assumption, assuming that the remaining actuarial assumptions remained unchanged:

	The change in the defined benefit obligation
	Dollars thousand
As at December 31, 2016:	
Sensitivity test to changes in expected salary increase rate	
The change as a result of:	
Salary increase of 1%	80
Salary decrease of 1%	(68)
Sensitivity test to changes in the discount rate of the plan’s liabilities and assets	
The change as a result of:	
1% increase of the discount rate	(67)
1% decrease of the discount rate	79

Note 17 - Taxes on income

a. Tax laws applicable to the Group’s companies

The Company is subject to provisions of Income Tax Regulations (Rules for Bookkeeping by Foreign Investment Companies and Certain Partnerships and Determination of Taxable Income), 1986. In accordance with the aforementioned regulations, the Company files its income tax returns in US dollars.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68)

In December 2010, the Knesset passed the Law for the Economic Policy for 2011 and 2012 (Legislative Amendments), 2011, which sets forth, *inter alia*, amendments to the Law for the Encouragement of Capital Investments, 1959 (hereinafter: "the law"). The implementation thereof is effective as of January 1, 2011. The amendment changes the benefit tracks in the law and applies a uniform tax rate on all of the Company's preferred income which will be considered as a beneficiary enterprise with a beneficiary plant. As of the 2011 tax year, the Company is entitled to choose, (without the possibility to change

Note 17 - Taxes on income (cont.)

a. Tax laws applicable to the Group's companies (cont.)

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68) (cont.)

its choice), whether to have the amendment apply to it, and as of that tax year for which the choice was made, the amended tax rates will apply. According to the amendment to the Law, the tax rates of the companies whose plants are located in development area A are as follows: in 2011 and 2012 – 10%, and in 2013 - 7%.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71)

In August 2013 the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments (hereinafter: "the amendment") was issued. According to the amendment, the tax rate on preferred income from preferred enterprise in development area A for the years 2014 and thereafter is 9%.

Furthermore, the amendment states that any dividends distributed to an individual or a foreign resident from the preferred enterprise's earnings, as aforesaid, will be subject to a tax rate of 20%.

Hi-Tex founded by Tefron Ltd. (hereinafter: "Hi-Tex"), a subsidiary of the Company- In 2013 Hi-Tex chose to apply provisions of the Law of Encouragement as stipulated pursuant to amendment 68 ("preferred enterprise").

Macro Clothing Ltd. (hereinafter: "Macro"), a subsidiary of the Company- Macro chose the year of 2005 as the elective year under the alternative track, pursuant to the provisions of Section 51d of the Law for the Encouragement of Capital Investments, 1959. The Company informed the Assessing Officer of its choice in its letter dated December 27, 2006.

The Law for the Encouragement of Industry (Taxes), 1969

Hi-Tex founded by Tefron Ltd. operates in Israel as "an industrial company" in conformity with the aforementioned Law. By virtue of the above status and the regulations that were published, it is entitled to claim increased rates of depreciation for equipment used during industrial operations, as was determined in the regulations of the Adjustments Law. Furthermore, the Company is entitled to a reduction for a patent or a right to use a patent or knowledge which are used for the plant's development or promotion, and to a deduction, in three equal annual rates as of that year, of expenses for issue of shares listed on the Stock Exchange.

b. Tax rates applicable to the Group:

The rate of corporate tax in Israel in 2012 and 2013 was 25%. In the framework of the Law for the Change of National Priorities and the Legislative Amendments for Achieving the Budgetary Goals for 2013-2014, which was published on August 5, 2013 (see sub-clause a above), it was determined, *inter alia*, to raise the corporate income tax from 25% to 26.5% as of 2014 and thereafter.
In the beginning of January 2016, the Law for the Amendment of the Israeli Tax Ordinance was published, according to which the corporate income tax rate will be reduced to 25% (instead of 26.5%). The new corporate income tax rate will apply to income that was generated or accrued as of January 1, 2016, and as of January 2017 the corporate income tax rate will be 24% and during 2018 it be decreased to 23%.
The tax rate on a subsidiary in the United States is 34%.
The tax rate on a subsidiary in Canada is 28.4%.

Note 17 - Taxes on income (cont.)

b. Tax rates applicable to the Group: (cont.)

El-Masira is incorporated in the Free Trade Zone in Jordan, and is taxed according to tax laws applicable in Jordan; the statutory tax rate in the Free Trade Zone in Jordan, for the industry in which the Group is engaged is 0%.

c. Final tax assessments

The Company has final tax assessments up to and including the tax year of 2015, its subsidiary Hi-Tex and the company Tefron-Macro which operate in Israel, have final tax assessments up to and including the tax year of 2011. The main subsidiary operating outside Israel has final tax assessments until the tax year of 2012.

d. Carry- forward losses for tax purposes and other temporary differences

Tefron and Hi-Tex have carry-forward losses for tax purposes amounting to, as at December 31, 2016 a sum of US 4,158 thousand dollars and 37,166 thousand dollars respectively, which may be used over an unlimited period of time. In respect of these balances and other deductible temporary differences, the Company recorded in its financial statements deferred tax assets on the sum of US 1,352 thousand dollars (due to their expected utilization as a result of the expected profit forecast for the next years and of the reserves for deferred taxes on the sum of US 4,182 thousand dollars, mainly for fixed assets, and the expectation of realizing them against taxable income). Another subsidiary Tefron-Macro has carry-forward losses in the sum of US 7,980 thousand dollars, for which no deferred taxes have been accumulated, in the absence of any expected utilization thereof in the foreseeable future. Another subsidiary listed in the United States, Tefron USA has carry-forward losses for tax purposes in the sum of US 6,138 thousand dollars for which no deferred taxes have been accumulated. The utilization of carry-forward losses of Tefron USA is subject to restrictions as to the period in which it will be possible to utilize the losses in the future and as to the amount the Company could utilize each year.

e. Deferred taxes

Composition:

	Balance sheets		Statements of income		
	December 31		The year ended December 31		
	2016	2015	2016	2015	2014
	Dollars thousands				
Deferred tax liabilities					
Fixed assets	(4,182)	(1,749)	(2,433)	91	220
	(4,182)	(1,749)			
Deferred tax assets					
Carry-forward losses for tax purposes	6,836	4,860	1,976	(94)	253
Provision for doubtful accounts	16	16	-	-	(9)
Employee benefits	220	103	117	3	(35)
	7,072	4,979			
Deferred tax income (expenses)			(340)	-	429
Deferred tax assets, net	2,890	3,230			

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 17 - Taxes on income (cont.)

e. Deferred taxes (cont.)

Deferred taxes are presented in the balance sheet as follows:

	December 31	
	2016	2015
	Dollars thousands	
Non-current assets	2,890	3,230

Taxes on income relating to other comprehensive income items

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
Profit (Loss) from investment in securities available for sale	-	(35)	36

f. Tax to be paid (tax benefit) included in statement of income

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
Taxes on previous years	442	-	-
Deferred taxes	340	-	(429)
	782	-	(429)

The Company does not intend to distribute dividends resulting from its industrial plant in a manner which would create an additional tax liability.

