



Tefron Reports Fourth Quarter and Full Year 2005 Results

Strong growth in revenues and profitability

2005 Highlights

- Revenues reached \$205.6 million during 2005, up 12.5% over 2004. On a pro-forma basis excluding AlbaHealth and the effects of its sale by Tefron, revenues reached \$171.3 million, up 15.3% over 2004.
- Gross margins reached 19.1% and operating margins reached 6.5% in 2005. On a pro-forma basis, excluding AlbaHealth and the effects of its sale by Tefron, gross margins reached 17.3% and operating margins reached 9.1% in 2005.
- Fully diluted EPS was \$0.18 in 2005 compared with (\$0.44) in 2004. On a pro-forma basis excluding AlbaHealth and the effects of its sale by Tefron, fully diluted EPS reached \$0.47 in 2005 compared with \$(0.56) in 2004.
- EBITDA in 2005 was \$29.9 million compared with \$11.8 million in 2004. On a pro-forma basis excluding AlbaHealth and the effects of its sale by Tefron, EBITDA in 2005 was \$25.9 million compared with \$6.1 million in 2004.

Fourth Quarter Highlights

- Revenues reached \$55.1 million during the quarter, up 23.4% over the same period in 2004. On a pro-forma basis, excluding AlbaHealth and the effects of its sale by Tefron, fourth quarter revenues reached \$46 million, up 26.7% over the same period in 2004.
- Gross margins reached 23.3% and operating margins reached 3.4% in the quarter. On a pro-forma basis excluding AlbaHealth and the effects of its sale by Tefron, gross margins reached 22.8% and operating margins reached 15.3% in the quarter.
- Fully diluted EPS was (\$0.12) in the quarter compared with (\$0.24) in the same period in 2004. On a pro-forma basis excluding AlbaHealth and the effects of its sale by Tefron, fully diluted EPS reached \$0.21 in the quarter compared with (\$0.26) in the same period in 2004.
- EBITDA for the quarter was \$10.8 million compared with \$0.2 million in the same period in 2004. On a pro-forma basis excluding AlbaHealth and the effects of its sale by Tefron, EBITDA was \$10.2 million in the quarter compared with (\$1.0) in the same period in 2004.

Misgav, Israel, March 8, 2006 -- Tefron Ltd. (NYSE:TFR; TASE:TFRN), a leading producer of seamless intimate apparel and engineered-for-performance (EFPTM) active wear, today announced financial results for the fourth quarter and full year 2005.

As announced on December 22, 2005, Tefron's management has authorized the exercise by Tefron of its option to require AlbaHealth to purchase Tefron's ownership interest in AlbaHealth. Management currently expects that the transaction will close by the end of the first quarter of 2006, although there can be no assurance that the transaction will be completed within that time period, or at all. Upon completion of the transaction, Tefron will cease to consolidate the financial results of AlbaHealth.

The pro-forma results exclude the results of AlbaHealth, as well as and an additional \$5.6 million, almost all of which in non-cash expenses and \$1.0 million of tax liability, that were recorded in the fourth quarter of 2005 as a result of the anticipated AlbaHealth transaction. Reconciliation between the results on a GAAP and pro-forma basis is provided in a table immediately following the Consolidated Statement of Operations.

Fourth Quarter 2005 Results

Fourth quarter sales reached \$55.1 million, representing a 23.4% growth over the same period of last year. On a pro-forma basis, sales for the quarter reached \$46.0 million representing a 26.7% increase over the fourth quarter of 2004.

Pro-forma gross margin in the fourth quarter increased to 22.8% from 2.7% in the fourth quarter of 2004. Pro-forma operating income grew to \$7.0 million (15.3% of revenues) compared to an operating loss of \$3.1 million in the fourth quarter of 2004.

The improvement in profitability was due to the increased contribution of higher margin products and the continuous improved operating efficiencies in all of the Company's divisions. These efficiency measures included amongst others: increased production and quality performance and further transfer of sewing capacity to Jordan with lower labor costs.

