

Tower Semiconductor Announces Second Quarter and Six Months 2005 Results

Fab2 Tape-Outs During Q2 At Record High

MIGDAL HAEMEK, Israel — August 2, 2005 — Tower Semiconductor Ltd. (NASDAQ: TSEM; TASE: TSEM), a pure-play independent specialty foundry, today announced second quarter and six months results for fiscal year 2005. Revenues were \$27.2 million for the three months ended June 30, including \$8 million from a previously announced technology-related agreement, versus revenues of \$23.2 million in the first quarter of 2005 and \$33.7 million in the second quarter of 2004. For the six months ending June 30, 2005, revenues were \$50.4 million, including \$8 million from a previously announced technology-related agreement, versus \$60.9 million for the first half of 2004, including \$1.9 million from this same agreement.

The 2005-second quarter loss was \$47.2 million, or \$0.71 per share, which represents negative \$4.5 million EBITDA. This loss is compared with a loss of \$55.3 million, or \$0.84 per share, for the first quarter of 2005 (negative \$13.7 million EBITDA), and a loss of \$36.5 million, or \$0.55 per share, in the second quarter of 2004 (negative \$2.2 million EBITDA). In addition, for the first half of 2005 the loss was \$102.6 million, or \$1.56 per share, which represents negative \$18.2 million EBITDA versus a loss of \$75 million, or \$1.16 per share for the first half of 2004 (negative \$8.2 million EBITDA).

Tower expects revenues in the third quarter of 2005 to be in the range of \$20 to \$22 million, reflecting a modest growth over Q2 sales from manufacturing activities. In addition, Q2 had a record high number of Fab2 customer product tape-outs, exceeding the total for the full calendar year in 2004. These tape-outs are expected to materialize into revenue growth in the coming quarters and indicate the increasing traction of the Fab2 technology offering to its customer's products.

During the second quarter Tower has started shipping production wafers of 1.3 and 2.0 mega-pixel CMOS Image Sensors for cell-phone applications, utilizing the 0.18-micron manufacturing capabilities of Fab2. Included in Q2 tape-outs, a product for a leading fabless company, utilizing Tower's state of the art 0.18 micron embedded NVM solution. Tower continues to grow its mixed signal revenues in Fab2 and has attained excellent performance on an advanced RFCMOS product in the Wi-Fi space.

Tower has reached a definitive agreement with its banks, under which they will provide the company with up to approximately \$30 million of additional funding to be matched by financing of \$30 million to be raised by Tower. A preliminary prospectus for rights to purchase the company's convertible debentures was filed in the U.S. and Israel. All of Tower's shareholders as of the record date, yet to be determined, will be offered the opportunity to participate in this \$50 million offering. Certain of Tower's major shareholders have committed to purchase from Tower \$24.5 million principal amount of convertible debentures.

“I have now visited the majority of Tower’s customers world wide and the overriding sentiment is confidence and satisfaction in Towers technical and operational capability and best of breed responsiveness”, said Russell Ellwanger, chief executive officer, Tower Semiconductor. “With up to \$60M million in additional funding from our banks and investors we will continue to build on these strengths, while setting our customers’ needs at the core of our operation.”

The revenue numbers below exclude the \$8 million from a previously announced technology agreement.

1. Diversifying customer base

Total customer count	As of end of Q2 2005	As of end of Q2 2004
95% of revenue generated by:	27 customers	21 customers
Fab 2 production customers	9 customers	5 customers
Fab 2 pre-production customers	22 customers	11 customers

2. Sales by customer base profile

Type of customer	Q2 2005	Q1 2005	Q2 2004
Fabless	72%	76%	71%
IDM	28%	24%	29%

3. Sales by geography

Region	Q2 2005	Q1 2005	Q2 2004
U.S.	68%	77%	49%
Israel	9%	5%	28%
Pacific Rim (including Japan)	8%	10%	13%
Europe	15%	8%	10%

4. Developing specialized technology offerings

Tower continues to develop differentiated technologies, utilizing core technical knowledge in embedded NVM, CMOS image sensors, mixed-signal and RF technologies, according to its strategic roadmap.

