



## TowerJazz Announces Second Quarter 2016 Results: Record Revenue of \$305 million with Year over Year Growth of 29%, Increased Margins and Net Profit

August 4, 2016

**Provides Third Quarter Revenue Guidance of \$325 million, 33% Year over Year Growth**

MIGDAL HAEMEK, Israel, Aug. 04, 2016 (GLOBE NEWSWIRE) -- TowerJazz (NASDAQ:TSEM) (TASE:TSEM) today reported results for the second quarter of 2016 ended June 30, 2016.

### Highlights

- Record revenues for the second quarter of 2016 of \$305 million, 29% year over year growth;
- Record EBITDA of \$87 million, up 48% year-over-year;
- Net profit of \$38 million with basic earnings per share of \$0.45, as compared with \$8 million, or \$0.10 basic earnings per share, in the second quarter of last year;
  - Excluding San Antonio fab acquisition gain and banks' early repayment impact, net profit for the second quarter of 2016 was \$35 million, analogous to \$25 million in the first quarter of 2016 and \$8 million in the second quarter of 2015;
- Cash from operations of \$82 million as compared to \$51 million for the second quarter of 2015, with free cash flow of \$27 million as compared with \$12 million for the second quarter of 2015;
- Cash and short-term deposits balance as of June 30, 2016 of \$311 million as compared to \$245 million as of March 31, 2016;
- Early repayment of Israeli bank loans through issuance of unsecured straight bonds due 2020-2023 carrying 2.79% coupon enabling greater business flexibility;
- Third quarter revenue guidance with mid-range of \$325 million, representing 33% year over year growth; 11 consecutive quarters of year-over-year growth and 6 consecutive quarters of quarter over quarter growth.

### CEO Commentary

**Mr. Russell Ellwanger, Chief Executive Officer of TowerJazz, commented,** "Our strategy to answer the major analog trends, aligned with customers that are the leaders in their respective sectors, has proven itself. Having achieved a \$1.2 billion annualized revenue run rate in the second quarter of 2016 with annualized \$150 million net profit, and guiding a \$1.3 billion run rate for the third quarter, up 30% over the fourth quarter of 2015 achieved target of \$1 billion run rate, is a substantial verification of this strategy. Our major focus remains those trends that drive the Internet of Things namely seamless connectivity, low power consumption and sensors. To address those trends, our business units serve multiple diversified and growing application segments with unique and differentiated technology offerings."

### Second Quarter Results Overview

Revenues for the second quarter of 2016 were a record of \$305 million, reflecting 29% growth as compared with \$236 million in the second quarter of 2015 and 10% higher than \$278 million in the immediately preceding quarter.

Second quarter of 2016 gross, operating profits and margins increased as compared with the second quarter of 2015 and with the immediately preceding quarter, mainly driven by the success of our strategy for capacity growth executed in Fab 2 and Fab 3, cross qualification and offloading optimization activities, as well as TPSCo third party customers' revenue growth.

Gross profit for the second quarter of 2016 was \$73 million or 24% gross margin. This represents an increase as compared with \$52 million in gross profit in the second quarter of 2015 or 22% gross margin.

Operating profit for the second quarter of 2016 was \$40 million, or 13% operating margin, as compared with \$22 million reported in the second quarter of 2015 with 9% operating margin.

Net profit for the second quarter of 2016 was \$38 million, or \$0.45 basic earnings per share. Net profit for the second quarter of 2016 included \$7 million non-cash financing expenses relating to the early repayment of the Israeli banks' loans recorded in accordance with US GAAP ASC 825 and \$10 million net gain from the acquisition of the San Antonio fabrication facility by TowerJazz Texas ("TJT"), calculated in accordance with US GAAP ASC-805 "Business Combinations". Provisional gain from the San Antonio fab acquisition, net recorded during the six months ended June 30, 2016, totaled \$51 million. Net profit was \$8 million in the second quarter of 2015, and \$66 million in the first quarter of 2016, which included \$41 million gain from the San Antonio fab acquisition.