Note 17 - Taxes on income (cont.)

g. Theoretical tax

The reconciliation between the theoretical tax rate that would have applied assuming that all the income and expenses, gains and losses in the statement of income were taxed at the statutory tax rate, and the taxes on income recorded in the statement of income, is as follows:

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
Loss before taxes on income	(339)	(3,908)	(1,229)
Statutory tax rate	25%	26.5%	26.5%
Tax benefit computed at the statutory tax rate	(85)	(1,036)	(326)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses for tax purposes	25	38	145
Temporary differences for which no deferred taxes were recorded	(1,204)	59	(835)
Income subject to special tax rates	1,173	921	558
Adjustments to previous years tax	442	-	-
Adjustments to deferred tax balances due to changes in tax rates	397	-	-
Others	34	17	29
Tax benefit/ (expenses)	782	-	(429)

Note 18 - Long-term payables

	December 31	
	2016	2015
	Dollars thousands	
Vendor credit – purchase of fixed assets (1)	1,043	2,173
	1,043	2,173

(1) For additional details see Note 8e above.

Note 19 - Contingent liabilities, commitments and liens

a. Contingent liabilities

1. In accordance to the Law for the Encouragement of Capital Investments, 1959, the Company and its subsidiary received in the past grants from the State of Israel according to their investments in enterprises. The receiving of the grants is conditional on implementing all of the conditions in the application for an approved enterprise status and furthermore on the fact that at least 30% of the investments will be financed by outstanding share capital. Lack of implementing the conditions in such application will result in the return of the grants with an addition of interest and linkage differences as of the date of their grant.

Note 19 - Contingent liabilities, commitments and liens (cont.)

a. Contingent liabilities (cont.)

In the opinion of the Company's management and its subsidiary, they meet the conditions regarding receiving the grant. In order to fulfill the conditions related to receiving the investment grants, the Company and its subsidiaries recorded floating charges on all their assets, in favor of the State of Israel. The Company intends to take action in order to remove these liens.

2. Legal proceedings

On November 23, 2016, the Company reported that an indictment was submitted to the Labor Court against the Company's subsidiary, the Company's former CEO and a former employee of the subsidiary, claiming that the defendants have violated the workplace safety regulations in connection with a work accident, which occurred at the subsidiary in 2013. At this stage the Company is studying the indictment.

b. Commitments

1. Engagement in an agreement for strategic cooperation in China

On November 12, 2014, the Company entered into an agreement with a company incorporated in China, who operates in the apparel field of seamless technology and serves as a subcontractor of the Company in China, for the purpose of strategic cooperation in China in the field of production and development of seamless apparel, the core business of the Company (hereinafter: "the cooperation", "the agreement"). It should be noted that the Company is using several subcontractors in China on a regular basis. However, the purpose of this cooperation, as opposed to the operations with other subcontractors in China, is to allow the subcontractor with whom the Company entered into the said agreement, to produce products in the field of seamless products, using technology, that to the best knowledge of the Company, currently does not exist in China, and which the Company intends to teach the subcontractor while using means of protection against the usage of this technology by the subcontractor in favor of third parties. The purpose of the subcontractor's usage of the said technology is to provide a marketing advantage for the Company with its customers who are interested in products made by this technology in China.

2. Engagement in a joint venture agreement with Clover Group International Limited

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 products using the seamless technology, and in conjunction with the knowledge and experience of Clover which is considered to be a leading company in

Note 19 - Contingent liabilities, commitments and liens (cont.)

b. Commitments (cont.)

2. Engagement in a joint venture agreement with Clover Group International Limited (cont.)

the field of developing and manufacturing of bras, the parties will operate to establish a jointly owned company, in equal shares, in Hong Kong, whose main goal is designing, developing, manufacturing and selling bras produced by means of the seamless technology as well as other apparel products produced by means of 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 disagreement 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.

During the month of July 2014, upon receiving the approval of the Company's Board and Clover's Board of Directors regarding the engagement in an agreement, all of the conditions precedent set out in the agreement have been satisfied.

3. Engagement in a consultation and development agreement with Professor Bodo W. Lambertz (hereinafter: "the consultant"), and an essential private placement to the consultant

On September 27, 2012, the Company's Board of Directors approved the engagement of the Company with Professor Bodo W. Lambertz, an expert in developing textile products and their promotion in the market, especially in the activewear field (hereinafter in this clause "the consultant"). In the framework of this agreement the consultant would provide the Company with professional and business consulting services, as well as granting it a license to his developments in the field of textile and apparel as detailed as follows (hereinafter in this clause: "the consultation and development agreement"), as detailed as follows. In the framework of the agreement, amongst else, the Company will allocate the consultant 400,000 ordinary shares of the Company of NIS 10 par value each, and this in accordance with the milestones, as detailed as follows:

The first series of 65,000 shares once the Company's Board approves the agreement, which was allocated to the consultant on May 21, 2013.

A second series of 100,000 shares once reaching the net sales objective of licensed products (as detailed as follows) on the sum of US 2,000,000 dollars within 18 months as of the day of signing the agreement, which was allocated to the consultant on January 20, 2014. See details regarding the amendment of the second series terms.

A third series of 100,000 shares once reaching the net sales objective of licensed products (as detailed in Clause 21a as follows) on the sum of US 4,000,000 dollars within 30 months as of the day of signing the agreement. On March 20, 2015, this right expired. Upon the expiration of this right the offeree is no longer an "interested party".

Note 19 - Contingent liabilities, commitments and liens (cont.)

b. Commitments (cont.)

3. Engagement in a consultation and development agreement with Professor Bodo W. Lambertz (hereinafter: "the consultant"), and an essential private placement to the consultant (cont.)

A fourth series of 135,000 shares once reaching the net sales objective of licensed products (as detailed as follows) on the sum of US 6,000,000 dollars within 42 months as of the day of signing the agreement. On March 20, 2016, this right expired.

On May 21, 2013, the Company allocated 65,000 ordinary shares of NIS 10 par value each to the consultant, and granted him 335,000 share rights, the exercise of which is subject to meeting the objectives (hereinafter: "the rights to shares"), as determined by the parties.

On December 17, 2013, the parties agreed to amend the consultation and development agreement so the second series shall not be subject to meeting the net sales objective of licensed products, and shall be executed no later than 18 months as of the date of signing the consultation and development agreement (hence, until March 20, 2014); therefore, on January 20, 2014, and upon receiving the approval of the Company's Board for the agreement's amendment, 100,000 additional shares were allocated to the consultant out of the rights to shares.

As of the date of the report, the total amount of shares issued to the consultant constitute 1.38% of the issued and paid up capital of the Company and voting rights therein and 2.36% of the issued and paid up capital of the Company and voting rights therein on a fully diluted basis.

Listed below are the main principals of the consultation and development agreement:

The consultant has undertaken to develop up to 4 fashion-concepts for the Company (hereinafter "concept") every year, according to the Company's requirements that would include design and specification of activewear and apparel in the sports field, and furthermore, the concept that is being developed would include offered branding names and trademarks, packaging design and branding and promotion of the apparel products which the consultant would develop. The Company would examine the proposed concepts and would be entitled to purchase from the consultant a license for the concept that was developed by him, and all in accordance with the terms set forth in the agreement.

