

**TOWER SEMICONDUCTOR LTD.
AND SUBSIDIARIES
UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018**

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES

**INDEX TO UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2018**

	<u>Page</u>
BALANCE SHEETS	2
STATEMENTS OF OPERATIONS	3
STATEMENTS OF COMPREHENSIVE INCOME	4
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	5
STATEMENTS OF CASH FLOWS	6-7
NOTES TO FINANCIAL STATEMENTS	8-12

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	<u>As of</u> <u>June 30,</u>	<u>As of</u> <u>December 31,</u>
	<u>2018</u>	<u>2017</u>
	<u>(unaudited)</u>	
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	\$ 486,880	\$ 445,961
Marketable securities	140,140	113,874
Trade accounts receivable	161,017	149,666
Inventories	153,413	143,315
Other current assets	19,089	21,516
Total current assets	<u>960,539</u>	<u>874,332</u>
LONG-TERM INVESTMENTS	<u>28,978</u>	<u>26,073</u>
PROPERTY AND EQUIPMENT, NET	<u>648,413</u>	<u>635,124</u>
INTANGIBLE ASSETS, NET	<u>16,671</u>	<u>19,841</u>
GOODWILL	<u>7,000</u>	<u>7,000</u>
DEFERRED TAX AND OTHER LONG-TERM ASSETS, NET	<u>101,022</u>	<u>111,269</u>
TOTAL ASSETS	<u>\$ 1,762,623</u>	<u>\$ 1,673,639</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of loans, leases and debentures	\$ 100,242	\$ 105,958
Trade accounts payable	126,135	115,347
Deferred revenue and customers' advances	10,297	14,338
Employee related liabilities	54,627	50,844
Other current liabilities	21,240	15,886
Total current liabilities	<u>312,541</u>	<u>302,373</u>
LONG-TERM DEBT		
Debentures	122,571	128,368
Other long-term debt	126,114	100,355
LONG-TERM CUSTOMERS' ADVANCES	29,771	31,908
EMPLOYEE RELATED LIABILITIES	14,616	14,662
DEFERRED TAX LIABILITY	53,991	63,924
OTHER LONG-TERM LIABILITIES	2,344	2,343
TOTAL LIABILITIES	<u>661,948</u>	<u>643,933</u>
THE COMPANY'S SHAREHOLDERS' EQUITY	1,106,453	1,036,060
Non-controlling interest	(5,778)	(6,354)
TOTAL EQUITY	<u>1,100,675</u>	<u>1,029,706</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,762,623</u>	<u>\$ 1,673,639</u>

See notes to consolidated financial statements.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(dollars and shares in thousands, except per share data)

	Six months ended June 30,		Three months ended June 30,	
	2018	2017	2018	2017
REVENUES	\$ 647,848	\$ 675,139	\$ 335,138	\$ 345,059
COST OF REVENUES	<u>503,155</u>	<u>499,310</u>	<u>256,610</u>	<u>253,998</u>
GROSS PROFIT	<u>144,693</u>	<u>175,829</u>	<u>78,528</u>	<u>91,061</u>
OPERATING COSTS AND EXPENSES:				
Research and development	36,439	32,200	18,173	16,432
Marketing, general and administrative	<u>32,109</u>	<u>33,475</u>	<u>16,115</u>	<u>17,238</u>
	<u>68,548</u>	<u>65,675</u>	<u>34,288</u>	<u>33,670</u>
OPERATING PROFIT	76,145	110,154	44,240	57,391
FINANCING EXPENSE, NET	(10,822)	(7,352)	(7,031)	(3,123)
OTHER INCOME, NET	<u>1,600</u>	<u>653</u>	<u>1,578</u>	<u>142</u>
PROFIT BEFORE INCOME TAX	66,923	103,455	38,787	54,410
INCOME TAX EXPENSE, NET	<u>(3,733)</u>	<u>(4,682)</u>	<u>(2,778)</u>	<u>(2,683)</u>
NET PROFIT	63,190	98,773	36,009	51,727
Net loss (income) attributable to non-controlling interest	<u>670</u>	<u>(3,247)</u>	<u>1,733</u>	<u>(1,710)</u>
NET PROFIT ATTRIBUTABLE TO THE COMPANY	<u>\$ 63,860</u>	<u>\$ 95,526</u>	<u>\$ 37,742</u>	<u>\$ 50,017</u>
BASIC EARNINGS PER ORDINARY SHARE:				
Earnings per share	\$ <u>0.65</u>	\$ <u>1.00</u>	\$ <u>0.38</u>	\$ <u>0.52</u>
Weighted average number of ordinary shares outstanding	<u>98,693</u>	<u>95,139</u>	<u>98,888</u>	<u>96,365</u>
DILUTED EARNINGS PER ORDINARY SHARE:				
Earnings per share	\$ <u>0.63</u>	\$ <u>0.95</u>	\$ <u>0.37</u>	\$ <u>0.49</u>
Net profit used for diluted earnings per share	<u>\$ 63,860</u>	<u>\$ 99,883</u>	<u>\$ 37,742</u>	<u>\$ 52,217</u>
Weighted average number of ordinary shares outstanding used for diluted earnings per share	<u>101,090</u>	<u>105,288</u>	<u>101,066</u>	<u>105,648</u>

