TEFRON LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT SEPTEMBER 30, 2017

TEFRON LTD.

Interim Consolidated Financial Statements as at September 30, 2017

Unaudited

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Review Report of the Auditors to the Shareholders of Tefron Ltd.

Preface

We have reviewed the attached financial information of Tefron Ltd. and its subsidiaries (hereinafter - "the Group"), which includes the condensed consolidated balance sheet as at September 30, 2017, and the condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the periods of nine months and three months then ended. The Board of Directors and Management are responsible for the preparation and presentation of the financial information for these interim periods, in accordance with International Accounting Standard IAS 34, "Financial Reporting for Interim Periods", and are also responsible for the preparation of financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

Scope of the Review

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

Conclusion

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

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

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

Date: November 28, 2017

Tefron Ltd.

Consolidated Balance Sheet

	As at September 30,		As at December 31,
	2017	2016	2016
	Unaudited		Audited
	Dollars thousands		
Current assets			
Cash	1,687	1,290	1,354
Trade receivables, net	15,801	13,117	16,681
Other receivables	2,919	3,909	4,129
Inventory	21,024	22,012	24,574
	41,431	40,328	46,738
Non-current assets			
Property, plant and equipment, net	21,968	25,199	24,348
Goodwill and intangible assets, net	97	199	213
Software, net	1,512	1,468	1,367
Deferred taxes, net	2,890	2,775	2,890
	26,467	29,641	28,818
	67,898	69,969	75,556

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

Tefron Ltd.

Consolidated Balance Sheet

	As at September 30, 2017	As at September 30, 2016	As at December 31, 2016
	Unaudited	Unaudited	Audited
	Dollars thousands		
Current liabilities			
Bank credit	15,314	11,745	15,156
Trade payables	14,499	14,590	17,898
Other payables	2,054	2,331	2,546
	31,867	28,666	35,600
Non-current liabilities			
Loans from banks	9,606	11,223	10,826
Subordinated loan from the shareholders	926	-	-
Liabilities for bank options	65	91	95
Liabilities for benefits to employees, net	654	760	797
Long-term payables	-	1,005	1,043
	11,251	13,079	12,761
Equity attributed to the Company's shareholders			
Share capital	33,617	33,617	33,617
Additional paid-in capital	99,686	99,686	99,686
Reserve for remeasurement of defined benefit plan	(1,259)	(1,232)	(1,259)
Accumulated deficit	(100,120)	(96,629)	(97,631)
Treasury shares	(7,408)	(7,408)	(7,408)
Other capital reserves	264	190	190
	24,780	28,224	27,195
Total equity	67,898	69,969	75,556

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

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

Tefron Ltd.

Consolidated Statements of Income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	Dollars thousands (excluding data on income (loss) per share)				
Sales	95,433	90,273	30,223	24,783	116,402
Cost of sales	78,625	72,087	25,367	19,433	92,531
Gross profit	16,808	18,186	4,856	5,350	23,871
Development expenses, net	3,309	2,943	1,131	985	3,991
Selling and marketing expenses	11,213	9,903	3,889	3,160	13,401
General and administrative expenses	2,419	2,355	924	732	3,055
Other expenses	-	768	-	165	1,099
Operating profit (loss)	(133)	2,217	(1,088)	308	2,325
Financing income	30	28	60	(7)	9
Financing expenses	(2,223)	(1,819)	(695)	(466)	(2,673)
Financing expenses, net	(2,193)	(1,791)	(635)	(473)	(2,664)
Income (loss) before taxes on income	(2,326)	426	(1,723)	(165)	(339)
Tax expenses	(163)	(545)	(152)	(45)	(782)
Loss	(2,489)	(119)	(1,875)	(210)	(1,121)
Loss per share attributable to Company's shareholders (in dollars)					
Basic and diluted loss per share	(0.21)	(0.01)	(0.16)	(0.02)	(0.09)

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

Tefron Ltd.

