

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2002	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,742	\$ 6,877
Trade receivables (net of allowance for doubtful debts)	21,421	24,917
Inventories	26,206	31,676
Other accounts receivable and prepaid expenses	5,459	6,166
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Total current assets	59,828	69,636
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SEVERANCE PAY FUNDS	433	217
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PROPERTY, PLANT AND EQUIPMENT:		
Cost	150,632	157,734
Less - accumulated depreciation	52,133	60,261
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Property, plant and equipment, net	98,499	97,473
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OTHER ASSETS:		
Goodwill	30,743	30,865
Deferred taxes	3,961	3,428
Investment in companies	354	296
Advance to supplier of equipment	1,374	-
Other	1,219	806
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Total other assets	37,651	35,395
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Total assets	<u>\$ 196,411</u>	<u>\$ 202,721</u>

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share data

	December 31,	
	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	\$ 14,767	\$ 31,761
Current maturities of long-term debt:		
Banks and other loans	*) 16,290	10,328
Capital leases	*) 1,455	1,367
Trade payables	*) 24,078	29,558
Other accounts payable and accrued expenses	*) 9,405	11,146
Total current liabilities	<u>65,995</u>	<u>84,160</u>
LONG-TERM LIABILITIES:		
Banks and other loans	64,623	56,471
Capital leases	1,755	327
Deferred taxes	8,117	7,570
Accrued severance pay	<u>2,123</u>	<u>2,486</u>
Total long-term liabilities	<u>76,618</u>	<u>66,854</u>
MINORITY INTEREST	<u>13,690</u>	<u>15,052</u>
Total liabilities	<u>156,303</u>	<u>166,066</u>
LIENS, CONTINGENCIES AND COMMITMENTS		
SHAREHOLDERS' EQUITY:		
Share capital		
Ordinary shares of NIS 1 par value:		
Authorized - 50,000,000 shares		
Issued - 13,409,566 shares	5,575	5,575
Deferred shares of NIS 1 par value:		
Authorized, issued and outstanding - 4,500 shares	1	1
Additional paid-in capital	62,810	62,810
Accumulated deficit	(20,870)	(24,323)
Deferred stock compensation	-	-
Accumulated other comprehensive income	<u>-</u>	<u>-</u>
Less - 997,400 Ordinary shares in treasury, at cost	<u>47,516</u> <u>(7,408)</u>	<u>44,063</u> <u>(7,408)</u>
Total shareholders' equity	<u>40,108</u>	<u>36,655</u>
Total liabilities and shareholders' equity	<u>\$ 196,411</u>	<u>\$ 202,721</u>

*) Reclassified.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except per share data

	Year ended December 31,		
	2001	2002	2003
Sales	\$ 188,949	\$ 190,305	\$ 163,086
Cost of sales	169,173	151,385	138,090
Restructuring costs	-	1,550	-
Gross profit	19,776	37,370	24,996
Selling, general and administrative expenses	20,140	18,358	20,323
Restructuring costs	-	3,793	-
Operating income (loss)	(364)	15,219	4,673
Financial expenses, net	9,396	5,457	5,628
Other expenses (income), net	843	2,293	(228)
Income (loss) before taxes on income (benefit)	(10,603)	7,469	(727)
Taxes on income (benefit)	(837)	4,979	(92)
Income (loss) after income taxes	(9,766)	2,490	(635)
Equity in losses of affiliated companies	(240)	(392)	(183)
Minority interest in earnings of a subsidiary	-	(822)	(2,550)
Pre-acquisition loss of subsidiary since March 31, 2003	-	-	(85)
Net income (loss) from ordinary activities	(10,006)	1,276	(3,453)
Cumulative effect of change in accounting principle	-	(18,774)	-
Net loss	<u>\$ (10,006)</u>	<u>\$ (17,498)</u>	<u>\$ (3,453)</u>
Income (loss) per share from ordinary activities	<u>\$ (0.81)</u>	<u>\$ 0.10</u>	<u>\$ (0.28)</u>
Loss per share from cumulative effect of change in accounting principles	<u>\$ -</u>	<u>\$ (1.51)</u>	<u>\$ -</u>
Basic and diluted net loss per share	<u>\$ (0.81)</u>	<u>\$ (1.41)</u>	<u>\$ (0.28)</u>

