

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

	Six months ended June 30,		Three months ended June 30,		Year ended December 31
	2004	2003	2004	2003	2003
	(Unaudited)				
Sales,net	\$ 94,480	\$ 83,250	\$ 45,622	\$ 40,861	\$ 163,086
Cost of sales	79,632	69,277	37,987	35,065	138,090
Gross Profit	14,848	13,973	7,635	5,796	24,996
Selling,general and administrative expenses	10,738	10,022	5,493	5,095	20,323
Operating Income	4,110	3,951	2,142	701	4,673
Financing expenses ,net	1,744	2,533	1,314	1,362	5,628
Other expenses (income),net	1	(237)	24	(112)	(228)
Income (loss) before taxes on income	2,365	1,655	804	(549)	(727)
Taxes on income	1,188	326	303	(153)	(92)
Net income (loss) after income taxes	1,177	1,329	501	(396)	(635)
Equity in earnings (losses) of affiliates companies		(22)		56	(183)
Minority interest in earnings of a subsidiary	981	1,327	411	694	2,550
Pre-acquisition loss of susidiary since April 1,2003		85		85	85
Net income (loss)	\$196	(\$105)	\$90	(\$1,119)	(\$3,453)
Basic and diluted net income (loss) per share	\$0.01	\$0.01	\$0.01	\$0.09	(\$0.28)

TEFRON LTD.
CONSOLIDATED BALANCE SHEETS
In thousands of US dollars

	<u>June 30,</u>		<u>December 31,</u>
	<u>2004</u>	<u>2003</u>	<u>2003</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 9,861	\$ 6,130	\$ 6,877
Trade receivables, net	23,891	19,150	24,917
Others receivables and prepaid exp.	6,330	4,864	6,166
Inventory	<u>33,262</u>	<u>26,867</u>	<u>31,676</u>
Total current assets	<u>73,344</u>	<u>57,011</u>	<u>69,636</u>
SEVERANCE PAY FUND	<u>189</u>	<u>388</u>	<u>217</u>
FIXED ASSETS			
Cost	162,296	153,464	157,734
Less-accumulated depreciation	<u>64,786</u>	<u>56,269</u>	<u>60,261</u>
	<u>97,510</u>	<u>97,195</u>	<u>97,473</u>
OTHER ASSETS			
Goodwill	30,865	30,895	30,865
Deferred taxes	2,785	3,961	3,428
Investment in affiliated companies	296	482	296
Advance to supplier		1,442	
Others	<u>605</u>	<u>1,088</u>	<u>806</u>
Total other assets	<u>34,551</u>	<u>37,868</u>	<u>35,395</u>
Total assets	<u>\$ 205,594</u>	<u>\$ 192,462</u>	<u>\$ 202,721</u>
LIABILITIES & SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term bank debt	\$ 21,236	\$ 19,226	\$ 31,761
Current maturities of long-term debt:			
Bank	10,829	11,010	10,328
Capital leases and note payable	668	2,192	1,367
Trade payables	28,523	23,199	29,558
Payables in respect of issuance of shares	3,454	-	
Others payables and accrued expenses	<u>11,341</u>	<u>9,115</u>	<u>11,146</u>
Total current liabilities	<u>76,051</u>	<u>64,742</u>	<u>84,160</u>
LONG-TERM LIABILITIES			
Bank loans	50,144	60,558	56,471
Capital leases	67	2,077	327
Deferred taxes	7,799	8,478	7,570
Accrued severance pay	<u>2,593</u>	<u>2,303</u>	<u>2,486</u>
Total long-term liabilities	<u>60,603</u>	<u>73,416</u>	<u>66,854</u>
MINORITY INTEREST			
	<u>15,666</u>	<u>14,301</u>	<u>15,052</u>
Total liabilities	<u>152,320</u>	<u>152,459</u>	<u>166,066</u>
SHAREHOLDERS' EQUITY			
Share capital	6,583	5,576	5,576
Additional paid-in capital	79,115	62,810	62,810
Accumulated deficit	(24,127)	(20,975)	(24,323)
Deferred compensation	<u>(889)</u>		
	60,682	47,411	44,063
Treasury shares	<u>(7,408)</u>	<u>(7,408)</u>	<u>(7,408)</u>
Total shareholders' equity	<u>53,274</u>	<u>40,003</u>	<u>36,655</u>
Total liabilities and shareholders' equity	<u>\$ 205,594</u>	<u>\$ 192,462</u>	<u>\$ 202,721</u>