Consolidated Statements of Comprehensive Income

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	Dollars thousands				
Loss	(2,489)	(119)	(1,875)	(210)	(1,121)
Other comprehensive income (loss) (after the effect of the tax):					
Amounts that will not be reclassified subsequently to the statements of income:					
Loss from remeasurement of defined benefit plans	-	-	-	-	(27)
Subtotal of items that will not be reclassified subsequently to the statements of income	-	-	-	-	(27)
Total other comprehensive loss	-	-	-	-	(27)
Total comprehensive loss attributable to the Company's shareholders	(2,489)	(119)	(1,875)	(210)	(1,148)

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Relating to the Company's shareholders						
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	Unaudited						
	Dollars thousands						
Balance as at January 1, 2017 (audited)	33,617	99,686	(1,259)	(97,631)	(7,408)	190	27,195
Loss	-	-	-	(2,489)	-	-	(2,489)
Subordinated loan from the controlling shareholders	-	-	-	-	-	74	74
Balance as at September 30, 2017	33,617	99,686	(1,259)	(100,120)	(7,408)	264	24,780

	Relating to the Company's shareholders						
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	Unaudited						
	Dollars thousands						
Balance as at January 1, 2016 (audited)	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331
Loss	-	-	-	(119)	-	-	(119)
Share-based payment to employees and directors	-	12	-	-	-	-	12
Expiry of rights to shares of the consultant	-	47	-	-	-	(47)	-
Balance as at September 30, 2016	33,617	99,686	(1,232)	(96,629)	(7,408)	190	28,224

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Relating to the Company's shareholders						
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	Unaudited						
	Dollars thousands						
Balance as at July 1, 2017	33,617	99,686	(1,259)	(98,245)	(7,408)	190	26,581
Loss	-	-	-	(1,875)	-	-	(1,875)
Subordinated loan from the controlling shareholders	-	-	-	-	-	74	74
Balance as at September 30, 2017	33,617	99,686	(1,259)	(100,120)	(7,408)	264	24,780

	Relating to the Company's shareholders						
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	Unaudited						
	Dollars thousands						
Balance as at July 1, 2016	33,617	99,682	(1,232)	(96,419)	(7,408)	190	28,430
Loss	-	-	-	(210)	-	-	(210)
Share-based payment to employees and directors	-	4	-	-	-	-	4
Balance as at September 30, 2016	33,617	99,686	(1,232)	(96,629)	(7,408)	190	28,224

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

Tefron Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Relating to the Company's shareholders						
	Share capital	Additional paid-in capital	Reserve for actuarial losses	Accum. deficit	Treasury shares	Other capital reserves	Total equity
	Audited						
	Dollars thousands						
Balance as at January 1, 2016	33,617	99,627	(1,232)	(96,510)	(7,408)	237	28,331
Loss	-	-	-	(1,121)	-	-	(1,121)
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 Cash Flows

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the year ended December 31 2016
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	Dollars thousands				
Cash flows from operating activities					
Loss	(2,489)	(119)	(1,875)	(210)	(1,121)
Adjustments required to present cash flows from operating activities:					
Adjustments to the statement of income items:					
Depreciation and amortization of fixed assets and intangible assets	3,685	4,006	1,302	1,323	5,257
Cost of share-based payment	-	12	-	4	12
Loss from impairment of slow inventory	449	133	193	(90)	436
	4,134	4,151	1,495	1,237	5,705
Change in deferred taxes, net	-	455	-	-	340
Change in liabilities for benefits to employees, net	(143)	(2)	(122)	(11)	8
Change in fair value liabilities for bank options	(30)	(13)	(59)	(1)	(9)
Taxes on income	333	221	202	76	303
Financing expenses, net	1,319	1,444	547	507	1,926
	1,479	2,105	568	571	2,568
Changes in assets and liabilities items:					
Decrease in trade receivables	880	3,728	640	4,875	163
Decrease (increase) in other receivables	1,210	(871)	386	(1,319)	(1,091)
Decrease (increase) in inventory	3,101	(3,323)	5,547	547	(6,186)
Increase (decrease) in trade payables	(3,594)	36	(5,707)	(4,182)	3,724
Increase (decrease) in other payables	(492)	19	(33)	492	234
	1,105	(411)	833	413	(3,156)
Cash paid and received during the period for:					
Interest paid	(1,301)	(1,421)	(539)	(500)	(1,897)
Interest received	-	2	-	-	6
Taxes paid	(333)	(221)	(202)	(76)	(303)
	(1,634)	(1,640)	(741)	(576)	(2,194)
Net cash provided from operating activities	2,595	4,086	280	1,435	1,802