The terms of the license that the Company will receive from the consultant regarding the concept or the products, according to which they were determined in the agreement between the parties whose principals are as follows: an exclusive license, unlimited by any time period (subject to exceptions that were determined in the agreement), and that is non-transferable (with the exception of an out-license under the terms that were agreed upon in the agreement) in regard with all the rights of the intellectual property and the knowledge for manufacturing, marketing, distributing and selling the products, at least for the region of North America. For this license the Company would pay the consultant royalties at the rate that was determined in the agreement, during the period in which the Company manufactures, distributes or sells the products, however, at least for a period of 20 years as of starting the process of marketing and distributing the products in the market. Additionally, the Company would pay the consultant for every concept a total sum that would be determined in negotiations between both parties.

For every concept for which the Company has purchased a license, the consultant would provide the Company support in respect of the development of the product until the stage of creating an independent brand, as well as additional consultation services

Note 19 - Contingent liabilities, commitments and liens (cont.)

b. Commitments (cont.)

3. Engagement in a consultation and development agreement with Professor Bodo W. Lambertz (hereinafter: “the consultant”), and an essential private placement to the consultant (cont.)

regarding the product’s marketing and such, at the cost that was determined in the agreement.

In addition to the aforementioned payment and royalties under the license and as it may be used by the Company, and subject to receiving an approval by the stock exchange for trading registration and to the approval of the Company's financing banks, as detailed above, the Company will allocate the shares offered to the consultant in accordance with the four milestones listed above.

The agreement is for an unlimited period of time; however it can be cancelled with a notice of 30 days. Furthermore, additional common causes for terminating the agreement were set forth in the agreement.

4. Engagement in an agreement for a real estate property lease with a related party

On September 7, 2014, upon receiving the approval of the Company’s Board and Audit Committee, the Company’s shareholders’ meeting approved, 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 is amongst the controlling shareholders of the Company (hereinafter: "Trimfit") in an agreement for a real estate property lease which is owned by Tefron USA in Valdese, North Carolina, USA. For additional details see Note 25e as follows. On August 31, 2016, the agreement expired.

5. Pick and Pack service agreement with a related party

For details regarding the engagement of the subsidiary, Tefron USA, with related parties in agreements for providing Pick and Pack services (sorting, picking and delivering services) see Note 26f as follows. It is noted that upon the signing of the lease agreement for the building that served for the logistics activities in the United States, as detailed in Note 25f as follows, Tefron USA ceased to provide the Pick and Pack services to related partied and third parties. The agreement expired on August 31, 2016.

Note 19 - Contingent liabilities, commitments and liens (cont.)

b. Commitments (cont.)

6. Extending the service agreement with a related party for invoicing services

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 as detailed in Note 26i as follows. 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.

c. Commitments to pay rent

The Company's plants and installations and most of those of its subsidiaries are located in buildings leased for various terms ending during the years 2015 - 2019.

The future minimum rent commitments under non-cancelable leases as at December 31 are as follows:

	2016	2015
	Dollars thousands	
Year 1	1,450	1,930
Year 2	1,395	1,722
Year 3	1,395	1,722
Year 4	-	1,722
	4,240	7,096

As at the date of the report, the leased space was reduced- the liability is presented net of the leased space that was returned to the property owner. Furthermore, the Company also entered into lease agreements with a number of third parties to whom it has sub-leased part of the spaces for which it has a liability as mentioned above.

d. Liens

1. All liabilities to banks are secured by a floating charge on the existing and future assets of the Company and its subsidiaries in both the present and the future.

2. To secure compliance with the conditions of the application for an "approved enterprise" status granted to the Company and its subsidiaries pursuant to the Law for the Encouragement of Capital Investments, 1959, the Company and its subsidiaries have pledged floating charges for an unlimited amount on all their assets in favor of the State of Israel.

Note 20 - Capital

a. Private Placement

On February 17, 2015, after obtaining the approval of the Audit Committee and Board, 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

Note 20 - Capital (cont.)

a. Private Placement (cont.)

par value each (hereinafter: “ordinary shares”) (hereinafter: “the agreement”), as detailed as follows.

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 together: "Nouvelle Group") jointly held 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 was set to a date no later than five business days after the existence of all the conditions precedent (hereinafter: "closing date") specified in the contract, 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.

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

Note 20 - Capital (cont.)

a. Private Placement (cont.)

banks which allows the existence of all the conditions precedent. For details see note 14b 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 upon by 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 of the above 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 granted their approval at their meetings dated 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 dated May 25, 2015).

b. The approval of the Stock Exchange regarding the registration for trading of the shares to be allocated under the agreement (that was granted on May 27, 2015).

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 additional investors, as aforesaid.

On June 1, 2015, the shares were allocated in return of the consideration received.

b. Issuance of shares in the framework of the consultation and development agreement with Professor Bodo W. Lambertz

On September 27, 2012, the Company’s Board of Directors approved the engagement of the Company in an agreement with Professor Bodo W. Lambertz, an expert in developing textile products and their promotion in the market, especially in the activewear field (hereinafter “the consultant” or “the offeree”), in the framework of which the consultant would provide the Company with professional and business consulting services, as well as granting it a license to his developments in the field of textile and apparel (hereinafter “the agreement”). In accordance with the agreement, *inter alia*, the Company would allocate to the consultant up to 400,000 ordinary shares of the Company of NIS 10 par value each (hereinafter: “the shares”) in four series: an initial series of 65,000 shares upon the date of signing the agreement and the other series in accordance with meeting the net sales objectives. On May 21, 2013, the Company allocated to the consultant the initial series of 65,000 shares, as aforementioned. On January 20, 2014, the Company allocated to the consultant the second series of 100,000 shares, see Note 20b4, above. On March 20, 2015 and March 20, 2016, and due to failure to meet the sales objectives which were agreed

Note 20 - Capital (cont.)

b. Issuance of shares in the framework of the consultation and development agreement with Professor Bodo W. Lambertz (cont.)

upon by the parties, his entitlement to 235,000 shares expired (100,000 shares on March 20, 2015 and 135,000 additional shares on March 20, 2016) and therefore, as at this date, the consultant is not entitled to any additional shares.
On the date of signing the agreement the Company recorded a capital reserve for the initial series of shares. Upon issuing the shares in effect, the amount was classified into share capital. The minimum period of the agreement is one year, therefore once a quarter, a quarter of the shares was revaluated according to the average market value of the share in that period, which presumably represents the value of service that was rendered during that period of time. Furthermore, in each cut-off period the Company examined if the revaluated amount meets the definition of an intangible asset, in order to reclassify this amount from the future expanses item to the intangible asset item. Throughout the year of 2013, the Company believed that the terms for acknowledging future development as an intangible asset, have yet to be met. Accordingly, the Company recorded the full revaluated value of the shares to the development expenses item.
Registration of the share capital whose issuance depends on meeting the sales objectives was executed according to the probability of meeting the objectives.

On March 22, 2015 and on March 20, 2016, 100,000 and 135,000, respectively, 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.

For additional details regarding the consultation agreement see Note 20b4 above.

c. Composition of the share capital and the convertible securities

	As at December 31 2016 Number of shares	As at December 31 2015 Number of shares
Authorized share capital (ordinary shares of NIS 10 par value each)	20,000,000	20,000,000
Issued share capital (ordinary shares of NIS 10 par value each)	11,970,026	11,970,026
Paid up share capital (ordinary shares of NIS 10 par value each)	11,870,286	11,870,286
Option warrants (non-tradable) for the Company’s employees and managers, directors and service providers exercisable into ordinary shares of NIS 10 par value each	617,105	613,105
Rights to shares	135,000	135,000
treasury shares held by a subsidiary	99,740	99,740

d. Rights conferred by the shares

Ordinary shares

Voting rights at the general meeting, right to dividends, rights upon liquidation of the Company and the right to appoint directors of the Company.