On a pro-forma basis, net income reached \$4.1 million (or \$0.21 per diluted share) which represented 8.8% of fourth quarter revenues, compared with a net loss of \$4.5 million (or (\$0.26) per diluted share) in the fourth quarter of 2004.

On a GAAP basis, 2005 fourth quarter gross margin increased to 23.3% from 7.6% in the fourth quarter of last year. Operating income grew to \$1.9 million (3.4% of revenues) compared with an operating loss of \$2.1 million in the fourth quarter of 2004. Net loss for the quarter was \$2.2 million (or (\$0.12) per diluted share) compared with a net loss of \$4.1 million (or (\$0.24) per diluted share) in the fourth quarter in 2004.

2005 Full Year Results

Revenues in 2005 reached \$205.6 million, representing a 12.5% increase over revenues of \$182.8 million in 2004. On a pro forma basis, revenues were \$171.3 million representing a 15.3% increase over pro forma revenues of \$148.6 million in 2004. The growth in sales over the year was due mainly to the significant growth in sales of active-wear, and in particular sales to Nike for their Nike Pro category.

Gross margin on a pro-forma basis was 17.3% in 2005 compared with 8.2% in 2004. Pro-forma operating profit for 2005 was \$15.7 million (9.1% of revenues) compared with \$4.7 million in 2004. On a pro-forma basis, net income for the year was \$8.6 million (\$0.47 per diluted share) compared with a pro-forma net loss of \$8.7 million (or (\$0.56) per diluted share) in 2004.

On a GAAP basis, gross margin for the year was 19.1% compared with 12.5% in 2004. Operating profit for 2005 was \$13.5 million (or 6.5% of revenues) compared with \$0.5 million (0.3% of revenues) in 2004. Net income for the year was \$3.3 million (\$0.18 per diluted share) compared with a net loss of \$6.9 million (or (\$0.44) per diluted share) in 2004.

Mr. Yos Shiran, Chief Executive Officer of Tefron, commented, “2005 was a successful year for us, in which our efforts over the past few years have begun to pay off. We continued executing on our strategic plan, surpassed our targets of growth and increased our profitability. Tefron today is in a stronger position to capitalize on growth opportunities and market trends, while enjoying a strong and growing demand for its products.”

Mr. Shiran continued, “Our cooperation with and sales to Nike grew substantially in 2005. Our relationship with Nike strengthening is an example of how our loyalty, commitment and dedication to our customers can be realized. We see great potential in this strengthening relationship, and this year we expect increased sales to Nike, as well as to our other customers.”

Mr. Shiran concluded, “Moving into 2006, we are well positioned to build on our growth strategy. We intend to continue expanding our relationships with our existing customers and reach new value driven customers. We intend to expand our product lines while entering into new categories and increase the visibility of our (EFPTM) technology. Based on our plan for 2006, we are aiming for our top-line growth rate for 2006 to be in the mid-teens. In addition, we hope that over the year our profitability levels will remain significantly higher than those of 2005 at around the levels seen in the fourth quarter of 2005.”

Conference Call

The Company will be hosting a conference call today, Wednesday, March 8, 2006 at 10:00am EST. On the call, management will review and discuss the results, and will be available to answer investor questions.

To participate, please call one of the following teleconferencing numbers. Please begin placing your calls at least 5 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

US Dial-in Number: 1 866 229 7198
UK Dial-in Number: 0 800 917 5108
ISRAEL Dial-in Number: 03 918 0610
INTERNATIONAL Dial-in Number: +972 3 918 0610

For those unable to listen to the live call, a replay of the call will be available for three months from the day after the call in the investor relations section of Tefron's website, at: www.tefron.com

About Tefron

Tefron manufactures boutique-quality everyday seamless intimate apparel, active wear and swim wear sold throughout the world by such name-brand marketers as Victoria's Secret, Nike, The Gap, Banana Republic, Target, Warnaco/Calvin Klein, Patagonia, Reebok and El Corte Englese, as well as other well known retailers and designer labels. The company's product line includes knitted briefs, bras, tank tops, boxers, leggings, crop, T-shirts, nightwear, bodysuits, swim wear, beach wear and active-wear. The Company's Healthcare Division manufactures and sells a range of textile healthcare products.