Excluding the San Antonio fab acquisition gain and banks' early repayment impact, net profit for the second quarter of 2016 was \$35 million, analogous to \$25 million in the first quarter of 2016 and \$8 million in the second quarter of 2015.

EBITDA for the second quarter of 2016 totaled \$87 million, representing a 29% EBITDA margin. This represents a 48% increase as compared with \$59 million or 25% EBITDA margin in the second quarter of 2015 and a 12% sequential increase as compared with \$78 million or 28% EBITDA margin in the immediately preceding quarter.

On an adjusted basis, as described and reconciled in the tables below, adjusted net profit for the second quarter of 2016 was \$40 million, as compared with \$12 million for the second quarter of 2015 and \$32 million in the immediately preceding quarter.

During the quarter, \$113 million, net of fees was raised from the issuance of bonds, which carry a 2.79% annual coupon and are repayable in 2020-2023 (of which \$2 million were held in escrow and received in July 2016 after all Israeli bank liens were released). Following this fundraising, the Company prepaid its entire \$78 million outstanding Israeli bank loans.

During the second quarter of 2016, the Company generated \$82 million cash from operations and invested \$54 million in fixed assets, resulting in \$27 million positive free cash flow. During the quarter, the Company received customer prepayments of \$11 million, net, which were invested for capacity expansion equipment that are included in the \$54 million investments noted above.

Cash and short-term deposits as of June 30, 2016 were \$311 million, as compared with \$245 million as of March 31, 2016, \$206 million as of December 31, 2015 and \$143 million as of June 30, 2015.

Shareholders' equity as of June 30, 2016 was \$559 million, an increase of 11% as compared with \$504 million as of March 31, 2016, an increase of 45% as compared with \$386 million as of December 31, 2015 and an increase of 86% as compared with \$300 million as of June 30, 2015.

Net debt amounted to \$51 million as of June 30, 2016 as compared with net debt of \$65 million as of March 31, 2016 and net debt of \$105 million as of December 31, 2015.

### **First Half Results Overview**

Revenues for the 2016 first half were a record of \$583 million, reflecting 26% growth as compared with the first half of 2015.

Gross and operating profit for the first half of 2016 were \$134 million and \$71 million, respectively, representing 23% and 12% margins, as compared with \$85 million and \$24 million, or 19% and 5% margins, respectively, in the first half of 2015.

Net profit for the first half of 2016 was \$104 million, or \$1.22 in basic earnings per share. Net profit for the first half of 2016 includes \$51 million gain from the acquisition of San Antonio fab and \$7 million non-cash financing expenses relating to the Israeli banks loans early repayment. Net loss for the six months ended June 30, 2015 was \$65 million and included \$73 million non-cash finance expense associated with Bonds Series F accelerated conversion in accordance with US GAAP ASC 470-20.

EBITDA for the first half totaled \$165 million, representing a 28% EBITDA margin. This represents a 50% increase as compared with \$110 million, or 24% EBITDA margin, in the first half of 2015.

### **Business Outlook**

TowerJazz expects revenues for the third quarter of 2016 ending September 30, 2016 to be \$325 million, with an upward or downward range of 5%, representing approximately 33% year over year revenue growth as compared with the third quarter of 2015 and 7% growth as compared with the second quarter of 2016.

### **Teleconference and Webcast**

TowerJazz will host an investor conference call today, August 4, 2016, at 10:00 a.m. Eastern time (9:00 a.m. Central time, 8:00 a.m. Mountain time, 7:00 a.m. Pacific time and 5:00 p.m. Israel time) to discuss the Company's financial results for the second quarter 2016 and its third quarter 2016 outlook. This call will be webcast and can be accessed via TowerJazz's website at [www.towerjazz.com](http://www.towerjazz.com), or by calling: 1-888-668-9141 (U.S. Toll-Free), 03-918-0610 (Israel), +972-3-918-0610 (International). For those who are not available to listen to the live broadcast, the call will be archived for 90 days.

