

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

For the month of May 2007 (No. 2)

TOWER SEMICONDUCTOR LTD.
(Translation of registrant's name into English)

RAMAT GAVRIEL INDUSTRIAL PARK
P.O. BOX 619, MIGDAL HAEMEK, ISRAEL 23105
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

On May 1, 2007, the Registrant announced its financial results for the three months ended March 31, 2007 and on May 2, 2007 issued unaudited condensed interim consolidated financial statements as of March 31, 2007 and for the three months period then ended. Attached hereto are the following exhibits:

Exhibit 99.1 Registrant's unaudited condensed interim consolidated financial statements as of March 31, 2007 and for the three months period then ended.

Exhibit 99.2 Management's Discussion and Analysis of Financial Condition and Results of Operations

This Form 6-K, including all exhibits hereto, is hereby incorporated by reference into (1) all effective registration statements filed by us under the Securities Act of 1933 and (2) Registration Statement No. 333-140174 and Registration No. 333-141640 on Form F-3.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TOWER SEMICONDUCTOR LTD.

Date: May 2, 2007

By: /s/ Nati Somekh Gilboa

Nati Somekh Gilboa
Corporate Secretary

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2007

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

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CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2007

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data and per share data)

	AS OF MARCH 31,		DECEMBER 31,
	2007	2006	2006

	(UNAUDITED)		

A S S E T S			
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS	\$ 38,592	\$ 17,570	39,710
SHORT-TERM INTEREST-BEARING DEPOSITS	5,000	--	1,230
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	--	15,126	--
TRADE ACCOUNTS RECEIVABLE:			
RELATED PARTIES	14,941	6,938	13,625
OTHERS	21,186	11,944	17,873
OTHER RECEIVABLES	5,174	8,937	5,425
INVENTORIES	38,245	24,468	34,763
OTHER CURRENT ASSETS	1,676	1,350	1,473
	-----	-----	-----
TOTAL CURRENT ASSETS	124,814	86,333	114,099
	-----	-----	-----
PROPERTY AND EQUIPMENT, NET	519,876	488,505	539,292
	-----	-----	-----
INTANGIBLE ASSETS, NET	42,590	59,724	44,981
	-----	-----	-----
OTHER ASSETS , NET	1,320	1,477	1,346
	=====	=====	=====
TOTAL ASSETS	\$ 688,600	\$ 636,039	699,718
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	\$ 6,597	\$ 5,734	\$ 6,632
TRADE ACCOUNTS PAYABLE	57,922	52,028	55,128
OTHER CURRENT LIABILITIES	20,188	8,913	22,096
	-----	-----	-----
TOTAL CURRENT LIABILITIES	84,707	66,675	83,856
	-----	-----	-----
LONG-TERM DEBT FROM BANKS	358,798	514,966	356,947
CONVERTIBLE DEBENTURES	57,853	34,429	62,175
LONG-TERM CUSTOMERS' ADVANCES	44,050	54,537	46,042
OTHER LONG-TERM LIABILITIES	21,353	10,238	17,708
	-----	-----	-----
TOTAL LIABILITIES	566,761	680,845	566,728
	-----	-----	-----
SHAREHOLDERS' EQUITY (DEFICIT)			
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 800,000,000, 500,000,000 AND 800,000,000 SHARES, RESPECTIVELY; ISSUED 122,182,946, 76,946,189 AND 102,052,767 SHARES, RESPECTIVELY	28,965	18,403	24,187
ADDITIONAL PAID-IN CAPITAL	584,400	531,123	564,580
CAPITAL NOTES	176,401	--	176,401
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	25,218	19,550	23,576
ACCUMULATED DEFICIT	(684,073)	(604,810)	(646,682)
	-----	-----	-----
TREASURY STOCK, AT COST - 1,300,000 SHARES	130,911	(35,734)	142,062
	(9,072)	(9,072)	(9,072)
	-----	-----	-----
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	121,839	(44,806)	132,990
	=====	=====	=====
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 688,600	\$ 636,039	699,718
	=====	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,
	2007	2006	2006
	(UNAUDITED)		
REVENUES	\$ 55,604	\$ 35,875	\$ 187,438
COST OF SALES	71,494	61,280	267,390
GROSS LOSS	(15,890)	(25,405)	(79,952)
OPERATING COSTS AND EXPENSES			
RESEARCH AND DEVELOPMENT	3,597	3,354	14,984
MARKETING, GENERAL AND ADMINISTRATIVE	7,825	5,324	24,512
	11,422	8,678	39,496
OPERATING LOSS	(27,312)	(34,083)	(119,448)
FINANCING EXPENSE, NET	(10,148)	(11,524)	(48,148)
GAIN ON DEBT RESTRUCTURING	--	--	80,071
OTHER INCOME, NET	69	551	597
LOSS FOR THE YEAR	\$ (37,391)	\$ (45,056)	\$ (86,928)
LOSS PER ORDINARY SHARE			
BASIC AND DILUTED LOSS PER SHARE	\$ (0.36)	\$ (0.63)	\$ (1.05)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	105,060	71,872	82,581