Note 20 - Capital (cont.)

e. Treasury shares

Tefron Holdings (98) Ltd., a wholly-owned subsidiary of the Company, holds 99,740 Company shares, which constitute 1.47% of the Company’s shares and whose cost is US 7,408 thousand dollars, as at December 31, 2016 and 2015. The investment in these shares is recorded according to the "treasury shares" method in the shareholders equity.

The shares are pledged in favor of the bank to secure a loan that was received.

f. Capital management in the Company

The Company's capital management objectives are:

1. To preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.
2. To ensure adequate return for the shareholders by pricing products and services commensurately with the level of risk in the Group's business operations.

The Company operates to achieve a return on capital at a level that is customary in the industry and markets in which the Company operates. This return is subject to changes depending on market factors in the Company's industry and business environment. The Company is required to have minimum tangible equity of US 25.5 million dollars, as defined in the amendment to the agreement with the banks as described in Note 13b above, in the framework of the financial covenants included in the agreements with the banks in connection with providing loans, and is not subject to any demands relating to achieving a certain return on capital. In 2016, 2015 and 2014 the Company had a negative return on capital. At the same time, the negative yield is reduced in view of the improvement in the Company's business results.

Note 21 - Share-based payment transactions

a. Expense recognized in the financial statements

The expense recognized in the Company’s financial statements for services rendered by employees, directors and consultants is presented in the following table:

	For the year ended December 31		
	2016	**2015**	**2014**
	Dollars thousands		
Share based payment plans settled with equity instruments for employees and directors	12	36	114
Total share based payment plans settled with equity instruments	12	36	114

Note 21 - Share-based payment transactions (cont.)

b. Share-based payment plan to the Company's employees and managers, directors and service providers

1. Option plan to the managers and employees of the Company

The share-based payment transactions the Company provided to its employees are described as follows.

On December 30, 2013, the general meeting of the shareholders of the Company approved the option plan for employees, office holders and consultants. The option warrants shall vest and become exercisable and the offeree's eligibility to those warrants shall expire according to the following:

- One-third of the options (hereinafter: "the first series") will be exercisable beginning one year from the date of their allocation and until the end of five years as of the date on which the options included in the first series were first exercisable.
- One-third of the options (hereinafter: "the second series") will be exercisable beginning two years from the date of their allocation and until the end of five years as of the date on which the options included in the second series were first exercisable.
- One-third of the options (hereinafter: "the third series") will be exercisable beginning three years from the date of their allocation and until the end of five years as of the date on which the options included in the third series were first exercisable

This plan replaces the option plan which was approved in September 1997, and was extended once more in March 2008.

(a) On November 21, 2013, the Company's Board of Directors granted to the Company's CEO 150,000 option warrants exercisable to ordinary shares of the Company of NIS 10 par value each, in accordance with the cashless mechanism. The exercise price per option is US 2.22 dollars, after being translated to NIS at the representative rate of exchange of the US dollar on the day prior to the date of granting the options. Entitlement to realize the options will accrue over a period of three years as of the day of the allocation, in accordance with the Company's option plan.

The value of the benefits included in granting these options according to the share price on the date of trading on the Stock Exchange amounted to US 108 thousand dollars.

(b) On March 27, 2014, the Company granted an officer of the Company who is not an interested party in the Company and will not become an interested party in the Company after the granting, 32,500 options (non-tradable) of the Company which can be exercised up to 32,500 ordinary shares of the Company of NIS 10 par value each, in accordance with the cashless mechanism. The exercise price for each option will stand at US 3.2 dollars after being translated to NIS at the representative rate of exchange of the US dollar on the day prior to the date of granting the options. The entitlement to realize the options will accrue over a period of three years as of the date of March 27, 2014. The value of the benefit included in granting these options according to the share price on the date of trading on the Stock Exchange amounts to US 9 thousand dollars.

On March 17, 2013, the Company granted the same officer of the Company who at the date of the grant served as an external consultant of the Company who provided services in marketing and development (hereinafter: "the consultant"), 12,500 options (non-tradable) of the Company exercisable up to 12,500 ordinary shares of the Company of NIS 10 par value each. The exercise price per option shall be US 3.8 dollars, after being translated to NIS at the representative rate of exchange of the US dollar on the day prior to the date of granting the options. Entitlement to realize the options will accrue over a period of three years as of the date of March 17, 2013. The

Note 21 - Share-based payment transactions (cont.)

b. Share-based payment plan to the Company's employees and managers, directors and service providers (cont.)

1. Option plan to the managers and employees of the Company (cont.)

value of the benefit included in granting these options according to the share price on the date of trading on the Stock Exchange amounts to US 21 thousand dollars.

c. Movement during the year

The following table lists the number of share options, the weighted average exercise price of the share options, and modifications in employee option plans which were carried out during the current year:

	As at December 31, 2016		As at December 31, 2015	
	Number of share options	Weighted average exercise price (dollar)	Number of share options	Weighted average exercise price (dollar)
Options for shares granted at the beginning of the year	752,105	2.1	1,005,105	2.9
Options for shares granted during the year	-	-	300,000	1.4
Options for shares forfeited or expired during the year	(4,000)	-	(453,000)	2.9
Options for shares expired during the year	(135,000)	-	(100,000)	
Options for shares exercised during the year	-	-	-	-
Options for shares at the end of the year	613,105	2.1	752,105	2.1
Options for shares which can be exercised at the end of the year	605,883	2.0	526,272	2.0

d. The weighted average of the remaining contractual term of the share options as at December 31, 2016 is 4.4 years (2015 – 5.1 years).

e. Measurement of the fair value of the share options settled with equity instruments

The Company uses the Black & Scholes model to measure the fair value of options to shares settled with equity instruments that have been granted to employees. The measurement is carried out on the date of granting the options for shares which are settled with equity instruments. The Company uses the Monte Carlo simulation method for measuring the fair value of the options granted to the banks. The measurement is carried out on the date of granting the options and a remeasurement is conducted quarterly.

The expected lifespan of the share options is based on the Company's historical data which is not necessarily indicative of the future exercise pattern of share options.

The expected volatility of the share price reflects the assumption that the historical volatility of the share price is reasonably indicative of expected future trends.

