

**TEFRON LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**In thousands of US dollars ( except per share data )**

	Three months ended		Year ended
	March 31,		December 31,
	2005	2004	2004
Sales	\$52,619	\$48,858	\$182,819
Cost of sales	44,287	41,645	159,937
Gross profit	8,332	7,213	22,882
Selling, general and administrative expenses	5,119	5,245	22,387
Operating income	3,213	1,968	495
Financing expenses, net	840	407	5,212
Income (loss) before taxes on income	2,373	1,561	(4,717)
Taxes on income	709	885	203
Minority interest in earnings of a subsidiary	454	570	1,945
Net income (loss)	\$1,210	\$106	\$(6,865)
Basic and diluted net income (loss) per share	\$0.07	\$0.01	\$(0.44)
Weighted average number of shares used for computing basic earning (loss) per share	17,031,013	12,412,166	15,603,904
Weighted average number of shares used for computing diluted earning (loss) per share	17,586,044	12,888,162	15,603,904

**TEFRON LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**In thousands of US dollars**

	<u>March 31,</u>		<u>December 31,</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		<u>Audited</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$4,937	\$2,809	\$3,558
Trade receivables (net of allowance for doubtful debts)	25,130	26,523	21,402
Other accounts receivable and prepaid expenses	5,892	5,938	5,696
Inventories	<u>29,985</u>	<u>32,244</u>	<u>33,137</u>
<u>Total current assets</u>	<u>65,944</u>	<u>67,514</u>	<u>63,793</u>
DEFERRED TAXES	<u>2,427</u>	<u>2,871</u>	<u>2,486</u>
PROPERTY, PLANT AND EQUIPMENT	<u>92,934</u>	<u>97,877</u>	<u>93,931</u>
GOODWILL	<u>30,743</u>	<u>30,865</u>	<u>30,743</u>
OTHER	<u>431</u>	<u>1,226</u>	<u>578</u>
<u>Total assets</u>	<u>\$192,479</u>	<u>\$200,353</u>	<u>\$191,531</u>

	<u>March 31,</u>		<u>December 31,</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Unaudited</u>		<u>Audited</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank credit	\$21,407	\$31,436	\$21,355
Current maturities of long-term debt:			
Loans from banks and other	9,010	11,286	9,039
Capital leases	120	952	206
Trade payables	30,236	29,578	28,991
Conditional obligation with respect to issuance of shares	-	-	3454
Other accounts payable and accrued expenses	<u>9,346</u>	<u>12,736</u>	<u>9,189</u>
<u>Total current liabilities</u>	<u>70,119</u>	<u>85,988</u>	<u>72,234</u>
<b>LONG-TERM LIABILITIES:</b>			
Banks and other loans (net of current maturities)	45,679	51,736	47,907
Capital leases (net of current maturities)	-	121	-
Deferred taxes	5,828	7,750	5,611
Accrued severance pay	<u>2,542</u>	<u>2,504</u>	<u>2,744</u>
<u>Total long-term liabilities</u>	<u>54,049</u>	<u>62,111</u>	<u>56,262</u>
MINORITY INTEREST	<u>16,614</u>	<u>15,493</u>	<u>16,291</u>
<b>SHAREHOLDERS' EQUITY:</b>			
<b>Share capital</b>			
Ordinary shares of NIS 1 par value: Authorized: 50,000,000 shares; Issued: 18,068,580, 13,409,566 and 18,014,247 shares as of March 31, 2005 and 2004 and as of December 31, 2004 respectively;			
Outstanding: 17,071,180, 12,412,166 and 17,016,847 shares as of March 31, 2005 and 2004 and as of December 31, 2004 respectively;			
	6,595	5,575	6,582
Deferred shares of NIS 1 par value: Authorized, issued and outstanding: 4,500 shares			
	1	1	1
Additional paid-in capital	82,875	62,810	79,243
Deferred stock-based compensation	(388)	-	(486)
Less - 997,400 Ordinary shares in treasury, at cost	(7,408)	(7,408)	(7,408)
Accumulated deficit	<u>(29,978)</u>	<u>(24,217)</u>	<u>(31,188)</u>
<u>Total shareholders' equity</u>	<u>51,697</u>	<u>36,761</u>	<u>46,744</u>
<u>Total liabilities and shareholders' equity</u>	<u>\$192,479</u>	<u>\$200,353</u>	<u>\$191,531</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**U.S. dollars in thousands**

