

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

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2005	2004	2005	2004	2004
Sales	\$102,397	\$94,480	\$49,778	\$45,622	\$182,819
Cost of sales	<u>85,688</u>	<u>79,632</u>	<u>41,401</u>	<u>37,987</u>	<u>159,937</u>
Gross profit	16,709	14,848	8,377	7,635	22,882
Selling, general and administrative expenses	<u>10,026</u>	<u>10,739</u>	<u>4,907</u>	<u>5,517</u>	<u>22,387</u>
Operating income	6,683	4,109	3,470	2,118	495
Financing expenses, net	<u>1,714</u>	<u>1,744</u>	<u>874</u>	<u>1,314</u>	<u>5,212</u>
Income (loss) before taxes on income	4,969	2,365	2,596	804	(4,717)
Taxes on income	1,372	1,188	663	303	203
Minority interest in earnings of a subsidiary	<u>882</u>	<u>981</u>	<u>428</u>	<u>411</u>	<u>1,945</u>
Net income (loss)	<u>\$2,715</u>	<u>\$196</u>	<u>\$1,505</u>	<u>\$90</u>	<u>\$(6,865)</u>
Basic and diluted net income (loss) per share	<u>\$0.16</u>	<u>\$0.01</u>	<u>\$0.08</u>	<u>\$0.01</u>	<u>\$(0.44)</u>
Diluted net earning (loss) per share	<u>\$0.15</u>	<u>\$0.01</u>	<u>\$0.08</u>	<u>\$0.01</u>	<u>\$(0.44)</u>
Weighted average number of shares used for computing basic earning (loss) per share	<u>17,485,251</u>	<u>17,017,000</u>	<u>18,936,442</u>	<u>17,017,000</u>	<u>15,603,904</u>
Weighted average number of shares used for computing diluted earning (loss) per share	<u>17,744,589</u>	<u>17,217,366</u>	<u>19,059,549</u>	<u>17,097,211</u>	<u>15,603,904</u>

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

	June 31,		December 31,
	2005	2004	2004
	Unaudited		Audited
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$6,231	\$9,861	\$3,558
Trade receivables (net of allowance for doubtful debts)	23,972	23,891	21,402
Other accounts receivable and prepaid expenses	5,766	6,330	5,696
Inventories	28,830	33,262	33,137
<u>Total current assets</u>	<u>64,799</u>	<u>73,344</u>	<u>63,793</u>
DEFERRED TAXES	2,426	2,785	2,486
PROPERTY, PLANT AND EQUIPMENT	91,602	97,510	93,931
GOODWILL	30,743	30,865	30,743
OTHER	376	1,090	578
<u>Total assets</u>	<u>\$189,946</u>	<u>\$205,594</u>	<u>\$191,531</u>
	June 30,		December 31,
	2005	2004	2004
	Unaudited		Audited
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank credit	\$19,992	\$21,236	\$21,355
Current maturities of long-term debt:			
Loans from banks and other	8,989	10,829	9,039
Capital leases	68	668	206
Trade payables	31,384	28,523	28,991
Conditional obligation with respect to issuance of shares	-	3304	3454
Other accounts payable and accrued expenses	7,689	11,341	9,189
<u>Total current liabilities</u>	<u>68,122</u>	<u>75,901</u>	<u>72,234</u>
<b>LONG-TERM LIABILITIES:</b>			
Banks and other loans (net of current maturities)	43,447	50,144	47,907
Capital leases (net of current maturities)	-	67	-
Deferred taxes	6,254	7,799	5,611
Accrued severance pay	2,024	2,593	2,744
<u>Total long-term liabilities</u>	<u>51,725</u>	<u>60,603</u>	<u>56,262</u>
MINORITY INTEREST	16,845	15,666	16,291
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital			
Ordinary shares of NIS 1 par value: Authorized: 50,000,000 shares; Issued: 18,944,186, 18,014,247 and 18,014,247 shares as of June 30, 2005 and 2004 and as of December 31, 2004 respectively;			
Outstanding: 17,946,786, 18,014,247 and 17,016,847 shares as of June 30, 2005 and 2004 and as of December 31, 2004 respectively;	6,797	6,582	6,582
Deferred shares of NIS 1 par value: Authorized, issued and outstanding: 4,500 shares	1	1	1
Additional paid-in capital	82,715	79,265	79,243
Deferred stock-based compensation	(308)	(889)	(486)
Less - 997,400 Ordinary shares in treasury, at cost	(7,408)	(7,408)	(7,408)
Other comprehensive loss	(70)	-	-
Accumulated deficit	(28,473)	(24,127)	(31,188)
<u>Total shareholders' equity</u>	<u>53,254</u>	<u>53,424</u>	<u>46,744</u>
<u>Total liabilities and shareholders' equity</u>	<u>\$189,946</u>	<u>\$205,594</u>	<u>\$191,531</u>