Note 22 - Supplementary information to the statement of income items

a. Cost of sales

	For the year ended December 31		
	2016	**2015**	**2014**
	Dollars thousands		
Materials	72,575	53,242	49,557
Payroll and benefits	8,096	7,393	8,467
Sub-contracted work	7,265	6,225	8,491
Depreciation	4,744	4,363	4,468
Other manufacturing expenses	5,967	6,220	7,959
	98,647	77,443	78,942
Decrease (increase) in work-in-progress and finished goods inventories (*)	(6,116)	(2,861)	(1,861)
	92,531	74,582	77,081
(*) Including provision for inventories write- off	436	433	758

b. Development expenses, net

	For the ended December 31		
	2016	**2015**	**2014**
	Dollars thousands		
Payroll and benefits	2,639	2,390	2,776
Manufacturing expenses	720	715	720
Depreciation and amortization	240	240	240
Materials	314	234	244
Others	78	115	144
	3,991	3,694	4,124

c. Selling and marketing expenses, net

	For the ended December 31		
	2016	**2015**	**2014**
	Dollars thousands		
Payroll and benefits	3,825	3,653	3,724
Transport, export and distribution	4,655	4,635	2,620
Commissions to agents and franchisees	3,166	2,651	1,566
Overseas office maintenance	255	234	514
Overseas excursions	831	786	627
Depreciation and amortization	271	295	419
Others	398	506	919
	13,401	12,760	10,389

Note 22 - Supplementary information to the statement of income items (cont.)

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
d. General and administrative expenses			
Payroll and benefits	1,030	1,242	1,468
Consulting	814	690	764
Remuneration and directors' insurance	288	347	309
Provision for doubtful and bad debts	14	(15)	8
Others	909	650	508
	3,055	2,914	3,057

e. Other expenses (income)

	For the year ended		
	2016	2015	2014
	Dollars thousands		
Reorganization	1,128	817	-
Other incomes	(29)		
Capital loss (gain) on disposal of fixed assets (2)	-	-	(974)
Restitution of mutual fund to employers (3)	-	-	15
	1,099	817	(959)

(1) In 2016 and 2015 the Company included in its reports restructuring costs on a total sum of US 1,128 thousand dollars, which resulted from executing the Company's plan for the relocation of the dyeing operation which is carried out by a subcontractor in Israel to a number of other subcontractors in Jordan. This was carried out as part of the risk management policy of the Company to reduce its dependence on a material supplier and to enable the Company operational flexibility. The restructuring costs include the costs of the relocation of the dyeing plant as well as the costs related to the termination of employer-employee relations.

(2) In 2014 the Company had a capital gain of US 810 thousand dollars as a result of a transaction of exchanging machines.

Note 22 - Supplementary information to the statement of income items (cont.)

f. Financial revenues (expenses)

	For the year ended December 31		
	2016	**2015**	**2014**
	Dollars thousands		
Financial revenues			
Interest revenues from securities available for sale	-	2	23
Net gain from change in rates of exchange	-	469	717
Net change in fair value of cash flow hedging	-	-	-
Revaluation of liability for options to banks	9	-	10
	9	471	750
Financial expenses			
Financial expenses for short-term credit and bank loans	1,186	1,049	811
Net loss from change in foreign exchange rates	240	-	-
Reduction of discounting of options to banks	34	32	69
Net change in fair value of cash flow hedging transferred from shareholders' equity	-	505	486
Revaluation of liability for options to banks	-	83	-
Loss from realization of securities	-	171	-
Bank expenses and interest-related expenses for others	1,204	888	836
	2,673	2,728	2,202

Note 23 - Earnings (loss) per share

Detail of number of shares and earnings (loss) used to calculate the earnings (loss) per share

	For the year ended December 31,					
	2016		2015		2014	
	Weighted average number of shares	Loss attributed to shareholders of the Company	Weighted average number of shares	Loss attributed to shareholders of the Company	Weighted average number of shares	Loss attributed to shareholders of the Company
	Thousands	Dollars thousands	Thousands	Dollars thousands	Thousands	Dollars thousands
For the purpose of calculating basic and diluted net loss	11,870	(1,121)	9,720	(3,938)	6,701	(800)

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 24 – Operating segments

a. General

Previously the information that the Company provides in accordance with the IFRS 8 definitions is based on the available financial information which is reviewed regularly and is used by the Company's CEO who is the Company's chief operating decision maker (CODM), for the purpose of making decisions regarding the resources to be allocated to the segment and in order to evaluate the segment's performance.

Based on the criteria in IFRS 8 for determining reportable operating segments, and the available financial information which is reviewed by the Company's CEO, the Company has determined that it operates in two reportable operating segments:

(a) Brands – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear, to customers with leading brands in North America and Europe with leading brands such as Victoria's Secret and Adidas.

(b) Retail – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear which are characterized by purchasing large quantities of less complex products to private brands as well as brands for which the Company received a franchise to customers in the retail market in North America and Europe such as Wal-Mart and TJ MAX.

b. Information on reportable segment sales, income (losses) and assets:

(a) Measurement of segment sales, income (losses) and assets:
Segment sales, income (losses) and assets are measured according to the same accounting principles as those applied in the consolidated financial statements.
The income (losses) of the segments reflect the profit (loss) from the operations of the segment and do not include net financial expenses and income taxes, since these items are not attributed to segments and are not analyzed by the CODM by segment.

(b) Segments assets mostly include fixed assets, intangible assets, inventory, trade receivables and other receivables. Assets not attributed to the segments mostly include cash, financial derivative and deferred taxes.

Note 24 – Operating segments (cont.)

c. Primary segment reporting in respect of business segments

	For the year ended December 31, 2016			
	Brands	Retail	Adjustments	Total
	Dollars thousand			
Total segment revenues	40,302	76,100		116,402
Direct profit (loss)	(5,211)	11,767		6,556
Indirect costs	(1,485)	(2,746)		(4,231)
Segment results	(6,696)	9,021		2,325
Financial expenses, net				(2,664)
Loss				(339)
Segment assets	22,695	22,360	30,501	75,556
Segment liabilities	12,185	8,259	27,917	48,361
Cost of purchasing long-term assets	-	-	1,675	1,675
Depreciation and amortization	-	-	5,156	5,156

	For the year ended December 31, 2015			
	Brands	Retail	Adjustments	Total
	Dollars thousand			
Total segment revenues	41,670	51,416		93,086
Direct profit (loss)	(1,669)	4,185		2,516
Indirect costs	(1,879)	(2,318)		(4,197)
Segment results	(3,548)	1,867		(1,681)
Financial expenses, net				(2,257)
Loss				(3,938)
Segment assets (*)	16,294	21,876	33,822	71,992
Segment liabilities (*)	8,492	6,985	28,184	43,661
Cost of purchasing long-term assets (*)	-	-	4,844	4,844
Depreciation and amortization (*)	-	-	4,898	4,898

(*)reclassified again

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 24 – Operating segments (cont.)

c. Primary segment reporting in respect of business segments (cont.)