This press release contains certain forward-looking statements with respect to the Company's business, financial condition and results of operations. These forward looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements, including, but not limited to, fluctuations in product demand, changing economic conditions, lower prices as well as certain other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated.

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Table 1: Sales by segments:

	Year ended December 31, 2005		Year ended December 31, 2004		Three months ended December 31, 2005		Three months ended December 31, 2004	
	USD Thousands	% of total	USD Thousands	% of total	USD Thousands	% of total	USD Thousands	% of total
Cut & sew	60,207	29.3%	64,867	35.5%	16,369	29.7%	14,615	32.7%
Seamless	111,129	54.1%	83,753	45.8%	29,630	53.8%	21,685	48.6%
Healthcare USA	34,249	16.7%	34,199	18.7%	9,090	16.5%	8,354	18.7%
Total	205,585	100.0%	182,819	100.0%	55,089	100.0%	44,654	100.0%

Table 2: Sales by product line:

Product line	Year ended December 31, 2005		Year ended December 31, 2004		Three months ended December 31, 2005		Three months ended December 31, 2004	
	USD Thousands	% of total	USD Thousands	% of total	USD Thousands	% of total	USD Thousands	% of total
Intimate Apparel	101,625	49.4%	118,240	64.7%	28,425	51.6%	27,935	62.6%
Active wear	51,961	25.3%	20,105	11.0%	11,757	21.3%	6,352	14.2%
Swimwear	17,750	8.6%	10,275	5.6%	5,817	10.6%	2,013	4.5%
Health care products	34,249	16.7%	34,199	18.7%	9,090	16.5%	8,354	18.7%
Total	205,585	100.0%	182,819	100.0%	55,089	100.0%	44,654	100.0%

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,201	\$ 3,558
Trade receivables (net of allowances of \$ 252 and \$ 594 at December 31, 2004 and 2005, respectively)	30,501	21,402
Other accounts receivable and prepaid expenses	4,981	5,696
Inventories	29,919	33,137
<u>Total</u> current assets	<u>73,602</u>	<u>63,793</u>
DEFERRED TAXES	-	2,486
PROPERTY, PLANT AND EQUIPMENT	86,928	93,931
GOODWILL	25,060	30,743
DEFERRED LOAN ISSUANCE COSTS	290	578
<u>Total</u> assets	<u>\$ 185,880</u>	<u>\$ 191,531</u>

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	December 31,	
	2005	2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit	\$ 17,713	\$ 21,355
Current maturities of long-term debt:		
Banks and other loans	7,623	9,039
Capital leases	-	206
Trade payables	30,385	28,991
Conditional obligation with respect to issuance of shares	-	3,454
Other accounts payable and accrued expenses	9,104	9,189
<u>Total current liabilities</u>	<u>64,825</u>	<u>72,234</u>
LONG-TERM LIABILITIES:		
Loans from banks and others (net of current maturities)	41,034	47,907
Deferred taxes	9,116	5,611
Accrued severance pay, net	2,061	2,744
<u>Total long-term liabilities</u>	<u>52,211</u>	<u>56,262</u>
MINORITY INTEREST	14,159	16,291
SHAREHOLDERS' EQUITY:		
Share capital		
Ordinary shares of NIS 1 par value - Authorized: 49,995,500 shares; Issued: 18,014,247 and 19,010,376 shares at December 31, 2004 and 2005, respectively; Outstanding: 17,016,847 and 18,012,976 shares at December 31, 2004 and 2005, respectively	6,810	6,582
Deferred shares of NIS 1 par value - Authorized: 4,500 shares; Issued and outstanding: 4,500 and 0 shares at December 31, 2004 and 2005, respectively	-	1
Additional paid-in capital	83,069	79,243
Deferred stock-based compensation	(198)	(486)
Less - 997,400 Ordinary shares in treasury, at cost	(7,408)	(7,408)
Cumulative other comprehensive loss	307	-
Accumulated deficit	(27,895)	(31,188)
<u>Total shareholders' equity</u>	<u>54,685</u>	<u>46,744</u>
<u>Total liabilities and shareholders' equity</u>	<u>\$ 185,880</u>	<u>\$ 191,531</u>