See notes to consolidated financial statements.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(dollars in thousands)

	Six months ended		Three months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net profit	\$ 63,190	\$ 98,773	\$ 36,009	\$ 51,727
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	2,301	6,010	(5,689)	9
Change in employees plan assets and benefit obligations	(435)	(315)	(217)	(157)
Unrealized gain (loss) on derivatives and marketable securities	(814)	1,016	117	(18)
Comprehensive income	<u>64,242</u>	<u>105,484</u>	<u>30,220</u>	<u>51,561</u>
Comprehensive (income) loss attributable to non-controlling interest	(576)	(6,529)	4,768	(1,669)
Comprehensive income attributable to the Company	<u>\$ 63,666</u>	<u>\$ 98,955</u>	<u>\$ 34,988</u>	<u>\$ 49,892</u>

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(dollars and share data in thousands)

	THE COMPANY'S SHAREHOLDERS' EQUITY											
	Ordinary shares issued	Ordinary shares amount	Additional paid-in capital	Capital notes	Unearned compensation	Accumulated other comprehensive income	Foreign currency translation adjustments	Accumulated deficit	Treasury stock	Comprehensive income	Non controlling interest	Total
BALANCE AS OF JANUARY 1, 2018	98,544	\$ 391,727	\$ 1,347,866	\$ 20,758	\$ 80,565	\$ 1,763	\$ (24,522)	\$ (773,025)	\$ (9,072)		\$ (6,354)	\$ 1,029,706
Changes during the period:												
Issuance of shares	372	1,528	(1,528)									--
Exercise of options	287	1,215	(533)									682
Employee stock-based compensation					6,045							6,045
Other comprehensive income:												
Profit								63,860		\$ 63,860	(670)	63,190
Foreign currency translation adjustments							1,055			1,055	1,246	2,301
Change in employees plan assets and benefit obligations						(435)				(435)		(435)
Unrealized loss on derivatives and marketable securities						(814)				(814)		(814)
Comprehensive income										\$ 63,666		
BALANCE AS OF JUNE 30, 2018	<u>99,203</u>	<u>\$ 394,470</u>	<u>\$ 1,345,805</u>	<u>\$ 20,758</u>	<u>\$ 86,610</u>	<u>\$ 514</u>	<u>\$ (23,467)</u>	<u>\$ (709,165)</u>	<u>\$ (9,072)</u>		<u>\$ (5,778)</u>	<u>\$ 1,100,675</u>
OUTSTANDING SHARES, NET OF TREASURY STOCK AS OF JUNE 30, 2018	<u>99,117</u>											