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

Tefron Ltd.
Consolidated Statements of Cash Flows

	For the nine months ended September 30,		For the three months ended September 30,		For the year ended December 31
	2017	2016	2017	2016	2016
	Unaudited				Audited
	Dollars thousands				
Cash flows from investing activities					
Purchase of property, plant and equipment	(969)	(1,471)	(132)	(334)	(1,815)
Purchase of software	(365)	(317)	(98)	(172)	(286)
Net cash used for investing activities	(1,334)	(1,788)	(230)	(506)	(2,101)
Cash flows from financing activities					
Short-term bank credit, net	55	357	1	(158)	3,756
Repayment of long-term loans	(1.135)	(1,255)	(310)	(5)	(1,650)
Repayment of long-term credit for property, plant and equipment	(848)	(874)	(260)	(511)	(1,217)
Subordinated loan from the controlling shareholders	1,000	-	1,000	-	-
Net cash provided from (used for) financing activities	(928)	(1,772)	431	(674)	889
Increase in cash	333	526	481	255	590
Balance of cash at beginning of period	1,354	764	1,206	1,035	764
Balance of cash at end of period	1,687	1,290	1,687	1,290	1,354

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 1 - General

a. These financial statements were prepared in a condensed format, as at September 30, 2017 and for the periods of nine months and three months then ended (hereinafter – "interim consolidated financial statements"). These statements should be read together with Tefron Ltd.'s (hereinafter- "the Company") annual financial statements as at December 31, 2016 and for the year then ended, and the notes accompanying them (hereinafter – the "annual consolidated financial statements").

b. The Company did not include separate financial information in the interim financial statements in accordance with Regulation 38d of the Securities Regulations ("Periodic and Immediate Reports"), 1970, since the Company believes that the inclusion of such information shall not constitute as additional significant information to the investor.

c. On May 18, 2015, the Company and the banks signed on an additional appendix to the amendment to the financing agreement, in the framework of which, amongst else, the financial covenants the Company is obligated to meeting, were amended. In accordance with the aforementioned appendix, according to the interim consolidated financial statements' data as at June 30, 2017, the Company's short-term credit line in the banks decreased during the third quarter of 2017 by an amount of 400 thousand dollars. According to the interim consolidated financial statements' data as at September 30, 2017, and in accordance with the aforementioned agreement with the banks, the Company's credit line would decrease by an amount of 900 thousand dollars.

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

Note 2 – Significant accounting principles

Form of preparation of the interim consolidated financial statements

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

b. The tax expenses (income) for the presented periods include the total current taxes, taxes in respect of previous years as well as the total change in the balances of deferred taxes.
Current tax expenses (income) in interim periods are accrued using the average effective annual income tax rate. For the purpose of calculating the effective income tax rate, tax losses for which deferred tax assets were not recognized, which are expected to reduce the tax liability in the reporting year are deducted.

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Notes to the Interim Consolidated Financial Statements

Note 3 - Disclosure to new IFRS during the period prior to their implementation

Regarding IFRS 15 – "Recognizing Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments", and in continuation to the aforesaid in Note 4 to the consolidated annual financial statements as at December 31, 2016, the Company is examining the impact of initial implementation of the standards on its financial statements.

Note 4 – Significant events during the period of the report

a. Approval of the remuneration policy for officers of the Company

On March 27, 2017, the General Meeting of the Company approved the updated remuneration policy for officers of the Company. On August 3, 2017, the General Meeting of the Company approved to amend the annual bonus clause in the remuneration policy for officers of the Company, subject to the recommendations of the Remuneration Committee at its meeting dated June 18, 2017.

b. The Company's engagement with Mr. Ben Lieberman in an agreement to provide management services to the Company as CEO

On May 4, 2017, the General Meeting of the shareholders of the Company approved the engagement of the Company with Mr. Ben Lieberman, who is amongst the controlling shareholders of the Company, through a private company he owns, in an agreement to provide management services to the Company as Acting CEO. On June 18, 2017, the Company's Board decided to appoint Mr. Lieberman as the Company's CEO as of June 19, 2017. On August 3, 2017, the Company's General Meeting approved the engagement with Mr. Lieberman in an agreement to provide management services to the Company as CEO.

