

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

	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31</b>		<b>December 31</b>
	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>(Unaudited)</b>		
Sales	\$ 48,858	\$ 42,389	\$ 163,086
Cost of sales	<u>41,645</u>	<u>34,212</u>	<u>138,090</u>
Gross Profit	7,213	8,177	24,996
Selling,general and administrative exp.	<u>5,245</u>	<u>4,927</u>	<u>20,323</u>
Operating Income	1,968	3,250	4,673
Financing expenses ,net	430	1,171	5,628
Other expenses ,net	(23)	(125)	(228)
Income (loss) before taxes on income	1,561	2,204	(727)
Taxes on income	<u>885</u>	<u>479</u>	<u>(92)</u>
Net income (loss) after income taxes	676	1,725	(635)
Equity in losses of affiliates		78	183
Minority interest in ernings of a subsidiary	570	633	2,550
Per-acquisition loss of susidiary			<u>85</u>
Net income (loss)	<u>\$106</u>	<u>\$1,014</u>	<u>(\$3,453)</u>
Earnings (Loss) Per Share	<u>\$0.01</u>	<u>\$0.08</u>	<u>(\$0.28)</u>

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

	March 31		December 31,
	2004	2003	2003
	(Unaudited)		(Audited)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 2,809	\$ 5,854	\$ 6,877
Trade receivables, net	26,523	18,880	24,917
Inventories	32,244	26,468	31,676
Others receivables and prepaid exp.	5,938	5,060	6,166
<b>Total current assets</b>	<b>67,514</b>	<b>56,262</b>	<b>69,636</b>
<b>SEVERANCE PAY FUND</b>	<b>204</b>	<b>411</b>	<b>217</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Cost	160,459	153,531	157,734
Less-accumulated depreciation	62,582	57,299	60,261
	97,877	96,232	97,473
<b>OTHER ASSETS</b>			
Goodwill	30,865	30,743	30,865
Deferred taxes	2,871	3,961	3,428
Investment in affiliated companies	296	500	296
Advance to supplier		1,428	
Others	726	1,154	806
<b>Total other assets</b>	<b>34,758</b>	<b>37,786</b>	<b>35,395</b>
<b>Total assets</b>	<b>\$ 200,353</b>	<b>\$ 190,691</b>	<b>\$ 202,721</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short-term bank debt	\$ 31,436	\$ 17,298	\$ 31,761
Current maturities of long-term debt:			
Bank	11,286	15,610	10,328
Capital leases and note payable	952	2,175	1,367
Trade payables	29,578	20,591	29,558
Others payables and accrued expenses	12,736	7,852	11,146
<b>Total current liabilities</b>	<b>85,988</b>	<b>63,526</b>	<b>84,160</b>
<b>LONG-TERM LIABILITIES</b>			
Bank loans	51,736	58,810	56,471
Capital leases	121	2,566	327
Deferred taxes	7,750	8,613	7,570
Accrued severance pay	2,504	2,208	2,486
<b>Total long-term liabilities</b>	<b>62,111</b>	<b>72,197</b>	<b>66,854</b>
<b>MINORITY INTEREST</b>	<b>15,493</b>	<b>13,846</b>	<b>15,052</b>
<b>Total liabilities</b>	<b>163,592</b>	<b>149,569</b>	<b>166,066</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	5,576	5,576	5,576
Additional paid-in capital	62,810	62,810	62,810
Accumulated deficit	(24,217)	(19,856)	(24,323)
Treasury shares	(7,408)	(7,408)	(7,408)
<b>Total shareholders' equity</b>	<b>36,761</b>	<b>41,122</b>	<b>36,655</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 200,353</b>	<b>\$ 190,691</b>	<b>\$ 202,721</b>

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

	<u>Ordinary shares</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Treasury shares</u>	<u>Total</u>
	<u>Number *)</u>	<u>Amount</u>				
Balance as of January 1, 2003	12,412,166	5,576	62,810	\$(20,870)	\$(7,408)	40,108
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$(3,453)</u>	<u>-</u>	<u>\$(3,453)</u>
Balance as of December 31, 2003	12,412,166	5,576	62,810	\$(24,323)	\$(7,408)	36,655
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>106</u>	<u>-</u>	<u>106</u>
Balance as of March 31, 2004 (Unaudited)	<u>12,412,166</u>	<u>\$ 5,576</u>	<u>\$ 62,810</u>	<u>\$(24,217)</u>	<u>\$(7,408)</u>	<u>\$ 36,761</u>
Balance as of January 1, 2003	12,412,166	\$ 5,576	\$ 62,810	\$(20,870)	\$(7,408)	\$ 40,108
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,014</u>	<u>-</u>	<u>1,014</u>
Balance as of March 31, 2003 (Unaudited)	<u>12,412,166</u>	<u>\$ 5,576</u>	<u>\$ 62,810</u>	<u>\$(19,856)</u>	<u>\$(7,408)</u>	<u>\$ 41,122</u>