During the second quarter, Tower increased the CMOS image sensors and the Mixed Signal shares of total revenue, as can be seen in the table below.

Technology Consolidated	Segment	Q2 2005	Q1 2005	Q2 2004
Core CMOS		54%	69%	53%
Non Volatile memory		9%	8%	23%
CMOS imager sensors		18%	11%	9%
Mixed Signal, RF and Power		19%	12%	15%
Fab1				
Core CMOS		31%	36%	18%
Non Volatile memory		19%	18%	41%

CMOS imager sensors	29%	20%	15%
Mixed Signal, RF and Power	21%	26%	26%
Fab2			
Core CMOS	72%	92%	95%
Non Volatile memory	1%	1%	0%
CMOS imager sensors	9%	5%	3%
Mixed Signal and RF	18%	2%	2%

The company made progress in 0.13u technology, running initial shuttle with customers' test chips and several IP blocks. Tower expects that production ramp utilizing this technology will start during 2006.

5. Diversifying revenues by market segment

Tower maintains its market segment diversification.

Industry Segment	Q2 2005	Q1 2005	Q2 2004
Consumer	29%	48%	49%
Communication	20%	18%	15%
PC	6%	2%	5%
Industrial, medical and automotive	21%	12%	12%
Multi market and others	24%	20%	19%

Tower will host a conference call to discuss these results on August 2, at 10a.m. Eastern time/5 p.m. Israel time. To participate, call 1-866-229-7198 (U.S. toll-free number) or 972-3-918-0610 (international) and mention ID code: TOWER. Callers in Israel are invited to call locally 03-918-0610. The conference call will also be webcast live at www.companyboardroom.com and at www.towersemi.com and will be available thereafter on both websites for replay for 90 days, starting at 1 p.m. Eastern time on the day of the call.

About Tower Semiconductor Ltd.

Tower Semiconductor Ltd. is a pure-play independent specialty foundry established in 1993. The company manufactures integrated circuits with geometries ranging from 1.0 to 0.13 micron; it also provides complementary technical services and design support. In addition to digital CMOS process technology, Tower offers advanced non-volatile memory solutions, mixed-signal and CMOS image-sensor technologies. To provide world-class customer service, the company maintains two manufacturing facilities: Fab 1 has process technologies from 1.0 to 0.35 micron and can produce up to 16,000 150mm wafers per month. Fab 2 features 0.18 micron and below standard and specialized process technologies and has a current capacity of up to 15,000 200mm wafers per month. Tower's website is located at www.towersemi.com.

Safe Harbor

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. Potential risks and uncertainties include, without limitation, risks and uncertainties associated with: (i) the completion of the equipment installation, technology transfer and ramp-up of production in Fab 2, (ii) having sufficient funds to operate the company and to complete the Fab 2 project, (iii) the cyclical nature of the semiconductor industry and the resulting periodic overcapacity, fluctuations in operating results, future average selling price erosion that may be more severe than our expectations, (iv) operating our facilities at satisfactory utilization rates which is critical in order to cover the high level of fixed costs associated with operating a foundry, (v) the successful completion of the rights offering (vi) our ability to meet certain of the covenants stipulated in our amended facility agreement, (vii) the closing of the definitive amendment to the facility agreement and the receipt and consummation of the investors' commitments to invest at least \$23.5 million, (viii) our ability to capitalize on increases in demand for foundry services, (ix) meeting the conditions to receive Israeli government grants and tax benefits approved for Fab 2 and obtaining the approval of the Israeli Investment Center to extend or to expand the five-year investment period under our Fab 2 approved enterprise program, (x) attracting additional customers, (xi) not receiving orders from our wafer partners and technology providers, (xii) failing to maintain and develop our technology processes and services, (xiii) competing effectively, (xiv) our large amount of debt, (xv) achieving acceptable device yields, product performance and delivery times, (xvi) the timely development, internal qualification and customer acceptance of new processes and products, and (xvii) business interruption due to terror attacks, earthquakes, and other acts of God.

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 our most recent filings on Forms 20-F, F-2 and 6-K, as were filed with the Securities and Exchange Commission and the Israel Securities Authority. Future results may differ materially from those previously reported. We do not intend to update the information contained in this release.

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