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Six months ended June 30,	
	2018	2017
CASH FLOWS - OPERATING ACTIVITIES		
Net profit	\$ 63,190	\$ 98,773
Adjustments to reconcile net profit for the period to net cash provided by operating activities:		
Income and expense items not involving cash flows:		
Depreciation and amortization	107,470	102,087
Effect of indexation, translation and fair value measurement on debt	(6,537)	11,761
Other income, net	(1,600)	(653)
Changes in assets and liabilities:		
Trade accounts receivable	(10,262)	(7,713)
Other current assets	9,083	(11,746)
Inventories	(9,405)	267
Trade accounts payable	3,909	(10,658)
Deferred revenue and customers' advances	(6,178)	(13,299)
Employee related liabilities and other current liabilities	9,136	3,776
Long-term employee related liabilities	(194)	(491)
Deferred tax, net	(6,682)	(5,670)
Net cash provided by operating activities	151,930	166,434
CASH FLOWS - INVESTING ACTIVITIES		
Investments in property and equipment, net	(80,195)	(81,660)
Investments in marketable securities and other assets, net	(30,451)	--
Net cash used in investing activities	(110,646)	(81,660)
CASH FLOWS - FINANCING ACTIVITIES		
Exercise of warrants and options, net	684	27,010
Proceeds from loans	99,964	--
Loans repayment	(101,314)	(11,245)
Principal payments on account of capital lease obligation	(1,497)	--
Debentures repayment	--	(6,215)
Dividend paid to Panasonic	--	(4,378)
Net cash provided by (used in) financing activities	(2,163)	5,172
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGE	1,798	4,280
INCREASE IN CASH AND CASH EQUIVALENTS	40,919	94,226
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	445,961	389,377
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 486,880	\$ 483,603

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(dollars in thousands)

	Six months ended	
	June 30,	
	2018	2017
NON-CASH ACTIVITIES:		
Investments in property and equipment	\$ <u>33,493</u>	\$ <u>25,256</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest, net	\$ <u>2,376</u>	\$ <u>6,308</u>
Cash paid during the period for income taxes, net	\$ <u>2,139</u>	\$ <u>9,814</u>

See notes to consolidated financial statements.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2018
(dollars in thousands, except per share data)

NOTE 1 - GENERAL

Basis for Presentation

The unaudited condensed interim consolidated financial statements of Tower Semiconductor Ltd. ("Tower") as of June 30, 2018 include the financial statements of Tower and (i) its wholly-owned subsidiary Tower US Holdings Inc., the sole owner of: (1) Jazz US Holdings Inc. and its wholly-owned subsidiary, Jazz Semiconductor, Inc. and (2) TowerJazz Texas Inc., and (ii) its 51% owned subsidiary, TowerJazz Panasonic Semiconductor Co., Ltd. Tower and its subsidiaries are collectively referred to as the "Company".

The Company's unaudited condensed interim consolidated financial statements are presented after elimination of inter-company transactions and balances and are presented in accordance with U.S. generally accepted accounting principles ("US GAAP").

The unaudited condensed interim consolidated financial statements of the Company should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 2017 and for the year then ended, including the notes thereto.

In the opinion of the Company's management, the unaudited condensed interim consolidated financial statements include all adjustments necessary for a fair presentation of the Company's financial position as of the dates presented and results of operations for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected on a full-year basis.

NOTE 2 - INITIAL ADOPTION OF NEW STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") amended the existing accounting standards for revenue recognition in Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers", which amendment has been further amended several times. This standard is based on the principle that revenue should be recognized to depict the value of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services if sold at the end of the calendar quarter.

ASU 2014-09 was effective in January 1, 2018. The amendment may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application.

The Company's assessment did not identify a change in revenue recognition timing on most material revenues (mainly wafer production), for which recognition will be at a point in time upon control being transferred to the customers. The Company considered whether control over wafers in production is transferred over time, and reached the conclusion that recognition should be only at a point in time upon completion of production and delivery to customers.

The Company provides its customers with other services that are immaterial in scope and/or amount. The Company does not expect any change in the recognition of such services, in accordance with current standards.

The standard was adopted in January 1, 2018. The Company elected the modified retrospective approach as the transition method and had no transition adjustment to its retained earnings upon adoption.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2018
(dollars in thousands, except per share data)

NOTE 2 - INITIAL ADOPTION OF NEW STANDARDS (cont.)

In January 2016, the FASB issued ASU 2016-01 to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The provisions under this amendment are effective January 1, 2018, and for interim periods within that year. The adoption of ASU 2016-01 did not have a material impact on the Company's financial statements and its financial results.

In October 2016, the FASB issued ASU 2016-16 to require the recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The previous GAAP prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments are effective January 1, 2018, and for interim periods within that year. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 to require amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendment is effective January 1, 2018, and for interim periods within that year. The adoption of this guidance did not impact the Company's consolidated statement of cash flows and disclosures.