	Three months ended		Year ended
	March 31,		December 31,
	2005	2004	2004
<u>Cash flows from operating activities:</u>			
Net income (loss)	\$1,210	\$106	\$(6,865)
<u>Adjustments to reconcile net loss to net cash provided by operating activities:</u>			
Depreciation, amortization and impairment of property, plant and equipment	2,305	2,318	10,760
Amortization of deferred stock-based compensation	98	-	554
Loss related to conditional obligation	-	-	150
Accrued severance pay, net	(124)	31	380
Decrease (increase) in deferred income taxes, net	283	751	(853)
Realization of pre-acquisition acquired operating losses	-	-	489
Gain on sale of property and equipment, net	(18)	(3)	28
Minority interest in earnings of a subsidiary	454	570	1,945
<u>Changes in operating assets and liabilities:</u>			
Decrease (increase) in trade receivables, net	(3,728)	(1,606)	3,515
Decrease (increase) in other accounts receivable and prepaid expenses	(504)	422	65
Decrease (increase) in inventories	3,152	(568)	(1,461)
Increase (decrease) in trade payables	1,245	36	(567)
Increase (decrease) in other accounts payable and accrued expenses	694	395	(1,231)
Net cash provided by operating activities	<u>5,067</u>	<u>2,452</u>	<u>6,909</u>
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment	(1,748)	(2,002)	(8,950)
Investment grants received	337	312	1,156
Proceeds from sale of property, plant and equipment	37	22	422
Acquisition of Macro Clothing	(83)	-	(106)
Net cash used in investing activities	<u>(1,457)</u>	<u>(1,668)</u>	<u>(7,478)</u>
<u>Cash flows from financing activities:</u>			
Repayment of long-term bank loans and other loans	(2,257)	(3,777)	(9,854)
Payments under capital lease	(86)	(621)	(1,488)
Increase (decrease) in short-term bank credit, net	52	(325)	(9,276)
Dividend paid to minority interest in subsidiaries	(131)	(129)	(706)
Proceeds from exercise of stock options, net	191	-	-
Proceeds from issuance of shares and conditional obligation, net	-	-	19,704
Net cash used in financing activities	<u>(2,231)</u>	<u>(4,852)</u>	<u>(1,620)</u>
Increase (decrease) in cash and cash equivalents	1,379	(4,068)	(2,189)
Cash and cash equivalents at beginning of period	<u>3,558</u>	<u>6,877</u>	<u>5,747</u>
Cash and cash equivalents at end of period	<u>\$4,937</u>	<u>\$2,809</u>	<u>\$3,558</u>

	Three months ended		Year ended
	March 31,		December 31,
	2005	2004	2004
<u>(a) Cash paid during the period for:</u>			
Interest	<u>\$1,312</u>	<u>\$1,067</u>	<u>\$2,809</u>
Income taxes, net of refunds received	<u>42</u>	<u>4.5</u>	<u>272</u>

**Calculation of EBITDA**

	Three months ended		Year ended December 31, 2004
	March 31,		
	<u>2005</u>	<u>2004</u>	
Income (loss) before taxes on income	2,373	1,561	\$(4,717)
Finance expenses ,net	840	407	5,212
Depreciation , amortization and impairment of propety, plant and equipment	2,305	2,318	10,760
Amortization of deferred stock compensation	98		554
	<u>\$5,616</u>	<u>\$4,286</u>	<u>\$11,809</u>