TEFRON LTD. AND ITS SUBSIDIARIES

U.S. dollars in thousands

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Cash flows from operating activities</u>			
Net loss	(\$10,006)	(\$17,498)	(\$3,453)
Adjustments to reconcile net loss to net cash provided by operating activities (a)	25,203	43,344	6,329
Net cash provided by operating activities	<u>15,197</u>	<u>25,846</u>	<u>2,876</u>
<u>Cash flows from investing activities</u>			
Investment in property, plant and equipment	-6,475	-2,977	-4,123
Investment grants received	5,732	1,659	1,868
Investment in affiliated companies	-1,487	-279	-125
Proceeds from sale of property, plant and equipment	-	218	499
Payment for acquisition of subsidiary (b)	-	-	<u>300</u>
Net cash used in investing activities	<u>-2,230</u>	<u>-1,379</u>	<u>-1,581</u>
<u>Cash flows from financing activities</u>			
Receipt of long-term bank loans	-	25,772	8,500
Repayment of long-term bank loans and other loans	-8,110	-50,320	-22,614
Payment under capital lease	-3,146	-5,821	-1,691
Receipt under capital lease	-	330	175
Increase (decrease) in short-term bank credit, net	-1,052	-3,908	15,636
Payment under issuance of shares to minority shareholders	-	-1,214	-
Proceeds from issuance of shares to minority shareholders	-	*) 12,358	-
Dividend paid to minority interest in subsidiary	-	-	<u>-1,166</u>
Net cash used in financing activities	<u>-12,308</u>	<u>-22,803</u>	<u>-1,160</u>
Increase in cash and cash equivalents	659	1,664	135
Cash and cash equivalents at the beginning of the year	<u>4,419</u>	<u>5,078</u>	<u>6,742</u>
Cash and cash equivalents at the end of the year	\$5,078	<u>\$6,742</u>	<u>\$6,877</u>

*) Net of issuance cost in the amount of \$ 642.

TEFRON LTD. AND ITS SUBSIDIARIES

U.S. dollars in thousands

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
(a) <u>Adjustments to reconcile net loss to net cash provided by operating activities</u>			
Depreciation and amortization	\$10,944	\$9,722	\$7,673
Increase (decrease) in accrued severance pay, net	458	1,285	-692
Decrease (increase) deferred income taxes	-837	4,571	-289
Equity in losses of affiliated companies	240	392	183
Loss (gain) on disposal of property and equipment, net	915	8	-199
Minority interest in earnings of a subsidiary	-	822	2,550
Loss from issuance of shares to third party	-	2,082	-
Pre-acquisition loss of a subsidiary	-	-	85
Decrease (increase) in trade receivables, net	3,964	2,019	-3,006
Decrease (increase) in other accounts receivable and prepaid expenses	5,655	-343	-469
Decrease (increase) in inventories	7,875	-2,634	-4,482
Increase (decrease) in trade payables	-1,200	4,227	3,911
Decrease in other accounts payable and accrued expenses	-2,811	-1,753	1,064
Goodwill write-off	-	18,774	-
Restructuring cost:			
Write down of long-lived assets	-	2,622	-
Inventory mark down	-	1,550	-
	<u>\$25,203</u>	<u>\$43,344</u>	<u>\$6,329</u>
(b) <u>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</u>	<u>\$ -</u>	<u>\$410</u>	<u>\$2,744</u>
<u>Cash paid during the year in respect of:</u>			
Interest paid	<u>\$10,813</u>	<u>\$5,962</u>	<u>\$3,538</u>
Income taxes, net of refunds received.	<u>\$ -</u>	<u>(\$37)</u>	<u>\$60</u>

TEFRON LTD. AND ITS SUBSIDIARIES

U.S. dollars in thousands

Calculation from GAAP to EBITDA

Calculation of the EBITDA

Year ended December 31,
(in thousands \$)

	<u>2003</u>	<u>2002</u>
Income (loss) before taxes on income (benefit)	-\$727	\$7,469
Finance expenses ,net	5,628	5,457
Depreciation and amortization (see Cash Flows Statements)	7,673	9,722
Restructuring cost (in Gross profit)		1,550
Restructuring cost (in SG&A expenses)		3,793
Other expenses,net *		1,632
	<u>\$12,574</u>	<u>\$29,623</u>

Three months ended December
(in thousands \$)

	<u>2003</u>	<u>2002</u>
Income (loss) before taxes on income (benefit)	-\$1,374	-\$1,150
Finance expenses ,net	\$2,043	\$1,233
Depreciation and amortization	\$1,758	\$2,080
Restructuring cost (in Gross profit)		\$1,550
Restructuring cost (in SG&A expenses)		\$3,793
Other expenses,net *		\$436
	<u>\$2,427</u>	<u>\$7,942</u>

* Other expenses, net consists of the one time charge associated with the sale of 52% of the Health Products Division of Alba Waldensian.