	For the year ended December 31, 2014			
	Brands	Retail	Adjustments	Total
	Dollars thousand			
Total segment revenues	62,083	31,832		93,915
Direct profit	2,185	1,762		3,947
Indirect costs	(2,462)	(1,262)		(3,724)
Segment results	(277)	500		223
Financial expenses, net				(1,452)
Tax benefit				429
Loss				(800)
Segment assets (*)	18,916	16,683	33,490	69,089
Segment liabilities (*)	8,648	4,905	28,732	42,285
Cost of purchasing long-term assets (*)	-	-	3,379	3,379
Depreciation and amortization (*)	-	-	5,127	5,127

reclassified again

d. Secondary reporting regarding geographical segments

1. Sales by geographic markets (based on customer location):

	For the year ended December 31		
	2016	2015	2014
	Dollars thousands		
North America	114,083	88,495	90,225
Europe	753	3,623	2,807
Israel	1,566	968	618
Others	-	-	265
	116,402	93,086	93,915

2. Carrying amount of assets and capital expenditures by geographical areas (based on asset location):

	Balance of non-current assets (*) December 31,		Capital expenditures for the year ended December 31		
	2016	2015	2016	2015	2014
	Dollars thousands				
Israel	23,738	27,068		4,704	3,320
North America	2,109	2,118		122	39
Others	81	107		18	20
	25,928	29,293		4,844	3,379

Note 24 – Operating segments (cont.)

e. Major customers

	For the year ended December 31		
	2016	2015	2014
	Percentage of total sales		
Customer A (part of the retail segment)	46.6	33.5	15.3
Customer B (part of the brands segment)	12.8	24.2	45.4
Customer C (part of the retail segment)	14.8	16.5	16.4
	74.2	74.2	77.1

Note 25 - Balances and transactions with interested parties and related parties

a. Balances with interested parties and related parties

Composition:

As at December 31, 2016

	Linkage terms	Related parties	Key executives
	Dollars thousands		
Trade receivables	Unlinked	5,191	-
Trade payable		(219)	-
Other payables		-	(121)
		4,958	(121)

As at December 31, 2015

	Linkage terms	Related parties	Key executives
	Dollars thousands		
Trade receivables	Unlinked	13,365	-
Trade payable		(29)	-
Other payables		(87)	(98)
		12,944	(98)

Note 25 - Balances and transactions with interested parties and related parties (cont.)

b. Benefits to interested parties and related parties

	For the year ended December 31		
	2016	2015	2014
	Percentage of total sales		
Salaries and benefits for employees of the Company or on its behalf, including the CEO	304	362	466
Fees of directors not employed by or on behalf of the Company	230	302	265
Number of beneficiaries of salaries and benefits			
Related and interested parties employed by or on behalf of the Company	1	1	1
Directors not employed by the Company	8	11	8
	9	12	9

c. Transactions with related parties and interested parties

For the year ended December 31, 2016

	Related and Interested parties	Executive officers
Sales	56,561	-
Cost of sales	(441)	-
Sales and marketing expenses	(23)	-
General and administrative expenses	(230)	(304)

For the year ended December 31, 2015

	Related and Interested parties	Executive officers
Sales	34,948	-
Cost of sales	(87)	-
Sales and marketing expenses	(824)	-
General and administrative expenses	(308)	(362)

For the year ended December 31, 2014

	Related and Interested parties	Executive officers
Sales	14,789	-
Cost of sales	(3,134)	-
Sales and marketing expenses	(411)	-
General and administrative expenses	(275)	(466)

Note 25 - Balances and transactions with interested parties and related parties (cont.)

d. An investment agreement with Litef Holdings Inc.

On February 17, 2015, the Company signed with its controlling shareholder, Litef Holdings Inc., a private company incorporated in Canada (hereinafter: “Litef”), an agreement pursuant to which Litef shall invest a total of US 5 million dollars against an extraordinary private placement of 4,672,897 ordinary shares of the Company of NIS 10 par value each (hereinafter: “ordinary shares”), so that Litef shall pay a price of US 1.07 dollars per share.

On May 25, 2015, a special meeting of the shareholders of the Company was convened during which the private placement was approved and on May 31, 2015, the private placement was completed, in accordance with its terms. For additional details see Note 20a above.

e. Agreement for a real estate property lease in the U.S. with an interested party

On September 7, 2014, the Company’s shareholders’ meeting approved, upon receiving the approval of the Company’s Audit Committee and Board of Directors, 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 is amongst the controlling shareholders of the Company (hereinafter: "Trimfit") in an agreement for a real estate property lease which is owned by Tefron USA in Valdese, North Carolina, USA, in 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) (hereinafter: “the services”), for a consideration that is equal to the cost of receiving these services through a subcontractor (hereinafter: “the agreement”).

In the framework of the agreement with Trimfit, the consideration of the lease fees, was determined by negotiation between the Company and Trimfit, and based on an expert assessment, conducted by an external and independent appraiser office in North Carolina (Integral Realty Resources-Greensboro), which was based, amongst other things, on the comparison data of the lease fees and similar leased property that is in the vicinity of the property. In accordance with the aforementioned assessment, the appropriate annual lease fee for the property is in the price range between US 0.62 dollars per square feet to US 0.72 dollars per square feet. The lease fees stipulated in the agreement is based on an annual consideration of approximately US 0.64 dollars per square feet.

Tefron USA would be entitled to receive these services from Trimfit. The consideration agreed upon between the parties in respect of granting the services by Trimfit to the Company, as the Company shall require these services, shall be determined by an annual comparison to the prices of a subcontractor who provides similar services to the Company and is not related to the Company and/or to any of its controlling shareholders. The agreement expired on August 31,2016.

f. Pick and Pack service agreements with related parties

In general, the Company, through its subsidiary, Tefron USA, has provided as part of its current operations in the United States, sorting, picking and delivering services (Pick and Pack) to its customers during its normal course of business (hereinafter: “the services").

(1) In November 2011, the Company’s Board of Directors approved, following the approval of the Audit Committee of the Company, the Company's engagement in a non-extraordinary transaction for providing services to: (a) BL Intimates (hereinafter:

Note 25 - Balances and transactions with interested parties and related parties (cont.)

f. Pick and Pack service agreements with related parties (cont.)

"BLI"), which is a partnership of Lamour Global Inc. Limited (a private company incorporated in Hong Kong and related to the Lieberman family who is among the controlling shareholders of the Company) (hereinafter: "Lamour"), and another partner; and to (b) companies related to BLI, which are under the control of the Lieberman family's members who are among the controlling shareholders of the Company. The scope of engagement with BLI and its related companies is up to an amount of revenues of US 200,000 dollars, when the price per unit is a fixed price (not dependent on the quantity of services required), which is higher than the price per unit that the Company collects from its customers.

Further to the aforesaid, on May 19, 2013, after receiving the Audit Committee's approval, the Company's Board of Directors decided to approve the renewal of the Company's engagement, occasionally, in non-extraordinary transactions, as this term is defined in the Companies Law, in providing services to BLI, to an additional holder of BLI and to related companies to BLI, which are controlled by the Lieberman family (hereinafter together: "the BLI Group"). The scope of engagement with the BLI Group that has been approved, is up to an amount of revenues of US 500 thousand dollars, when the price per unit, which will be collected from the BLI Group, is a fixed price (not dependent on the quantity of services required), and which is higher than the price per unit that the Company collects from its customers to whom the Company provides services in similar volumes. The period of engagement which has been approved, is three years as of the date of the Company's Board's decision, as aforementioned, or up to the amount of revenues detailed above, whichever is earlier.

(2) On July 2, 2013, after receiving the Audit Committee's approval, the Company's Board of Directors decided to approve the Company's engagement for the purpose of providing the services to Trimfit and this for a consideration of four percent (4%) of the total volume of sales of Trimfit for which the services are rendered. Notwithstanding the aforementioned, the Company has continued the negotiation with Trimfit in order to improve the consideration which shall be collected for the services provided. In continuation of the aforesaid, the parties have reached commercial agreements, according to which the consideration collected from Trimfit shall be five percent (5%) of the total volume of sales of Trimfit for which the services are rendered (plus expenses), and this retroactively as of July 1, 2013. The period of engagement that was approved is a period of three years as of July 1, 2013 or up to a total sum of US 1,500 thousand dollars, whichever is earlier. The Company believes that such consideration reflects a consideration that is at least equal to the consideration collected by the Company, at this time, from its external customers for whom the Company provides the service in similar volumes.