CONSOLIDATED STATEMENTS OF OPERATIONS**U.S. dollars in thousands (except share and per share data)**

	Year ended December 31,		Three months ended December 31,	
	2005	2004	2005	2004
Sales	\$ 205,585	\$ 182,819	\$ 55,089	\$ 44,654
Cost of sales	166,217	159,937	42,235	41,243
Gross profit	39,368	22,882	12,854	3,411
Selling, general and administrative expenses	19,837	22,387	4,922	5,508
Impairment and other expenses related to the put option exercise	6,073	-	6,073	-
Operating income (loss)	13,458	495	1,859	(2,097)
Financial expenses, net	4,371	5,212	1,373	2,172
Other income	409	-	10	-
Income (loss) before taxes on income	9,496	(4,717)	496	(4,269)
Taxes on income (tax benefit)	7,818	203	5,319	(508)
Minority interest in (earnings) losses of a subsidiary	1,615	(1,945)	2,604	(376)
Net income (loss)	\$ 3,293	\$ (6,865)	\$ (2,219)	\$ (4,137)
Basic net earnings (losses) per share	\$ 0.19	\$ (0.44)	\$ (0.12)	\$ (0.24)
Diluted net earnings (losses) per share	\$ 0.18	\$ (0.44)	\$ (0.12)	\$ (0.24)
Weighted average number of shares used for computing basic earnings (losses) per share	17,719,275	15,603,904	17,992,972	17,016,847
Weighted average number of shares used for computing diluted earnings (losses) per share	18,542,618	15,603,904	17,992,972	17,016,847

TEFRON LTD. AND ITS SUBSIDIARIES

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

	Ordinary shares	Deferred shares	Additional paid-in capital	Deferred stock-based compensation	Cumulative other comprehensive gain	Accumulated deficit	Total comprehensive income	Treasury shares	Total
Balance as of January 1, 2004	5,575	1	62,810	-	-	(24,323)	-	(7,408)	36,655
Issuance of shares (net of issuance expenses in the amount of \$ 296)	1,007	-	15,393	-	-	-	-	-	16,400
Deferred stock-based compensation	-	-	1,040	(1,040)	-	-	-	-	-
Amortization of deferred stock-based compensation	-	-	-	554	-	-	-	-	554
Net loss	-	-	-	-	-	(6,865)	-	-	(6,865)
Balance as of December 31, 2004	6,582	1	79,243	(486)	-	(31,188)	-	(7,408)	46,744
Settlement of the conditional obligation with respect to issuance of shares	200	-	3,254	-	-	-	-	-	3,454
Exercise of stock options	28	-	428	-	-	-	-	-	456
Cancellation of deferred shares	-	(1)	1	-	-	-	-	-	-
Deferred stock-based compensation	-	-	143	(143)	-	-	-	-	-
Amortization of deferred stock-based compensation	-	-	-	431	-	-	-	-	431
Comprehensive income:									
Unrealized gain on hedging derivative	-	-	-	-	307	-	\$ 307	-	307
Net income	-	-	-	-	-	3,293	3,293	-	3,293
Total comprehensive income							\$ 3,600		
Balance as of December 31, 2005	\$ 6,810	\$ -	\$ 83,069	\$ (198)	\$ 307	\$ (27,895)	\$ 3,600	\$ (7,408)	\$ 54,685