c. A plea bargain regarding an indictment in the Labor Court

On November 23, 2016, the Company reported that an indictment was submitted to the Labor Court against the Company's subsidiary, the Company's former CEO and a former employee of the subsidiary, claiming that the defendants have violated the workplace safety regulations in connection with a work accident, which occurred at the subsidiary in 2013. On April 7, 2017, the Company reached a plea bargain concerning the said indictment, which was approved by the Court, and according to which the former CEO of the Company was deleted from the indictment, the Company's subsidiary was fined NIS 15,000 and the former employee was fined NIS10,000.

d. Cancellation of the joint venture agreement with Clover Group International Limited

On June 20, 2014, the Company engaged in a joint venture agreement with Clover Group International Limited, whose purpose was to design, develop, manufacture and sell bras using the seamless technology. On September 8, 2017, the parties signed a document canceling the agreement, including the provisions dealing with the parties' non-competition obligations. This was done after the joint venture had not eventually materialized. The Parties shall cooperate in the liquidation of the jointly owned subsidiary in equal shares, which was established in Hong Kong for the purpose of the joint venture.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

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

e. Approval of a transaction between the Company and its controlling shareholders for the purpose of leasing showrooms

On August 24, 2017, the Company's Audit Committee and Board of Directors approved a transaction between the Company and its controlling shareholders. The transaction revolves around three companies jointly renting showrooms in Manhattan, New York, which will be used by the three companies (1/3 each) for the purpose of presenting their products. For this purpose, the Company (through a wholly-owned subsidiary) will engage in an agreement with a private company controlled by the controlling shareholders of the Company, Ben Lieberman and Martin Lieberman (hereinafter: "the lessee"), whereby the lessee will lease to the Company, through a back-to-back lease, part of the showrooms' space which the lessee leased in a building in Manhattan, New York, which constitute one-third of the showrooms, which will serve, as aforementioned, the three companies (hereinafter: the "showroom complex"). The three companies are the Company and two other companies, one of which is owned by the said controlling shareholders, and the other is a company in which the controlling shareholders own 50%. All three companies operate in the textile sector, while the Company is the only company operating in the field of seamless technology. The holding of a joint showroom complex by a number of companies is acceptable, when it serves all of the companies participating in it, which enjoy greater exposure and exploit economies of scale (hereinafter: "the lease agreement").

The terms of the engagement are as follows:

a. As aforesaid, the terms of the lease agreement will be back-to-back to the terms of the lease agreement signed between the lessee and the owners of the showroom complex (hereinafter: the "main lease agreement"), when it refers to 1/3 of the showroom complex area. The lease refers to 290 square meter (gross) (3,147 square feet) of the showroom complex area which constitutes one-third of the area of the entire showroom complex. The two additional companies will each bear a third of the lease fees of the showroom complex.

b. The lease term - the lease term is as of July 1, 2017 and until December 31, 2021.

c. The lease fees - for the sublease, the Company will pay a 1/3 of the lease costs of the showroom complex, on the dates of their payment, as stipulated in the main lease agreement. Accordingly, the cost of the lease fees for the Company will be 11,500 dollars monthly.

d. Other joint expenses - In addition to the lease fees, the Company will bear one-third of the additional current expenses of the showroom complex, such as cleaning expenses, maintenance costs, water, electricity, municipal taxes, etc. The cost of the joint expenses for the Company is estimated at 1,150 dollars per month.

e. Showroom complex renovation expenses - The renovation and adjustment work was carried out by a third party unrelated to any of the three companies, whereas each of the companies bears a third of the renovation and adjustment costs. The Company's share in this renovation is an amount of US 154 thousand dollars.

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

f. Receiving a subordinated loan from the controlling shareholders

On September 27, 2017, the Company's Audit Committee and Board of Directors approved at their meetings a transaction to obtain a subordinated loan from a controlling shareholder of the Company, Litef Holdings Inc., a private Canadian company wholly owned and controlled by Ben Lieberman and Martin Lieberman. For additional details, see Note 7 below.

Note 5 – Operating segments

a. General

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

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

(a) Brands – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear, which are manufactured in the Company’s plants and through subcontractors and are sold to customers with leading brands.

(b) Retail – This segment engages in the design, development, production and marketing of seamless intimate apparel and activewear and leisurewear which are sold worldwide to customers in the retail market and are characterized by purchasing large quantities of less complex products compared to the products of the brands segment.