It should be noted that with the signing of the lease agreement for the property that would serve as the center for logistics activities in the U.S., as detailed in Note 25e above, Tefron USA ceased to provide services to related companies, and to third parties.

g. Agreement for the employment of employees through a related party

In February 2012, the Company's Board of Directors approved, following the approval of the Audit Committee of the Company, the Company's engagement in an extraordinary transaction with Intimes Nouvelle Seamless Inc., who is amongst the controlling shareholders of the Company (hereinafter: "Nouvelle"), for the purpose of the employment of three of the Company's employees in Canada through Nouvelle, for the reasons detailed as follows. After the completion of the transaction for the acquisition of Nouvelle's

Note 25 - Balances and transactions with interested parties and related parties (cont.)

g. Agreement for the employment of employees through a related party (cont.)

operations, the Company sought out, amongst other things, to engage in an employment agreement with three salespersons of Nouvelle, who specialize in sales to customers in North America (hereinafter: the “employees"). Due to the fact that the employees’ employment in Canada requires the establishment of a legal entity under Canadian law, and involves additional costs to the Company, the Company reached an agreement with Nouvelle, whereby the employees will be employed by Nouvelle (Back to Back), for a period of three years and/or up to the date of the termination of employment of the employees, whichever is earlier. It should be noted that the mere employment of the employees, conditions of employment and their duties are carried out according to the sole discretion of the Company, and Nouvelle operates according to the Company’s guidelines, as those are provided to Nouvelle from time to time. It should also be emphasized that Nouvelle does not receive any consideration from the Company for this service. On March 27, 2014, the Board of Directors approved, following the approval of the Audit Committee, the continuation of the Company's engagement in an extraordinary transaction with Nouvelle for the employment of three of the Company’s employees, through Nouvelle, in Canada and this due to the arguments listed above.

On December 19, 2014, with the incorporation of a Canadian subsidiary, wholly owned by the Company, the Company began to employ the employees directly, while terminating the agreement described above.

h. Lease Agreement with a related party

On February 14, 2012, following the approval of the Company’s Audit Committee, the Company’s Board approved the engagement of the Company in an agreement with a company related to the controlling shareholders for the sublease of office space in Montreal, Canada where the sale operations of the Company in North America takes place, for a monthly payment of US 2,000 dollars. Further to the Company’s management’s decision to transfer the offices in Canada to an alternative location, on November 21, 2013, and December 23, 2015, the Company’s Board decided, following the approval of the Company’s Audit Committee, to approve the Company’s engagement in a non-extraordinary transaction, as this term is defined in the Companies Law, with a subsidiary of Lamour, for the purpose of sublease of office space in Montreal, Canada, in an area of about 280 square meters for a monthly payment of US 2,000 dollars (excluding taxes), and this *in lieu* of the Company's engagement with Nouvelle, for leasing office space, as detailed above. The approval of the Company’s Board, as stated above, will remain in effect for a period of up to three years.

i. Service agreement with a related party for invoicing/ accounting services

In February 2012, the Company's Board approved, following the approval of the Audit Committee of the Company, the Company's engagement in a non-extraordinary transaction with Lamour which shall serve as a channel for the sale of the Company’s products to Wal-Mart, and this for the reasons described below: Wal-Mart is a significant customer of the Company. In order for the Company to sell products directly to Wal-Mart, it must first complete the process of issuing a manufacturer’s identification number. As of this date, the Company has not yet completed the process of issuing the said manufacturer’s identification number due to the difficulty to obtain it opposite Wal-Mart. Considering the aforesaid, the Company decided to sell its products to Wal-Mart through Lamour which already acquires a Wal-Mart’s manufacturer’s identification number. According to the agreements between Lamour and the Company, the proceeds from Wal-Mart which is paid to Lamour, is transferred to the Company upon receiving it and under the same payment terms. On March 22, 2015, the Company’s Board approved the extension of the term of the agreement in 3 additional years, after receiving the recommendation of the Audit

Committee according to which the extension of the period, as aforementioned, is reasonable under the circumstances.

Tefron Ltd.

Notes to the Consolidated Financial Statements

Note 25 - Balances and transactions with interested parties and related parties (cont.)

i. Service agreement with a related party for invoicing/ accounting services (cont.)

Committee according to which the extension of the period, as aforementioned, is reasonable under the circumstances. Following the non-completion of the issuing of the manufacturer's identification number carried out by Wal-Mart in favor of the Company, as detailed in Note 26j above, there was a need to perform accounting procedures for accounting purposes regarding the funds due from Wal-Mart to the Company as well as to the other companies in the Lamour Group (hereinafter: "the accounting services"). Therefore on May 19, 2013, the Company's Board approved, following the approval of the Company's Audit Committee, the engagement of the Company for the purpose of receiving accounting services from Lamour, for a monthly fee of US 750 dollars for the accounting services. In light of the increase in the Company's operations with Wal-Mart, Lamour has approached the Company and asked to update the terms of engagement for providing the accounting services and to add an amount of US 960 dollars to the monthly consideration, and in total the Company pays Lamour a sum of US 1,710 dollars in return of the accounting services

k. Agreement with Mr. Mike Gao for providing services for locating raw materials and/or subcontractors

On April 4, 2012, the meeting of the Company's shareholders approved the engagement of the Company with Mr. Mike Gao, who engaged with the Company through Asia Socks Inc. (hereinafter: "Asia Socks") (hereinafter jointly: "Gao"), in an agreement for services related to locating raw materials and products from new suppliers and/or locating subcontractors, in all of its areas of operations, as well as supervision services, and this for a period of three years (hereinafter: "the services"). In return for the services, the Company paid Gao, a commission in the amount of 3% of the amount of the invoice issued by the aforementioned suppliers and/or subcontractors. Furthermore, in cases where Gao purchased raw materials and/or products for the Company, Gao was eligible for a full refund from the Company, in accordance with the payment terms set forth in the work orders. Moreover, in the framework of the agreement Gao assigned the Company a supplier credit line of up to US 4 million dollars. For utilizing this credit line, the Company paid Gao an interest equivalent to LIBOR (for three months) plus 5.8%.

During 2013 The parties have re-examined the need for continuing the engagement with Asia Socks and came to the conclusion that during the period of the engagement the Company has established its ability to act independently in locating raw materials and products from new suppliers and/or locating subcontractors and it no longer requires the support of Asia Socks. Thus, on December 30, 2013, after receiving the recommendation of the Company's management, the Board of Directors of the Company decided to cancel the agreement, as of February 1, 2014, subject to the completion of establishing a representative office in China under the subsidiary of the Company (hereinafter: the "representative office") . It should be noted that the termination of the agreement does not have a material effect on the operations and results of the Company. The Company has encountered difficulties in the process of establishing the representative office and is currently working to establish a wholly owned company (indirectly) in China. Notwithstanding the foregoing, in February 2014, the agreement was terminated.