*The Company presents its financial statements in accordance with U.S. GAAP. Some of the financial information in this release, including in the financial tables below, which we refer to in this release as "adjusted financial measures", are non-GAAP financial measures as defined in Regulation G and related reporting requirements promulgated by the Securities and Exchange Commission as they apply to our Company. These adjusted financial measures are calculated excluding one or more of the following: (1) amortization of acquired intangible assets; (2) compensation expenses in respect of equity grants to directors, officers and employees; (3) gain from acquisition, net; (4) non-cash financing expenses related to bank loans early repayment and (5) other non-recurring items such as acquisition related costs and Nishiwaki Fab restructuring costs and impairment. These adjusted financial measures should be evaluated in conjunction with, and are not a substitute for, GAAP financial measures. The tables also present the GAAP financial measures, which are most comparable to the adjusted financial measures as well as reconciliation between the adjusted financial measures and the comparable GAAP financial measures. As used in this release, the term Earnings Before Interest Tax Depreciation and Amortization (EBITDA) consists of profit or loss, according to U.S. GAAP, excluding Nishiwaki Fab restructuring costs and impairment, gain from acquisition, net, acquisition related costs, interest and other financing expenses (net), other income (expense), net, taxes, non-controlling interest, depreciation and amortization and stock based compensation expenses. EBITDA is reconciled in the tables below from GAAP operating profit. EBITDA is not a required GAAP financial measure and may not be comparable to a similarly titled measure employed by other companies. EBITDA and the adjusted financial information presented herein should not be considered in isolation or as a substitute for operating profit, net profit or loss, cash flows provided by operating, investing and financing activities, per share data or other profit or cash flow statement data prepared in accordance with GAAP. Net debt, as presented in this release, is comprised of the outstanding principal amount of banks' loans (in the amounts of approximately \$175 million, \$245 million and \$246 million as of June 30, 2016, March 31, 2016 and December 31, 2015, respectively) and the outstanding principal amount of debentures (in the amounts of approximately \$187 million, \$65 million and \$65 million as of June 30, 2016, March 31, 2016 and December 31, 2015, respectively), less cash and short-term deposits (in the amounts of approximately \$311 million, \$245 million and \$206 million as of June 30, 2016, March 31, 2016 and December 31, 2015, respectively).*

### **About TowerJazz**

Tower Semiconductor Ltd. (NASDAQ:TSEM) (TASE:TSEM) and its fully owned U.S. subsidiaries Jazz Semiconductor, Inc. and TowerJazz Texas Inc., operate collectively under the brand name TowerJazz, the global specialty foundry leader. TowerJazz manufactures integrated circuits, offering a broad range of customizable process technologies including: SiGe, BiCMOS, mixed-signal/CMOS, RF CMOS, CMOS image sensor, integrated power management (BCD and 700V), and MEMS. TowerJazz also provides a world-class design enablement platform for a quick and accurate design cycle as well as Transfer Optimization and development Process Services (TOPS) to IDMs and fabless companies that need to expand capacity.

To provide multi-fab sourcing and extended capacity for its customers, TowerJazz operates two manufacturing facilities in Israel (150mm and 200mm), two in the U.S. (200mm) and three additional facilities in Japan (two 200mm and one 300mm) through TowerJazz Panasonic Semiconductor Co. (TPSCo), established with Panasonic Corporation of which TowerJazz has the majority holding. Through TPSCo, TowerJazz provides leading edge 45nm CMOS, 65nm RF CMOS and 65nm 1.12um pixel technologies, including the most advanced image sensor technologies. For more information,

please visit [www.towerjazz.com](http://www.towerjazz.com) or [www.tpsemico.com](http://www.tpsemico.com).