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

	Year ended December 31,		Three months ended December 31,	
	2005	2004	2005	2004
<u>Cash flows from operating activities:</u>				
Net income (loss)	\$ 3,293	\$ (6,865)	\$ (2,219)	\$ (4,137)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation, amortization and impairment of property, plant and equipment	10,348	10,760	3,061	2,089
Impairment of goodwill related to the put option exercise	5,683	-	5,683	-
Amortization of deferred stock-based compensation	431	554	185	202
Loss related to conditional obligation	-	150	-	150
Accrued severance pay, net	(588)	380	100	81
Deferred income taxes, net	7,126	(853)	4,805	(1,233)
Realization of pre-acquisition acquired operating losses	-	489	-	489
Loss (gain) on disposal of property, plant and equipment, net	(409)	28	(10)	81
Minority interest in earnings (losses) of a subsidiary	(1,615)	1,945	(2,604)	376
Decrease (increase) in trade receivables, net	(9,099)	3,515	(6,443)	560
Decrease (increase) in other accounts receivable and prepaid expenses	682	65	(11)	(459)
Decrease (increase) in inventories	3,218	(1,461)	(711)	(394)
Increase (decrease) in trade payables	1,394	(567)	164	2,066
Increase (decrease) in other accounts payable and accrued expenses	347	(1,231)	1,984	388
Net cash provided by operating activities	20,811	6,909	3,984	259
<u>Cash flows from investing activities:</u>				
Purchase of property, plant and equipment	(5,255)	(8,950)	(988)	(1,771)
Investment grants received	452	1,156	106	203
Proceeds from sale of property, plant and equipment	475	422	385	223
Proceeds from the Company's insurance policy for plant and machinery damage	619	-	(11)	-
Acquisition of Macro Clothing (b)	(261)	(106)	(26)	(106)
Net cash used in investing activities	(3,970)	(7,478)	(534)	(1,451)
<u>Cash flows from financing activities:</u>				
Repayments of long-term bank loans and other loans	(8,289)	(9,854)	(1,510)	(1,106)
Payments under capital lease	(206)	(1,488)	(23)	(217)
Short-term bank credit, net	(3,642)	(9,276)	(1,508)	2,160

TEFRON LTD. AND ITS SUBSIDIARIES

Dividend paid to minority interest in subsidiaries	(517)	(706)	(189)	(206)
Proceeds from exercise of stock options	456	-	134	-
Proceeds from issuance of shares and conditional obligation, net	-	19,704	-	-
Net cash used in financing activities	<u>(12,198)</u>	<u>(1,620)</u>	<u>(3,096)</u>	<u>631</u>
Increase (decrease) in cash and cash equivalents	4,643	(2,189)	354	(561)
Cash and cash equivalents at beginning of period	3,558	5,747	7,847	4,119
Cash and cash equivalents at end of period	<u>\$ 8,201</u>	<u>\$ 3,558</u>	<u>\$ 8,201</u>	<u>\$ 3,558</u>

	RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL RESULTS							
	Year Ended December 31, 2005			Year Ended December 31, 2004				
	GAAP (as reported)	Alba Health	Option exercise	Non-GAAP	GAAP (as reported)	Alba Health	Option exercise	Non-GAAP
Revenues	205,585	34,249		171,336	182,819	34,199		148,620
Cost of sales	(166,217)	(24,596)		(141,621)	(159,937)	(23,513)		(136,424)
Gross profit	39,368	9,653		29,715	22,882	10,686		12,196
General operating expenses	(25,910)	(5,785)	(6,073) *	(14,052)	(22,387)	(5,475)	-	(16,912)
Operating profit	13,458	3,868	(6,073)	15,663	495	5,211	-	(4,716)
Financial expenses	(4,371)	(1,182)	-	(3,189)	(5,212)	(1,324)	-	(3,888)
Other income	409	(64)	-	473	-	-	-	-
Net income	(7,818)	(65)	(3,456) **	(4,297)	(203)	(120)	-	(83)
Minority interest in earnings (losses) of a subsidiary	1,615	(1,322)	2,937	-	(1,945)	(1,945)	-	-
Net income (loss)	3,293	1,235	(6,592)	8,650	(6,865)	1,822	-	(8,687)
Basic net earnings (losses) per share	\$0.19			\$0.49	\$ (0.44)			\$ (0.56)
Diluted net earnings (losses) per share	\$0.18			\$0.47	\$ (0.44)			\$ (0.56)
Weighted average number of shares used in computing basic net earnings (loss) per share	17,719,275			17,719,275	15,603,904			15,603,904
Weighted average number of shares used in computing diluted net earnings (loss) per share	18,542,618			18,542,618	15,603,904			15,603,904
Adjusted EBITDA	29,920	4,448	(390)	25,862	11,809	5,635	-	6,174