To the best knowledge of the Company, Mr. Mike Gao holds all the issued and paid up capital of Asia Socks, a private company incorporated in China, and is engaged together with his brother, in an agreement that grants him rights in Litef, which is among the controlling shareholders of the Company; therefore, and as a precaution only, the Company views him and the company Asia Socks as a related party.

Note 25 - Balances and transactions with interested parties and related parties (cont.)

l. Lease agreement with a related party

On December 30, 2013, the Company's Board of directors approved, following the approval of the Company’s Audit Committee, the Company's engagement in a non-extraordinary transaction, as this term is defined in the Companies Law, with Asia Socks for the purpose of subleasing office space in Shanghai China, on a total area of approximately 140 square meters for a daily payment of US 63 dollars (a total of US 1,890 dollars monthly), and this as of February 1, 2014. Moreover, upon the increase in the volume of activity of the representative of the Company in China, the lease agreement has been extended by an area of 395 square meters for a consideration of US 180 dollars per day (a total of US 5,400 dollars per month). On April 1, 2016 the agreement expired.

m. Service agreement for export license number with a related party

On December 17, 2014, the Company's Board approved, following the approval of the Company's Audit Committee, the engagement of the Company in a transaction which does not require the approval of the general meeting of the Company, pursuant to Regulation 1(2) of the Companies Regulations (Relief in Transactions with Interested Parties) 2000, between the Company and Asia Socks, according to which the Company will use, free of charge, the export license of Asia Socks for the purpose of importing raw materials, from various suppliers of raw materials, from China to Israel. It should be noted that the engagement with the raw material suppliers in China and the terms of engagement with them will be carried out by a representative of the Company and at the sole discretion of the Company, while the export process will be carried out by Asia Socks, without any consideration paid to Asia Socks for this service (the export will be on back to back terms to the terms of the procurement of raw materials). The transaction was approved for a period of three years and/or until the Company’s subsidiary, who the Company intends to establish, acquires its own export license, when it shall be established. On December 2, 2016_the Company’s subsidiary was established in China and this engagement is no longer required.

n. Payment of director remuneration to a related party

Pursuant to the resolution of the general meeting of the shareholders of the Company dated December 29, 2010, regarding the approval of granting remuneration to Mr. Guy Shamir (son of Mr. Meir Shamir who is among the controlling shareholders of the Company) (hereinafter: "Mr. Shamir"), in respect of his service as a director of the Company and since 3 years have passed as of the date of the approval, as aforesaid, on November 21, 2013, pursuant to the decision of the Remuneration Committee of the Company dated July 14, 2013, the Company’s Board approved, in accordance with section 275(a1)(1) of the Companies Law, and in accordance with the provisions of Regulation 1b of the Companies Regulations (Relief in Transactions with Interested Parties) 2000, granting remuneration to Mr. Shamir in respect of his service as a director of the Company, in accordance with the director remuneration paid for the other directors of the Company, during 2015 the Company paid Mr. Guy Shamir US 8 thousand dollars (in 2014 – US 16 thousand dollars) for his service as a director of the Company. On June 1, 2015, Guy Shamir has announced his resignation from the Board of the Company as of that date.

o. Payment of director remuneration to controlling shareholders

Pursuant to the appointment of Messrs. Ben Lieberman and Martin Lieberman (hereinafter: “Messrs. Lieberman”), who are amongst the controlling shareholders of the Company, as directors of the Company starting on August 12, 2015, the Company’s Board approved, after obtaining the approval of the Company’s Remuneration Committee, the granting of director remuneration in accordance with the provisions of the Companies Regulations (Relief in Transactions with Interested Parties) 2000, as of the date of the commencement of their term of service as directors of the Company, in accordance with the director

Note 25 - Balances and transactions with interested parties and related parties (cont.)

o. Payment of director remuneration to controlling shareholders (cont.)

remuneration paid for the other directors of the Company. During 2016 the Company paid US 15 thousand dollars to each of Messrs. Lieberman.

p. Inclusion of a related party in the director and officer policy of the Company

Pursuant to the appointment of Messrs. Lieberman, who are amongst the controlling shareholders of the Company, as directors of the Company as of August 12, 2015, on November 30, 2015, the Company's Board approved, after obtaining the approval of the Remuneration Committee of the Company the inclusion thereof in the director and officer policy of the Company in accordance with the provisions of the Companies Regulations (Relief in Transactions with Interested Parties) 2000.

q. Granting a letter of indemnity to controlling shareholders

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

r. Negligible transactions

On March 22, 2015, the Company adopted, after obtaining the approval of the Audit Committee and the Board of the Company, the procedure concerning transactions with interested parties and officers, in the framework of which the Company adopted guidelines and rules for the classification of a Company's transaction with an interested party as negligible.

As part of the procedure, it was determined that in any transaction that is tested for negligibility, all of the criteria relevant to such transaction will be examined prior to the event, such as the ratio of assets, ratio of liabilities, ratio of shareholders' equity, ratio of revenues and the ratio of expenses, and in the event that the rate of each of the relevant standards is less than half a percent (0.5%) or less than 300,000 dollars, whichever is lower, the transaction shall be deemed as negligible, subject to the following:

1. In cases where, at the discretion of the Company, the aforementioned criteria are not relevant to the transaction at issue, the Company will determine another criterion provided that the relevant criterion concerning such transaction is at a rate of less than half a percent (0.5%) or less than 300,000 dollars, whichever is lower.

2. The negligibility of the transaction will be reviewed on an annual basis for the periodic report, the financial statements and prospectus (including shelf prospectus reports), while including all the transactions of the same type that have been carried out with an interested party or controlling shareholder, as applicable, in the same year.

3. A preliminary condition for the examination of a transaction whether it is negligible or not, is that the transaction is carried out under market conditions. Any transaction which is not being carried out under market conditions, does not meet the definition of a negligible transaction, and is considered as an extraordinary transaction which requires approval procedures as required by law in relation to an extraordinary transaction.

4. A transaction shall not be considered as negligible when it is not negligible from a qualitative standpoint. (Examination of the qualitative considerations of the transaction of the interested party may contradict the negligibility of the transaction, as noted above. For instance, and for the purpose of example only, a transaction with an interested party will not generally be considered as negligible if it is seen as a significant event by the Company's management and it serves as a basis for managerial

Note 25 - Balances and transactions with interested parties and related parties (cont.)

decisions, or if in the framework of the transaction of the interested party, interested parties are expected to receive benefits and it is important to report them to the public).

Details regarding significant subsidiaries held by the Company as at December 31, 2016:

Name of the subsidiary	Country of incorporation and principal place of business activity	% of rights of ownership as at December 31, 2016 %	2015 %
Hi-Tex, founded by Tefron Ltd.	Israel	100%	100%
Tefron - Macro Ltd	Israel	100%	100%
Tefron USA Inc., wholly-owned by Tefron US Holdings, Corp	U.S.A	100%	100%
El-Masira Textile Co., wholly-owned by Tefron USA Inc.	Jordan	100%	100%
Tefron Canada Inc., owned by Tefron Ltd	Canada	100%	100%
Tefron Hong Kong Limited	Hong Kong	100%	100%
Seeds Tefron Global Limited, owned by Tefron Hong Kong	Hong Kong	50%	50%
Tefron Holdings (98) Ltd.	Israel	100%	100%
Tefron Trading (Shanghai) Company Limited – owned by Tefron Hong Kong	China	100%	-