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
U.S. dollars in thousands, except share data

	Ordinary shares		Deferred shares		Additional paid-in capital	Accumulated deficit	Deferred compensation	Treasury shares	Total
	Number *)	Amount	Number *)	Deficit					
Balance as of January 1, 2003	12,412,166	\$5,575	4,500	\$ 1	\$62,810	\$(20,870)	-	\$(7,408)	\$40,108
Net loss	-	-	-	-	-	(3,453)	-	-	(3,453)
Balance as of December 31, 2003	12,412,166	5,575	4,500	1	62,810	\$(24,323)	-	\$(7,408)	36,655
Issuance of shares	4,604,681	1,007	-	-	15,265	-	-	-	16,272
Deferred compensation	-	-	-	-	1,040	-	(1,040)	-	-
Amortization of deferred compensation	-	-	-	-	-	-	151	-	151
Net income	-	-	-	-	-	196	-	-	196
Balance as of June 30, 2004 (Unaudited)	<u>17,016,847</u>	<u>\$ 6,582</u>	<u>4,500</u>	<u>\$ 1</u>	<u>\$79,115</u>	<u>\$(24,127)</u>	<u>\$ (889)</u>	<u>\$(7,408)</u>	<u>\$53,274</u>
Balance as of January 1, 2003	12,412,166	\$5,575	4,500	\$1	\$62,810	\$(20,870)	-	\$(7,408)	\$40,108
Net income	-	-	-	-	-	(105)	-	-	(105)
Balance as of June 30, 2003 (Unaudited)	<u>12,412,166</u>	<u>\$ 5,575</u>	<u>4,500</u>	<u>\$ 1</u>	<u>\$62,810</u>	<u>\$(20,975)</u>	<u>\$ -</u>	<u>\$(7,408)</u>	<u>\$40,003</u>
	Ordinary shares		Deferred shares		Additional paid-in capital	Accumulated deficit	Deferred compensation	Treasury shares	Total
	Number *)	Amount	Number *)	Deficit					
Balance as of April 1, 2004	12,412,166	\$5,575	4,500	\$ 1	\$62,810	\$(24,217)	-	\$(7,408)	\$36,761
Issuance of shares	4,604,681	1,007	-	-	15,265	-	-	-	16,272
Deferred compensation	-	-	-	-	1,040	-	(1,040)	-	-
Amortization of deferred compensation	-	-	-	-	-	-	151	-	151
Net income	-	-	-	-	-	90	-	-	90
Balance as of June 30, 2004 (Unaudited)	<u>17,016,847</u>	<u>\$ 6,582</u>	<u>4,500</u>	<u>\$ 1</u>	<u>\$ 79,115</u>	<u>\$(24,127)</u>	<u>\$ (889)</u>	<u>\$(7,408)</u>	<u>\$ 53,274</u>
Balance as of April 1, 2003	12,412,166	\$5,575	4,500	\$1	\$62,810	\$(19,856)	-	\$(7,408)	\$41,122
Net income	-	-	-	-	-	(1,119)	-	-	(1,119)
Balance as of June 30, 2003 (Unaudited)	<u>12,412,166</u>	<u>\$ 5,575</u>	<u>4,500</u>	<u>\$ 1</u>	<u>\$62,810</u>	<u>\$(20,975)</u>	<u>-</u>	<u>\$(7,408)</u>	<u>\$40,003</u>

(*)Net of 997,400 Ordinary shares in treasury.