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*This press release includes forward-looking statements, which are subject to risks and uncertainties. Actual results may vary from those projected or implied by such forward-looking statements and you should not place any undue reliance on such forward-looking statements. Potential risks and uncertainties include, without limitation, risks and uncertainties associated with: (i) demand in our customers' end markets; (ii) over demand for our foundry services and/or products that exceeds our capacity; (iii) maintaining existing customers and attracting additional customers, (iv) high utilization and its effect on cycle time, yield and on schedule delivery which may cause customers to transfer their product(s) to other fabs, (v) operating results fluctuate from quarter to quarter making it difficult to predict future performance, (vi) impact of our debt and other liabilities on our financial position and operations, (vii) our ability to successfully execute acquisitions, integrate them into our business, utilize our expanded capacity and find new business, (viii) fluctuations in cash flow, (ix) our ability to satisfy the covenants stipulated in our agreements with our lender banks and bondholders, (x) pending litigation, including the shareholder class actions that were filed against the Company, certain officers, its directors and/or its external auditor in the US and Israel, following a short sell thesis report issued by a short-selling focused firm, which has been dismissed and closed in the US and is still pending in Israel; (xi) our majority stake in TPSCo and our acquisition of the San Antonio fabrication facility by TowerJazz Texas ("TJT"), including new customer engagements, qualification and production ramp-up, (xii) the closure of TJP within the scope of restructuring our activities and business in Japan, settling any future claims or potential claims from third parties, (xiii) meeting the conditions set in the approval certificates received from the Israeli Investment Center under which we received a significant amount of grants in past years, (xiv) receipt of orders that are lower than the customer purchase commitments, (xv) failure to receive orders currently expected, (xvi) possible incurrence of additional indebtedness, (xvii) effect of global recession, unfavorable economic conditions and/or credit crisis, (xviii) our ability to accurately forecast financial performance, which is affected by limited order backlog and lengthy sales cycles, (xix) possible situations of obsolete inventory if forecasted demand exceeds actual demand when we manufacture products before receipt of customer orders, (xx) the cyclical nature of the semiconductor industry and the resulting periodic overcapacity, fluctuations in operating results and future average selling price erosion, (xxi) the execution of our debt re-financing, restructuring and/or fundraising to enable the service and/or re-financing of our debt and other liabilities, (xxii) operating our facilities at high utilization rates which is critical in order to cover a portion or all of the high level of fixed costs associated with operating a foundry, and our debt, in order to improve our results, (xxiii) the purchase of equipment to increase capacity, the timely completion of the equipment installation, technology transfer and raising the funds therefore, (xxiv) the concentration of our business in the semiconductor industry, (xxv) product returns, (xxvi) our ability to maintain and develop our technology processes and services to keep pace with new technology, evolving standards, changing customer and end-user requirements, new product introductions and short product life cycles, (xxvii) competing effectively, (xxviii) use of outsourced foundry services by both fabless semiconductor companies and integrated device manufacturers; (xxix) achieving acceptable device yields, product performance and delivery times, (xxx) our dependence on intellectual property rights of others, our ability to operate our business without infringing others' intellectual property rights and our ability to enforce our intellectual property against infringement, (xxxi) retention of key employees and recruitment and retention of skilled qualified personnel, (xxxii) exposure to inflation, currency rates (mainly the Israeli Shekel and Japanese Yen) and interest rate fluctuations and risks associated with doing business locally and internationally, as well fluctuations in the market price of our traded securities, (xxxiii) issuance of ordinary shares as a result of conversion and/or exercise of any of our convertible securities, as well as any sale of shares by any of our shareholders, or any market expectation thereof, which may depress the market price of our ordinary shares and may impair our ability to raise future capital, (xxxiv) meeting regulatory requirements worldwide, including environmental and governmental regulations; and (xxxv) business interruption due to fire and other natural disasters, the security situation in Israel and other events beyond our control such as power interruptions.*

*A more complete discussion of risks and uncertainties that may affect the accuracy of forward-looking statements included in this press release or which may otherwise affect our business is included under the heading "Risk Factors" in Tower's most recent filings on Forms 20-F and 6-K, as were filed with the Securities and Exchange Commission (the "SEC") and the Israel Securities Authority. Future results may differ materially from those previously reported. The Company does not intend to update, and expressly disclaims any obligation to update, the information contained in this release.*