In May 2017, the FASB issued ASU 2017-09 which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The guidance is effective beginning in the first quarter of fiscal year 2018. The adoption of this guidance had no impact on its consolidated financial statements.

NOTE 3 - RECENT DEVELOPMENTS

A. Wells Fargo Credit Line

In February 2018, Jazz and Wells Fargo signed an amendment to the credit line agreement according to which the amended secured asset-based revolving credit line was extended to be available until February 2023, with a total maximal drawdown amount of \$70,000 (the "Credit Line Agreement"). The agreement and the borrowing availability are subject to certain customary financial ratios and covenants and the applicable interest on any borrowings under the Credit Line Agreement is at a rate equal to, at lender's option, either the lender's prime rate plus 0.0% to 0.5% per annum or the LIBOR rate plus 1.25% to 1.75% per annum. Outstanding loans borrowed under this line as of June 30, 2018 were \$0 and borrowing availability was \$70,000 of which approximately \$1,000 was utilized through letters of credit.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2018
(dollars in thousands, except per share data)

NOTE 3 - RECENT DEVELOPMENTS (Cont.)

B. TPSCo Loans from Japanese Financial Institutions

In June 2018, TPSCo early repaid its outstanding loans due 2018-2020 carrying floating interest rates of TIBOR plus 1.65% to TIBOR plus 2% and refinanced them with 11 Billion JPY (approximately \$100,000) new asset-based loan agreements with JA Mitsui Leasing, Ltd., Sumitomo Mitsui Trust Bank, Limited (SMTB) and Sumitomo Mitsui Banking Corporation (SMBC) (“JP Loan”). The JP Loan includes three years grace period with final maturity of seven years and it carries a fixed interest rate of 1.95% per annum. Principal is payable in nine semiannual payments starting June 2021 until June 2025. The JP Loan is secured by a lien over the machinery and equipment of TPSCo located in Uozu and Tonami manufacturing facilities.

The JP Loan also contains certain financial ratios and covenants, as well as customary definitions of events of default and acceleration of the repayment schedule. TPSCo’s obligations pursuant to the JP Loan are not guaranteed by Tower or any of its affiliates. As of June 30, 2018, TPSCo was in compliance with all of the financial ratios and covenants under this JP Loan.

C. Equity Grants to CEO and Directors

On July 3, 2018, the Company's shareholders approved the grant of the following Restricted Stock Units (“RSUs”) to the Company's CEO and members of the Board of Directors under the Company’s 2013 Share Incentive Plan: (i) 107,290 time vested RSUs and 71,527 performance based RSUs to the CEO, which RSUs will vest linearly over a three-year period, 33% at the end of each year of the 3 years following the grant date for a compensation value of \$3,900; and, in addition, 50,435 performance based RSUs vesting over three years, with 65% vesting at the first anniversary of the grant, additional 25% at the second anniversary and the remaining at the third anniversary for an additional compensation value of \$1,100; (ii) 13,755 time vested RSUs to the chairman of the Board of Directors (“the Chairman”) for a total compensation value of \$300, to vest linearly over a three-year period, 33% at the end of each year of the 3 years following the grant date; and (iii) 3,438 time vested RSUs to each of the 8 members of the Board of Directors (other than to the Chairman and the CEO), for an aggregate compensation value of \$600, vesting over a two-year period, with 50% vesting at the end of the first anniversary of the date of grant and 50% on the second anniversary of the date of grant.

D. TJT Bank Loan

In July 2018, TJT early repaid JA Mitsui Leasing Capital Corporation its \$40,000 asset-based term loan, which carried interest rate of LIBOR+2.0% per annum.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2018
(dollars in thousands, except per share data)

NOTE 4 - ADDITIONAL INFORMATION - RECONCILIATION OF US GAAP TO IFRS

A. Introduction

The Company's financial statements are prepared and presented in accordance with US GAAP.

As many of the Company's investors and analysts are located in Israel and in Europe and are familiar with and use the International Financial Reporting Standards rules ("IFRS"), the Company is providing on a voluntary basis a reconciliation from US GAAP to IFRS as detailed below (condensed interim consolidated statements of balance sheet, condensed interim consolidated statements of operations and additional information). IFRS differs in certain significant aspects from US GAAP, however the primary differences between US GAAP and IFRS related to the Company are accounting for goodwill, financial instruments, pension plans and termination benefits. The main adjustments and differences between US GAAP and IFRS relating to the Company's financial statements are described in detail in Note 21 to the Company's financial statements for the year ended December 31, 2017. In addition, the Company is providing on a voluntary basis its condensed IFRS financial statements as of June 30, 2018 and a reconciliation from US GAAP to IFRS as detailed below.