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	2004	2005	2004	2004
	<b>Unaudited</b>				
<u>Cash flows from operating activities:</u>					
Net income (loss)	\$2,715	\$196	\$1,506	\$90	\$(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	4,804	4,680	2,467	2,362	10,760
Amortization of deferred stock-based compensation	178	151	80	151	554
Loss related to conditional obligation	-	-	-	-	150
Increase (decrease) in accrued severance pay, net	(624)	135	(500)	104	380
Decrease (increase) in deferred income taxes, net	725	794	359	43	(853)
Realization of pre-acquisition acquired operating losses	-	-	-	-	489
Loss (gain) on sale of property and equipment, net	(31)	191	(13)	194	28
Minority interest in earnings of a subsidiary	882	981	428	411	1,945
Decrease (increase) in trade receivables, net	(2,570)	1,026	1,158	2,632	3,515
Decrease (increase) in other accounts receivable and prepaid expenses	(191)	124	313	(548)	65
Decrease (increase) in inventories	4,307	(1,586)	1,155	(1,018)	(1,461)
Increase (decrease) in trade payables	3,247	(1,019)	1,548	(805)	(567)
decrease in other accounts payable and accrued expenses	(1,487)	(272)	(1,644)	(667)	(1,231)
Net cash provided by operating activities	<u>11,955</u>	<u>5,401</u>	<u>6,857</u>	<u>2,949</u>	<u>6,909</u>
<u>Cash flows from investing activities:</u>					
Purchase of property, plant and equipment	(3,524)	(5,037)	(1,793)	(3,035)	(8,950)
Investment grants received	341	538	52	226	1,156
Proceeds from sale of property, plant and equipment	90	33	53	11	422
Acquisition of Macro Clothing	(83)	-	-	-	(106)
Net cash used in investing activities	<u>(3,176)</u>	<u>(4,466)</u>	<u>(1,688)</u>	<u>(2,798)</u>	<u>(7,478)</u>
<u>Cash flows from financing activities:</u>					
Repayment of long-term bank loans and other loans	(4,510)	(5,826)	(2,253)	(2,049)	(9,854)
Payments under capital lease	(138)	(959)	(52)	(338)	(1,488)
Decrease in short-term bank credit, net	(1,363)	(10,525)	(1,415)	(10,200)	(9,276)
Dividend paid to minority interest in subsidiaries	(328)	(367)	(197)	(238)	(706)
Proceeds from exercise of stock options, net	233	-	42	-	-
Proceeds from issuance of shares and conditional obligation, net	-	19,726	-	19,726	19,704
Net cash used in financing activities	<u>(6,106)</u>	<u>2,049</u>	<u>(3,875)</u>	<u>6,901</u>	<u>(1,620)</u>
Increase (decrease) in cash and cash equivalents	2,673	2,984	1,294	7,052	(2,189)
Cash and cash equivalents at beginning of period	<u>3,558</u>	<u>6,877</u>	<u>4,937</u>	<u>2,809</u>	<u>5,747</u>
Cash and cash equivalents at end of period	<u>\$6,231</u>	<u>\$9,861</u>	<u>\$6,231</u>	<u>\$9,861</u>	<u>\$3,558</u>
	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	2004	2005	2004	2004
	<b>Unaudited</b>				
(a) <u>Cash paid during the period for:</u>					
Interest	<u>\$1,752</u>	<u>\$1,726</u>	<u>\$440</u>	<u>\$659</u>	<u>\$2,809</u>
Income taxes, net of refunds received	<u>\$47</u>	<u>\$318</u>	<u>\$5</u>	<u>\$314</u>	<u>\$272</u>
(b) <u>Supplemental disclosure of non-cash investing and financing activities</u>					
Purchase of property, plant and equipment by credit, net of investment grants receivables	<u>\$ -</u>	<u>\$257</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Settlement of a conditional obligation	<u>\$3,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Calculation of the EBITDA

	Six months ended		Three months ended		Year ended December 31, 2004
	June 30,		June 30,		
	2005	2004	2005	2004	
Income (loss) before taxes on income	4,969	2,365	2,596	804	\$(4,717)
Finance expenses ,net	1,714	1,744	874	1,314	5,212
Depreciation , amortization and impairment of propety, plant and equipment	4,804	4,680	2,467	2,362	10,760
Amortization of deferred stock compensation	178	151	80	151	554
	<u>\$11,665</u>	<u>\$8,940</u>	<u>\$6,017</u>	<u>\$4,631</u>	<u>\$11,809</u>