(Financial tables follow)

**TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**  
(dollars in thousands)

|                              | June 30,<br>2016 | March 31,<br>2016 | December 31,<br>2015 |
|------------------------------|------------------|-------------------|----------------------|
| <b>ASSETS</b>                |                  |                   |                      |
| <b>CURRENT ASSETS</b>        |                  |                   |                      |
| Cash and short term deposits | \$ 311,062       | \$ 244,577        | \$ 205,575           |
| Trade accounts receivable    | 126,839          | 122,918           | 110,065              |
| Other receivables            | 13,993           | 9,363             | 7,376                |
| Inventories                  | 136,125          | 128,031           | 105,681              |
| Other current assets         | 21,581           | 16,666            | 18,030               |
| Total current assets         | 609,600          | 521,555           | 446,727              |

|                             |              |              |            |
|-----------------------------|--------------|--------------|------------|
| LONG-TERM INVESTMENTS       | 11,861       | 11,816       | 11,737     |
| PROPERTY AND EQUIPMENT, NET | 625,163      | 582,250      | 459,533    |
| INTANGIBLE ASSETS, NET      | 34,807       | 35,601       | 34,468     |
| GOODWILL                    | 7,000        | 7,000        | 7,000      |
| OTHER ASSETS, NET           | 4,586        | 4,844        | 5,903      |
| TOTAL ASSETS                | \$ 1,293,017 | \$ 1,163,066 | \$ 965,368 |

LIABILITIES AND SHAREHOLDERS' EQUITY

|  |              |              |            |
|--|--------------|--------------|------------|
| CURRENT LIABILITIES                        |              |              |            |
| Short term debt                            | \$ 38,174    | \$ 49,150    | \$ 33,259  |
| Trade accounts payable                     | 98,829       | 104,617      | 91,773     |
| Deferred revenue and customers' advances   | 18,802       | 31,061       | 23,373     |
| Other current liabilities                  | 87,386       | 73,929       | 62,714     |
| Total current liabilities                  | 243,191      | 258,757      | 211,119    |
| LONG-TERM DEBT                             | 320,444      | 259,357      | 256,019    |
| LONG-TERM CUSTOMERS' ADVANCES              | 48,999       | 28,444       | 21,102     |
| EMPLOYEE RELATED LIABILITIES               | 14,029       | 14,387       | 14,189     |
| DEFERRED TAX LIABILITY                     | 107,585      | 97,754       | 77,353     |
| Total liabilities                          | 734,248      | 658,699      | 579,782    |
| TOTAL SHAREHOLDERS' EQUITY                 | 558,769      | 504,367      | 385,586    |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,293,017 | \$ 1,163,066 | \$ 965,368 |

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES  
CONSOLIDATED SOURCES AND USES REPORT (UNAUDITED)  
(dollars in thousands)

|  | Three months ended |                   |                  |
|--|--------------------|-------------------|------------------|
|  | June 30,<br>2016   | March 31,<br>2016 | June 30,<br>2015 |
| Cash and short term deposits - beginning of period     | \$ 244,577         | \$ 205,575        | \$ 134,216       |
| Cash from operations                                   | 81,781             | 77,442            | 50,921           |
| Investments in property and equipment, net             | (54,323 )          | (57,533 )         | (38,628 )        |
| Exercise of warrants and options, net                  | 360                | 5,881             | (817 )           |
| Debt received (repaid)                                 | 27,444             | 6,746             | (2,000 )         |
| Effect of Japanese Yen exchange rate change and others | 11,223             | 9,029             | (1,189 )         |
| TPSCo dividend to Panasonic                            | --                 | (2,563 )          | --               |

|  |            |            |            |
|--|------------|------------|------------|
| Cash and short term deposits - end of period | \$ 311,062 | \$ 244,577 | \$ 142,503 |
|--|------------|------------|------------|

|                  |          |
|------------------|----------|
| Six months ended |          |
| June 30,         | June 30, |
| 2016             | 2015     |