B. Condensed Interim Consolidated Balance Sheet in Accordance with IFRS:

	As of June 30, 2018		
	US GAAP	Adjustments	IFRS
ASSETS			
Current assets	\$ 960,539	\$ 5,311	\$ 965,850
Property and equipment, net	648,413	--	648,413
Long-term assets	153,671	(7,000)	146,671
Total assets	<u>\$ 1,762,623</u>	<u>\$ (1,689)</u>	<u>\$ 1,760,934</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	\$ 312,541	\$ 5,496	\$ 318,037
Long-term liabilities	349,407	(1,715)	347,692
Total liabilities	661,948	3,781	665,729
TOTAL EQUITY	1,100,675	(5,470)	1,095,205
Total liabilities and shareholders' equity	<u>\$ 1,762,623</u>	<u>\$ (1,689)</u>	<u>\$ 1,760,934</u>

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2018
(dollars in thousands, except per share data)

NOTE 4 - ADDITIONAL INFORMATION - RECONCILIATION OF US GAAP TO IFRS (Cont.)

C. Condensed Interim Consolidated Statement of Operations in Accordance with IFRS:

	Six months ended June 30, 2018		
	US GAAP	Adjustments	IFRS
OPERATING PROFIT	\$ 76,145	\$ (365)	\$ 75,780
Financing expense, net	(10,822)	52	(10,770)
Other income, net	1,600	--	1,600
Profit before income tax	66,923	(313)	66,610
Income tax expense	(3,733)	--	(3,733)
NET PROFIT	63,190	(313)	62,877
Net income attributable to non-controlling interest	670	--	670
NET PROFIT ATTRIBUTABLE TO THE COMPANY	<u>\$ 63,860</u>	<u>\$ (313)</u>	<u>\$ 63,547</u>

D. Reconciliation of Net Profit from US GAAP to IFRS:

	Six months ended June 30,	
	2018	2017
Net profit in accordance with US GAAP	\$ 63,860	\$ 95,526
Financial Instruments	52	52
Pension plans	(743)	(314)
Termination Benefits	378	156
Net profit in accordance with IFRS	<u>\$ 63,547</u>	<u>\$ 95,420</u>

E. Reconciliation of Shareholders' Equity from US GAAP to IFRS:

	As of June 30,	As of December 31,
	2018	2017
Shareholders' equity in accordance with US GAAP	\$ 1,100,675	\$ 1,029,706
Financial Instruments	(185)	(185)
Termination Benefits	1,715	1,337
Goodwill	(7,000)	(7,000)
Shareholders' equity in accordance with IFRS	<u>\$ 1,095,205</u>	<u>\$ 1,023,858</u>

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section should be read in conjunction with (1) our unaudited condensed interim consolidated financial statements as of June 30, 2018 and for the six months then ended and related notes included in this report and (2) our audited consolidated financial statements and related notes included in our Annual Report on Form 20-F for the year ended December 31, 2017 and the other information contained in such annual report, particularly the information in Item 5 - “Operating and Financial Review and Prospects”. Our financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“US GAAP”).

Results of Operations

The following table sets forth certain statement of operations data as a percentage of total revenues for the periods indicated:

	Six months ended June 30,	
	2018	2017
Revenues.....	100%	100%
Cost of revenues.....	77.7	74.0
Gross profit	22.3	26.0
Research and development expense.....	5.6	4.8
Marketing, general and administrative expense.....	5.0	5.0
Operating profit.....	11.7	16.2
Financing expense, net.....	(1.7)	(1.1)
Other income, net.....	0.2	0.1
Profit before income tax	10.2	15.2
Income tax expense, net.....	(0.6)	(0.7)
Net profit	9.6	14.5
Net loss (income) attributable to the non-controlling interest	0.1	(0.5)
Net profit attributable to the company	9.7%	14.0%

The following table sets forth certain statement of operations data for the periods indicated (in thousands):