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

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

	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December</b>
	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>Unaudited</b>		
<b>Cash flows from operating activities</b>			
Net income (loss)	\$106	\$1,014	\$(3,453)
Adjustments to reconcile net income (loss) to net cash provided by operating activities (a)	2346	223	6329
Net cash provided by operating activities	<u>2452</u>	<u>1237</u>	<u>2876</u>
<b>Cash flows from investing activities</b>			
Investment in property, plant and equipment	(2002)	(1227)	(4123)
Investment grants received	312	1861	1868
Investment in affiliated companies	-	(105)	(125)
Proceeds from sale of property, plant and equipment	22	125	499
Payment for acquisition of subsidiary (b)	-	-	300
Net cash provided by (used in) investing activities	<u>(1668)</u>	<u>654</u>	<u>(1581)</u>
<b>Cash flows from financing activities</b>			
Receipt of long-term bank loans	-	-	8500
Repayment of long-term bank loans and other loans	(3777)	(4454)	(22614)
Payment under capital lease	(621)	(508)	(1691)
Receipt under capital lease	-	-	175
Increase (decrease) in short-term bank credit, net	(325)	2531	15636
Dividend paid to minority interest in subsidiaries	(129)	(348)	(1166)
Net cash used in financing activities	<u>(4852)</u>	<u>(2779)</u>	<u>(1160)</u>
Increase (decrease) in cash and cash equivalents	(4068)	(888)	135
Cash and cash equivalents at the beginning of the period	<u>6877</u>	<u>6742</u>	<u>6742</u>
Cash and cash equivalents at the end of the period	<u>\$2,809</u>	<u>\$5,854</u>	<u>\$6,877</u>

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

	<b>Three months ended</b>		<b>Year ended</b>
	<b>2004</b>	<b>2003</b>	<b>December 31,</b>
	<b>Unaudited</b>		<b>2003</b>
<u>(a) Adjustments to reconcile net loss to net cash provided</u>			
<u>by operating activities:</u>			
Depreciation and amortization	\$2,318	\$1,984	\$7,673
Increase (decrease) in accrued severance pay, net	31	(35)	(692)
Decrease (increase) in deferred income taxes	751	479	(289)
Equity in losses of affiliated companies	-	78	183
Gain on sale of property and equipment, net	(3)	(125)	(199)
Minority interest in earnings of a subsidiary	570	633	2,550
Pre-acquisition loss of a subsidiary	-	-	85
<u>Changes in operating assets and liabilities:</u>			
Decrease (increase) in trade receivables, net	(1,606)	2,541	(3,006)
Decrease (increase) in other accounts receivable and prepaid expenses	422	(484)	(469)
Increase in inventories	(568)	(262)	(4,482)
Increase (decrease) in trade payables	36	(4,180)	3,911
Increase (decrease) in other accounts payable and accrued expenses	395	(406)	1,064
	<u>2,346</u>	<u>223</u>	<u>6,329</u>
<u>(b) Payment for acquisition of subsidiary</u>			
Working capital, net	\$ -	\$ -	\$ (692)
Property and equipment, net	-	-	369
Goodwill	-	-	122
Accrued severance pay, net	-	-	(99)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (300)</u>
<u>Supplemental disclosure of non-cash investing and financing activities:</u>	<u>\$ 987</u>	<u>\$ 900</u>	<u>\$ 2,744</u>
<u>Cash paid during the year in respect of:</u>			
Interest paid	<u>\$ 1,067</u>	<u>\$ 1,296</u>	<u>\$ 3,538</u>
Income taxes, net of refunds received.	<u>\$ 4.5</u>	<u>\$ 5</u>	<u>\$ 60</u>

**Calculation of the EBITDA**

(in thousands \$)

	Three months ended		Year ended December 31, 2003
	March 31,		
	2004	2003	
	<u>Unaudited</u>		
Income (loss) before taxes on income (benefit)	1,561	2,204	(727)
Finance expenses ,net	430	1,171	5,628
Depreciation and amortization (see Cash Flows Statements)	2,318	1,984	7,673
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<u>EBITDA</u>	<u>\$4,309</u>	<u>\$5,359</u>	<u>\$12,574</u>