Tefron Ltd.

Notes to the Interim Consolidated Financial Statements

Note 5 – Operating segments (cont.)

b. Reporting in respect of operating segments

	For the nine month period ended September 30, 2017			For the nine month period ended September 30, 2016		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	Dollars thousand					
Total segment revenues	30,219	65,214	95,433	29,697	60,575	90,272
Direct profit (loss)	(6,884)	9,905	3,021	(4,538)	9,911	5,373
Indirect costs	(998)	(2,156)	(3,154)	(1,059)	(2,097)	(3,156)
Segment results	(7,882)	7,749	(133)	(5,597)	7,814	2,217
Financing expenses, net			(2,193)			(1,791)
Tax expenses			(163)			(545)
Loss			(2,489)			(119)

	For the three month period ended September 30, 2017			For the three month period ended September 30, 2016		
	Brands	Retail	Total	Brands	Retail	Total
	Unaudited					
	Dollars thousand					
Total segment revenues	7,263	22,960	30,223	6,556	18,226	24,782
Direct profit (loss)	(2,761)	2,725	(36)	(2,056)	3,414	1,358
Indirect costs	(253)	(799)	(1,052)	(278)	(772)	(1,050)
Segment results	(3,014)	1,926	(1,088)	(2,334)	2,642	308
Financing expenses, net			(635)			(473)
Tax expenses			(152)			(45)
Loss			(1,875)			(210)

Note 5 – Operating segments (cont.)

b. Reporting in respect of operating segments (cont.)

	For the year ended December 31, 2016		
	Brands	Retail	Total
	Audited		
	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
Financing expenses, net			(2,664)
Tax expenses			(782)
Loss			(1,121)

Note 6 – Financial instruments

a. Fair value

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

b. Further to the aforesaid in Note 5 to the annual financial statements as at December 31, 2016 in regards with the Company's entering into factoring transactions, as at September 30, 2017, the Company deducted debts of trade receivables in the amount of US 3.2 million dollars (US 0.5 million dollars as at September 30, 2016). The balance of trade receivables is presented net of such amounts, as aforesaid.

Note 7 – Subordinated loan from the controlling shareholders

On September 28, 2017, a controlling shareholder of the Company, Litef Holdings Inc., a private Canadian company wholly owned and controlled by Ben Lieberman and Martin Lieberman, granted the Company a loan in the amount of US 1 million dollars (hereinafter: "the loan principal"), according to the following terms:

1. The principal of the loan shall bear annual interest at a rate equal to the annual interest of the US Government's annual bonds, on the basis of which the interest was set at 1.3% per annum (hereinafter: "the interest"). The interest and the loan principal shall be referred together as: "the loan".

2. The loan is not secured by any collateral.

3. The loan will be repaid by the Company until September 30, 2018 (hereinafter: "the maturity date"), subject to the provisions of Clause 4 as follows.

Note 7 – Subordinated loan from the controlling shareholders (cont.)

4. The loan is subordinated to the loans that the Company took from its financing banks -- Bank Leumi Le-Israel Ltd., Bank Hapoalim Ltd. and Israel Discount Bank Ltd. (hereinafter: "the banks"), whereas according to its subordination terms, it could be repaid (in whole or in part, as applicable) only in the event where on the repayment date (a) the Company's tangible shareholders' equity will not be less than US 27.5 million dollars after the repayment of the loan (in whole or in part, as applicable), and (b) the Company will meet all of its obligations to the banks, including its undertaking to comply with financial covenants; all according to the reviewed quarterly financial statements of the Company as at June 30, 2018 (hereinafter together: "the preconditions for repayment of the loan").

5. If the preconditions for repayment of the loan are not fulfilled by the maturity date, in whole or in part, the fulfillment of the preconditions will be reexamined at the subsequent date of approval of the Company's financial statements, audited or reviewed, as applicable, and so forth (hereinafter: the "periodic examination date"), and if at the time of the periodic examination date the preconditions for repayment of the loan are fulfilled, the loan will be repaid, in whole or in part, as applicable, within 30 days as of the periodic examination date.

6. The Company is given the possibility of an early repayment of the loan, in whole or in part, at its sole discretion, without requiring any other additional consideration in respect of the loan in regards with the early repayment, provided that it complies with the covenants stated in Clause 4 above.