	Six months ended June 30,	
	2018	2017
Revenues.....	\$ 647,848	\$ 675,139
Cost of revenues.....	503,155	499,310
Gross profit	144,693	175,829
Research and development expense.....	36,439	32,200
Marketing, general and administrative expense.....	32,109	33,475
Operating profit.....	76,145	110,154
Financing expense, net.....	(10,822)	(7,352)
Other income, net.....	1,600	653
Profit before income tax	66,923	103,455
Income tax expense, net.....	(3,733)	(4,682)
Net profit	63,190	98,773
Net loss (income) attributable to the non-controlling interest	670	(3,247)
Net profit attributable to the company	\$ 63,860	\$ 95,526

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Revenues. Revenues for the six months ended June 30, 2018 were \$647.8 million, 4% lower as compared to \$675.1 million for the six months ended June 30, 2017, which is attributed mainly to weakness in the mobile sector resulting in reductions in customers' demand, impacting revenues from applicable RFCMOS and RFSOI technologies.

Cost of Revenues. Cost of revenues for the six months ended June 30, 2018 amounted to \$503.2 million as compared to \$499.3 million for the six months ended June 30, 2017. The slight increase of 0.8% in manufacturing cost, despite the reduced revenue, is mainly attributed to the fact that a large portion of our costs is fixed, as well as to the increase in market price of our raw material (silicon wafers).

Gross Profit. Gross profit for the six months ended June 30, 2018 amounted to \$144.7 million as compared to \$175.8 million for the six months ended June 30, 2017. The decrease, resulted from the revenue reduction described above, was not offset by a cost of revenue reduction due to the fact that a large portion of our costs is fixed, as well as to the increase in market price of our raw material (silicon wafers).

Research and Development. Research and development expense for the six months ended June 30, 2018, amounted to \$36.4 million as compared to \$32.2 million recorded in the six months ended June 30, 2017, an increase which reflects our focus to develop new capabilities and technologies to enhance our future business and enable long-term products' funnel and future design wins.

Marketing, General and Administrative. Marketing, general and administrative expense for the six months ended June 30, 2018 amounted to \$32.1 million, representing a \$1.4 million cost reduction as compared to \$33.5 million recorded in the six months ended June 30, 2017.

Operating Profit. Operating profit for the six months ended June 30, 2018 amounted to \$76.1 million as compared to \$110.1 million for the six months ended June 30, 2017. The \$34.0 million decrease in operating profit resulted mainly from the \$31.1 million reduction in gross profit described above.

Financing Expense, Net. Financing expense, net for the six months ended June 30, 2018 amounted to \$10.8 million as compared to financing expense, net of \$7.4 million for the six months ended June 30, 2017.

Other Income, Net. Other income, net for the six months ended June 30, 2018 amounted to \$1.6 million as compared with other income of \$0.7 million in the six months ended June 30, 2017.

Income Tax Expense, Net. Income tax expense, net for the six months ended June 30, 2018 amounted to \$3.7 million as compared to \$4.7 million income tax expense, net in the six months ended June 30, 2017. This \$1.0 million cost reduction is mainly attributed to the reduced profits before tax and the US Tax Cut and Jobs Act which has been signed into law.

Net Profit. Net profit for the six months ended June 30, 2018 amounted to \$63.9 million as compared to a net profit of \$95.5 million for the six months ended June 30, 2017. The decrease in net profit in the amount of \$31.6 million was mainly due to the \$34.0 million reduction in operating profit described above.

Impact of Currency Fluctuations

The Company currently operates in three different regions: Japan, the United States and Israel. The functional currency of the United States and Israel entities is the US dollar ("USD"). The functional currency of our subsidiary in Japan is the Japanese Yen ("JPY"). Our expenses and costs are denominated mainly in USD, JPY and New Israeli Shekels ("NIS"), revenues are denominated mainly in USD and JPY and our cash from operations, investing and financing activities are denominated mainly in USD, JPY and NIS. Therefore, the Company is exposed to the risk of currency exchange rate fluctuations in Israel and Japan.

The USD costs of our operations in Israel is influenced by changes in the USD to NIS exchange rate, with respect to costs that are denominated in NIS. During the six months ended June 30, 2018, the USD appreciated against the NIS by 5.3%, as compared to 9.1% depreciation during the six months ended June 30, 2017.