TEFRON LTD. AND ITS SUBSIDIARIES

	Three months Ended December 31, 2005				Three months Ended December 31, 2004			
	GAAP (as reported)	Alba Health	Option exercise	Non-GAAP	GAAP (as reported)	Alba Health	Option exercise	Non-GAAP
U.S dollars in thousands, except share and per share data								
Sales	55,089	9,090		45,999	44,654	8,354		36,300
Cost of sales	(42,235)	(6,714)		(35,521)	(41,243)	(5,930)		(35,313)
Gross profit	12,854	2,376		10,478	3,411	2,424		987
Selling, G&A	(10,995)	(1,474)	(6,073) *	(3,448)	(5,508)	(1,346)	-	(4,162)
Operating income	1,859	902	(6,073)	7,030	(2,097)	1,078	-	(3,175)
Financial expenses	(1,373)	(242)	-	(1,131)	(2,172)	(324)	-	(1,848)
Other income	10	-	-	10	-	-	-	-
Taxes on income	(5,319)	(16)	(3,456) **	(1,847)	508	(23)	-	531
Minority interest in earnings (losses) of a subsidiary	2,604	(333)	2,937	-	(376)	(376)	-	-
Net income (loss)	(2,219)	311	(6,592)	4,062	(4,137)	355	-	(4,492)
Basic net earnings (losses) per share	\$ (0.12)			\$0.23	\$ (0.24)			\$ (0.26)
Diluted net earnings (losses) per share	\$ (0.12)			\$0.21	\$ (0.24)			\$ (0.26)
Weighted average number of shares used in computing basic net earnings (loss) per share	17,992,972			17,992,972	17,016,847			17,016,847
Weighted average number of shares used in computing diluted net earnings (loss) per share	17,992,972			18,984,015	17,016,847			17,016,847
EBITDA	10,787	1,017	(390)	10,160	194	1,184	-	(990)

RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL RESULTS –
CONT'DAppendix: Alba Health PUT option

(*) Impairment of goodwill	5,683
Other expenses	<u>390</u>
	<u><u>6,073</u></u>
(**) Realization of deferred tax asset	2,456
Deferred tax liability	<u>1,000</u>
	<u><u>3,456</u></u>

RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL RESULTS - CONT'D
U.S dollars in thousands, except share and per share data

	<u>Calculation of the EBITDA</u> (in thousands \$)		
	Year ended, December 31,	2005	2004
	December 31,	2005	2004
Income (loss) before taxes on income (benefit) (see Statement of operation)	9,496	(4,717)	496
Finance expenses ,net (see Statement of operation)	4,371	5,212	1,373
Other income, net (see Statement of operation)	(409)	-	(10)
Depreciation and amortization (see Cash Flows Statements)	10,348	10,760	3,060
Amortization of deferred stock-based compensation (see Cash Flows Statements)	431	554	185
Impairment of goodwill related to the put option exercise (see Cash Flows Statements)	5,683	-	5,683
EBITDA	<u>29,920</u>	<u>11,809</u>	<u>10,787</u>
			<u>194</u>