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

	Six months ended		Three months ended		ended December 2003
	June 30,		June 30,		
	2004	2003	2004	2003	
	Unaudited		Unaudited		
Cash flows from operating activities:					
Net income (loss)	\$196	(\$105)	\$90	(\$1,119)	\$(3,453)
Adjustments to reconcile net income (loss) to net cash provided by operating activities (a)	5,205	4,972	2,859	4,749	6,329
Net cash provided by operating activities	5,401	4,867	2,949	3,630	2,876
Cash flows from investing activities:					
Investment in property, plant and equipment	(5,037)	(1,858)	(3,035)	(631)	(3,948)
Investment grants received	538	1,868	226	7	1,868
Investment in affiliated companies	-	(166)	-	(61)	(125)
Proceeds from sale of property, plant and equipment	33	319	11	194	499
Payment for acquisition of subsidiary (b)	-	300	-	300	300
Net cash provided by (used in) investing activities	(4,466)	463	(2,798)	(191)	(1,406)
Cash flows from financing activities:					
Receipt of long-term bank loans	-	8,500	-	8,500	8,500
Repayment of long-term bank loans and other loans	(5,826)	(15,806)	(2,049)	(11,352)	(22,614)
Payment under capital lease	(959)	(1,140)	(338)	(632)	(1,691)
Increase (decrease) in short-term bank credit, net	(10,525)	3,101	(10,200)	570	15,636
Dividend paid to minority interest in subsidiaries	(367)	(597)	(238)	(249)	(1,166)
Dividend paid to minority interest in subsidiaries *)	19,726	-	19,726	-	-
Net cash used in financing activities	2,049	(5,942)	6,901	(3,163)	(1,335)
Increase (decrease) in cash and cash equivalents	2,984	(612)	7,052	276	135
Cash and cash equivalents at the beginning of the period	6,877	6,742	2,809	5,854	6,742
Cash and cash equivalents at the end of the period	\$9,861	\$6,130	\$9,861	\$6,130	\$6,877

*) Net of issuing cost at the amount of \$ 274 thousand .

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

	Six months ended		Three months ended		ended December 2003
	June 30,		June 30,		
	2004	2003	2004	2003	
	Unaudited		Unaudited		
(a) Adjustments to reconcile net loss to net cash provided by operating activities:					
Depreciation and amortization	\$4,831	\$3,397	\$2,513	\$1,413	\$7,673
Increase (decrease) in accrued severance pay, net	135	(356)	104	(321)	(692)
Decrease (increase) in deferred income taxes	794	272	43	(207)	(289)
Equity in losses of affiliated companies	-	22	-	(56)	183
Gain on sale of property and equipment, net	191	(235)	194	(110)	(199)
Minority interest in earnings of a subsidiary	981	1,327	411	694	2,550
Pre-acquisition loss of a subsidiary	-	85	-	85	85
Changes in operating assets and liabilities:					
Decrease (increase) in trade receivables, net	1,026	2,799	2,632	258	(3,006)
Decrease (increase) in other accounts receivable and prepaid expenses	124	(292)	(548)	192	(469)
Increase in inventories	(1,586)	(23)	(1,018)	239	(4,482)
Increase (decrease) in trade payables	(1,019)	(2,588)	(805)	1,592	3,911
Increase (decrease) in other accounts payable and accrued expenses	(272)	564	(667)	970	1,064
	\$5,205	\$4,972	\$2,859	\$4,749	\$6,329
(b) Payment for acquisition of subsidiary					
Working capital, net	\$ -	\$(722)	\$ -	\$(722)	\$(692)
Property and equipment, net	-	369	-	369	369
Goodwill	-	152	-	152	122
Accrued severance pay, net	-	(99)	-	(99)	(99)
	\$ -	\$(300)	\$ -	\$(300)	\$(300)
Supplemental disclosure of non-cash investing and financing activities:	\$257	\$1,869	\$(730)	\$(643)	\$2,744
Cash paid during the year in respect of:					
Interest paid	\$1,726	\$2,050	\$659	\$754	\$3,538
Income taxes, net of refunds received.	\$318	\$56	\$314	\$51	\$60

	Calculation of the EBITDA (in thousands \$)				
	Six months ended , June 30,		Three months ended , June 30,		Year ended , December 31,
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
Income (loss) before taxes on income (benefit)	\$2,365	\$1,655	\$804	\$(549)	\$(727)
Finance expenses ,net	\$1,744	\$2,533	\$1,314	\$1,362	5,628
Depreciation and amortization (see Cash Flows Statements)	\$4,831	\$3,397	\$2,513	\$1,413	7,673
Gain on sale of equipment,net (see Cash Flows Statements Q1/03)				\$125	
<u>EBITDA</u>	<u>\$8,940</u>	<u>\$7,585</u>	<u>\$4,631</u>	<u>\$2,351</u>	<u>\$12,574</u>