|  |            |            |
|--|------------|------------|
| Cash and short term deposits - beginning of period     | \$ 205,575 | \$ 187,167 |
| Cash from operations                                   | 159,223    | 91,211     |
| Investments in property and equipment, net             | (111,856 ) | (66,572 )  |
| Exercise of warrants and options, net                  | 6,241      | 5,654      |
| Debt received (repaid)                                 | 34,190     | (48,683 )  |
| Nishiwaki's employees retirement related payments      | --         | (24,907 )  |
| Effect of Japanese Yen exchange rate change and others | 20,252     | (1,367 )   |
| TPSCo dividend to Panasonic                            | (2,563 )   | --         |
| Cash and short term deposits - end of period           | \$ 311,062 | \$ 142,503 |

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

|                    |           |          |
|--------------------|-----------|----------|
| Three months ended |           |          |
| June 30,           | March 31, | June 30, |
| 2016               | 2016      | 2015     |
| GAAP               | GAAP      | GAAP     |

|   |            |            |            |
|---|------------|------------|------------|
| <b>REVENUES</b>                                       | \$ 305,003 | \$ 278,043 | \$ 235,561 |
| <b>COST OF REVENUES</b>                               | 232,275    | 216,696    | 183,101    |
| <b>GROSS PROFIT</b>                                   | 72,728     | 61,347     | 52,460     |
| <b>OPERATING COSTS AND EXPENSES</b>                   |            |            |            |
| Research and development                              | 16,030     | 15,237     | 15,148     |
| Marketing, general and administrative                 | 16,520     | 15,923     | 15,806     |
| Nishiwaki Fab restructuring costs and impairment, net | --         | (627 )     | --         |
|   | 32,550     | 30,533     | 30,954     |
| <b>OPERATING PROFIT</b>                               | 40,178     | 30,814     | 21,506     |
| <b>INTEREST EXPENSE, NET</b>                          | (2,997 )   | (3,358 )   | (3,613 )   |
| <b>OTHER NON CASH FINANCING EXPENSE, NET</b>          | (7,528 )   | (3,969 )   | (7,271 )   |
| <b>GAIN FROM ACQUISITION, NET</b>                     | 10,158     | 41,140     | --         |
| <b>OTHER INCOME (EXPENSE), NET</b>                    | 4,362      | --         | (4 )       |

|   |           |           |          |
|---|-----------|-----------|----------|
| PROFIT BEFORE INCOME TAX  | 44,173    | 64,627    | 10,618   |
| INCOME TAX EXPENSE  | (3,826 )  | (79 )     | (2,468 ) |
| PROFIT BEFORE NON CONTROLLING INTEREST  | 40,347    | 64,548    | 8,150    |
| NON CONTROLLING INTEREST  | (1,861 )  | 1,396     | (363 )   |
| NET PROFIT  | \$ 38,486 | \$ 65,944 | \$ 7,787 |
| <br>  |           |           |          |
| BASIC EARNINGS PER ORDINARY SHARE   | \$ 0.45   | \$ 0.78   | \$ 0.10  |
| Weighted average number of ordinary shares outstanding  | 86,300    | 84,521    | 76,696   |
| <br>  |           |           |          |
| DILUTED EARNINGS PER ORDINARY SHARE   | \$ 0.40   | \$ 0.69   | \$ 0.09  |
| Net profit used for diluted earnings per share  | \$ 40,556 | \$ 68,002 | \$ 7,787 |
| Weighted average number of ordinary shares outstanding -<br>used for diluted earnings per share | 100,163   | 98,777    | 87,558   |