The fluctuation of USD against the NIS can affect our results of operations. Appreciation of the NIS has the effect of increasing the cost, in USD terms, of some of the Company's Israeli purchases and labor NIS denominated costs, which may lead to erosion in the profit margins. The Company uses foreign currency cylinder transactions to hedge a portion of this currency exposure to be contained within a pre-defined fixed range. In addition, the Company executed swap-hedging transactions to fully hedge the exposure to the fluctuation of USD against the NIS to the extent it relates to non-convertible Series G debentures, which are denominated in NIS.

The majority of TPSCo revenues are denominated in JPY and the majority of the expenses of TPSCo are in JPY, which limits the exposure to fluctuations of the USD / JPY exchange rate on TPSCo's results of operations, as the impact on the revenues will mostly be offset by the impact on the expenses. In order to mitigate a portion of the net exposure to the USD / JPY exchange rate, the Company has engaged in cylinder hedging transactions to contain the currency's fluctuation within a pre-defined fixed range. During the six months ended June 30, 2018, the USD depreciated against the JPY by 1.6%, as compared to 4.4% depreciation during the six months ended June 30, 2017. The net effect of USD depreciation against the JPY on TPSCo's assets and liabilities denominated in JPY is presented in the Cumulative Translation Adjustment ("CTA") as part of Other Comprehensive Income ("OCI") in the balance sheet.

Liquidity and Capital Resources

As of June 30, 2018, we had an aggregate amount of \$486.9 million in cash and cash equivalents, as compared to \$446.0 million as of December 31, 2017. The main cash activities during the six months ended June 30, 2018 included: \$151.9 million positive cash flow generated from operating activities; \$80.2 million invested in property and equipment, net of proceeds received from sales of equipment; \$30.5 million invested in marketable securities and other assets, net; \$2.8 million debt repaid, net; positive impact of the JPY foreign exchange rate fluctuation in the amount of \$1.8 million (which was mostly offset by a similar impact on the Japanese loans' balance) and \$0.7 million proceeds from exercise of warrants and options, net.

As of June 30, 2018, the outstanding principal amount of bank loans was \$139.5 million, and the aggregate principal amount of debentures was \$180.0 million. As of June 30, 2018, we had a carrying amount of \$138.6 million of bank loans, of which \$39.3 million were presented as current maturities, and \$178.3 million of debentures in our balance sheet, of which \$55.7 million were presented as current maturities.

In February 2018, Well Fargo bank and Jazz Semiconductor, our U.S fully owned subsidiary, signed a 5-year extension of the existing credit line agreement, which has been originally set to mature in December 2018, under which Jazz will be able to drawdown up to \$70 million through February 2023. Any such drawdown will bear an interest rate is at a rate equal to, at lender's option, either the lender's prime rate plus 0.0% to 0.5% per annum or the LIBOR rate plus 1.25% to 1.75% per annum. Outstanding loans borrowed under this line as of June 30, 2018 were \$0 and borrowing availability under the line was \$70 million.

In June 2018, we early repaid our TPSCo outstanding loans originally due 2018-2020, which carried variable interest rates of TIBOR plus 1.65% to TIBOR plus 2% and refinanced them with a new approximately \$100 million loan from three leading Japanese banks at improved terms. The new loan final maturity date is June 2025, and includes a three year grace period, nine equal installments to be paid from June 2021 to June 2025, and a fixed interest rate of 1.95% per annum.

In July 2018, we early repaid our \$40 million loan, initially borrowed in 2016 by our Texas subsidiary (TJT) from JA Mitsui (US), in relation to the acquisition of the San Antonio fab from Maxim and its operational ramp-up.

Additional Information

The analysis in this Management's Discussion and Analysis of Financial Condition and Results of Operations are derived from our unaudited condensed interim consolidated financial statements as of June 30, 2018 and June 30, 2017 and related notes for the six months then ended which were prepared in accordance with US GAAP. Information of our results of operations for the six months ended June 30, 2018 and balance sheet as of June 30, 2018 under International Financial Reporting Standards ("IFRS") is provided on a voluntary basis, including reconciliation from US GAAP to IFRS, in Note 4 of our unaudited condensed interim consolidated financial statements as of June 30, 2018.