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

|   | Six months ended |               |
|---|------------------|---------------|
|   | June 30,         |               |
|   | 2016             | 2015          |
|   | GAAP             | GAAP          |
| REVENUES  | \$ 583,046       | \$ 461,778    |
| COST OF REVENUES                                      | 448,971          | 376,326       |
| GROSS PROFIT  | 134,075          | 85,452        |
| OPERATING COSTS AND EXPENSES                          |                  |               |
| Research and development                              | 31,267           | 29,985        |
| Marketing, general and administrative                 | 32,443           | 31,967        |
| Nishiwaki Fab restructuring costs and impairment, net | (627 )           | --            |
|   | 63,083           | 61,952        |
| OPERATING PROFIT                                      | 70,992           | 23,500        |
| INTEREST EXPENSE, NET                                 | (6,355 )         | (7,246 )      |
| OTHER NON CASH FINANCING EXPENSE, NET                 | (11,497 )        | (91,867 ) (a) |

|   |            |              |
|---|------------|--------------|
| GAIN FROM ACQUISITION, NET  | 51,298     | --           |
| OTHER INCOME (EXPENSE), NET   | 4,362      | (13 )        |
| PROFIT (LOSS) BEFORE INCOME TAX   | 108,800    | (75,626 )    |
| INCOME TAX BENEFIT (EXPENSE)  | (3,905 )   | 8,426        |
| PROFIT (LOSS) BEFORE NON CONTROLLING INTEREST   | 104,895    | (67,200 )    |
| NON CONTROLLING INTEREST  | (465 )     | 1,923        |
| NET PROFIT (LOSS)   | \$ 104,430 | \$ (65,277 ) |
| BASIC EARNINGS (LOSS) PER ORDINARY SHARE  | \$ 1.22    | \$ (0.93 )   |
| Weighted average number of ordinary shares outstanding  | 85,410     | 70,175       |
| DILUTED EARNINGS PER ORDINARY SHARE   | \$ 1.09    |              |
| Net profit used for diluted earnings per share  | \$ 108,556 |              |
| Weighted average number of ordinary shares outstanding -<br>used for diluted earnings per share | 99,546     |              |

(a) Included \$73,121 associated with Bonds Series F accelerated conversion in the six months ended June 30, 2015 in accordance with US GAAP ASC 470-20.

#### TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES

#### UNAUDITED RECONCILIATION OF ADJUSTED FINANCIAL DATA AND ADJUSTED EBITDA CALCULATION

(dollars and share count in thousands, except per share data)

|   | Three months ended |                   |                  |
|---|--------------------|-------------------|------------------|
|   | June 30,<br>2016   | March 31,<br>2016 | June 30,<br>2015 |
| <b>RECONCILIATION FROM GAAP NET PROFIT TO ADJUSTED NET PROFIT</b>   |                    |                   |                  |
| GAAP NET PROFIT   | \$ 38,486          | \$ 65,944         | \$ 7,787         |
| Stock based compensation  | 2,532              | 2,156             | 1,943            |
| Amortization of acquired intangible assets                          | 2,395              | 2,241             | 2,258            |
| Non cash financing expense related to bank loan early repayment (1) | 6,653              | --                | --               |
| Gain from acquisition, net  | (10,158 )          | (41,140 )         | --               |
| Other non-recurring items, see (2) below                            | --                 | 2,378             | --               |
| ADJUSTED NET PROFIT   | \$ 39,908          | \$ 31,579         | \$ 11,988        |
| <b>ADJUSTED NET PROFIT PER SHARE</b>                                |                    |                   |                  |
| Basic   | \$ 0.46            | \$ 0.37           | \$ 0.16          |
| Diluted   | \$ 0.42            | \$ 0.34           | \$ 0.14          |
| Fully diluted, see (3) below  | \$ 0.39            | \$ 0.31           | \$ 0.16          |

**ADJUSTED NET PROFIT USED TO CALCULATE PER SHARE DATA:**

|               |           |           |           |
|---------------|-----------|-----------|-----------|
| Basic         | \$ 39,908 | \$ 31,579 | \$ 11,988 |
| Diluted       | \$ 41,978 | \$ 31,579 | \$ 11,988 |
| Fully diluted | \$ 41,978 | \$ 33,637 | \$ 16,531 |

**Number of shares and other securities used for the above calculation:**

|                              |         |         |         |
|------------------------------|---------|---------|---------|
| Basic                        | 86,300  | 84,521  | 76,696  |
| Diluted                      | 100,163 | 92,902  | 87,558  |
| Fully diluted, see (3) below | 107,056 | 106,865 | 103,577 |

**EBITDA CALCULATION:**

|   |           |           |           |
|---|-----------|-----------|-----------|
| <b>GAAP OPERATING PROFIT</b>                          | \$ 40,178 | \$ 30,814 | \$ 21,506 |
| Cost of revenues:                                     |           |           |           |
| Depreciation of fixed assets                          | 41,910    | 40,064    | 32,912    |
| Stock based compensation                              | 1,160     | 989       | 540       |
| Amortization of acquired intangible assets            | 2,207     | 2,053     | 2,070     |
| Acquisition related non-recurring costs               | --        | 3,005     | --        |
| Research and development:                             |           |           |           |
| Stock based compensation                              | 533       | 528       | 469       |
| Marketing, general and administrative:                |           |           |           |
| Stock based compensation                              | 839       | 639       | 934       |
| Amortization of acquired intangible assets            | 188       | 188       | 188       |
| Nishiwaki Fab restructuring costs and impairment, net | --        | (627 )    | --        |
| <b>EBITDA</b>   | \$ 87,015 | \$ 77,653 | \$ 58,619 |

(1 ) In accordance with US GAAP ASC 825-10.

(2 ) Q1 2016 includes mainly acquisition related costs.

(3 ) Fully diluted share count includes all issued and outstanding securities as of end of the applicable period.

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

Three months ended  
June 30,          March 31,  
2016                  2016

**CASH FLOWS - OPERATING ACTIVITIES**

|                           |           |           |
|---------------------------|-----------|-----------|
| Net profit for the period | \$ 40,347 | \$ 64,548 |
|---------------------------|-----------|-----------|

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  | 48,117    | 48,582    |
| Effect of indexation, translation and fair value measurement on debt | 6,700     | 1,401     |
| Other income, net  | (4,362 )  | --        |
| Gain from acquisition  | (10,158 ) | (41,140 ) |

**Changes in assets and liabilities:**

|                           |          |          |
|---------------------------|----------|----------|
| Trade accounts receivable | (1,916 ) | (8,519 ) |
|---------------------------|----------|----------|



|   |            |            |
|---|------------|------------|
| Other receivables and other current assets      | (5,476 )   | 822        |
| Inventories                                     | (6,300 )   | (9,224 )   |
| Trade accounts payable                          | 130        | 10,145     |
| Deferred revenue and customers' advances        | 8,294      | 15,030     |
| Other current liabilities                       | 11,194     | (1,953 )   |
| Deferred tax liability, net                     | (4,789 )   | (2,250 )   |
| Net cash provided by operating activities       | 81,781     | 77,442     |
| <b>CASH FLOWS - INVESTING ACTIVITIES</b>        |            |            |
| Investments in property and equipment, net      | (54,323 )  | (57,533 )  |
| Deposits and other investments, net             | 19,600     | 10,000     |
| Net cash used in investing activities           | (34,723 )  | (47,533 )  |
| <b>CASH FLOWS - FINANCING ACTIVITIES</b>        |            |            |
| Debt received, net of repayment                 | 27,444     | 6,746      |
| Exercise of warrants and options, net           | 360        | 5,881      |
| Dividend payment to Panasonic                   | --         | (2,563 )   |
| Net cash provided by financing activities       | 27,804     | 10,064     |
| EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGE | 11,623     | 9,029      |
| INCREASE IN CASH AND CASH EQUIVALENTS           | 86,485     | 49,002     |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 224,577    | 175,575    |
| CASH AND CASH EQUIVALENTS - END OF PERIOD       | 311,062    | 224,577    |
| SHORT TERM DEPOSITS                             | --         | 20,000     |
| CASH AND SHORT TERM DEPOSITS - END OF PERIOD    | \$ 311,062 | \$ 244,577 |

Tower Semiconductor