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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TOWER SEMICONDUCTOR LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(dollars in thousands, except share data and per share data)

	ORDINARY SHARES		ADDITIONAL PAID-IN CAPITAL	CAPITAL NOTES	EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	ACCUMULATED DEFICIT	TREASURY STOCK	TOTAL
	SHARES	AMOUNT						
BALANCE - JANUARY 1, 2007	102,052,767	\$ 24,187	\$ 564,580	\$ 176,401	\$ 23,576	\$ (646,682)	\$ (9,072)	\$ 132,996
CHANGES DURING THE THREE-MONTH PERIOD (UNAUDITED):								
ISSUANCE OF SHARES AND WARRANTS	19,730,545	4,684	19,438					24,122
CONVERSION OF CONVERTIBLE DEBENTURES TO SHARES	398,134	94	380		(170)			304
EMPLOYEE STOCK-BASED COMPENSATION					1,812			1,812
EXERCISE OF SHARE OPTIONS	1,500	--	2					1,502
LOSS FOR THE PERIOD						(37,391)		(37,391)
BALANCE - MARCH 31, 2007 (UNAUDITED)	122,182,946	\$ 28,965	\$ 584,400	\$ 176,401	\$ 25,218	\$ (684,073)	\$ (9,072)	\$ 121,836
BALANCE - JANUARY 1, 2006	68,232,056	16,548	522,237	--	(26)	(559,754)	(9,072)	(30,061)
CHANGES DURING THE THREE-MONTH PERIOD (UNAUDITED):								
ISSUANCE OF SHARES	2,713,396	579	3,708					4,287
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES					21,979			21,979
CONVERSION OF CONVERTIBLE DEBENTURES TO SHARES	6,000,737	1,276	5,178		(2,782)			3,671
EMPLOYEE STOCK-BASED COMPENSATION					379			379
LOSS FOR THE PERIOD						(45,056)		(45,056)
BALANCE - MARCH 31, 2006 (UNAUDITED)	76,946,189	\$ 18,403	\$ 531,123	\$ --	\$ 19,550	\$ (604,810)	\$ (9,072)	\$ (44,806)
BALANCE - JANUARY 1, 2006	68,232,056	\$ 16,548	\$ 522,237	\$ --	\$ (26)	\$ (559,754)	\$ (9,072)	\$ (30,061)
CHANGES DURING 2006 :								
ISSUANCE OF SHARES	16,729,145	3,860	21,235					25,097
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES					27,997			27,997
CONVERSION OF CONVERTIBLE DEBENTURES TO SHARES	16,734,316	3,696	14,681		(7,758)			10,619
ISSUANCE OF WARRANTS			1,803					1,803
EMPLOYEE STOCK-BASED COMPENSATION					3,363			3,363
EXERCISE OF OPTIONS	7,250	2	9					11
EXERCISE OF WARRANTS	350,000	81	469					555
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			4,146					4,146
CAPITAL NOTES				176,401				176,401
LOSS FOR THE YEAR						(86,928)		(86,928)
BALANCE - DECEMBER 31, 2006	102,052,767	\$ 24,187	\$ 564,580	\$ 176,401	\$ 23,576	\$ (646,682)	\$ (9,072)	\$ 132,996

SEE NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands, except share data and per share data)

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,
	2007	2006	2006
	(UNAUDITED)		
CASH FLOWS - OPERATING ACTIVITIES			
LOSS FOR THE PERIOD	\$ (37,391)	\$ (45,056)	\$ (86,928)
Adjustments to reconcile loss for the period			
TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
INCOME AND EXPENSE ITEMS NOT INVOLVING CASH FLOWS:			
DEPRECIATION AND AMORTIZATION	42,862	41,338	170,816
EFFECT OF INDEXATION AND TRANSLATION ON CONVERTIBLE DEBENTURES	1,181	(257)	2,569
OTHER INCOME, NET	(69)	(551)	(597)
GAIN ON DEBT RESTRUCTURING	--	--	(80,071)
CHANGES IN ASSETS AND LIABILITIES:			
INCREASE IN TRADE ACCOUNTS RECEIVABLE	(4,629)	(2,106)	(14,722)
DECREASE (INCREASE) IN OTHER RECEIVABLES AND OTHER CURRENT ASSETS	124	(477)	(2,662)
INCREASE IN INVENTORIES	(3,484)	(4,308)	(16,725)
INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	9,402	1,348	(2,073)
INCREASE (DECREASE) IN OTHER CURRENT LIABILITIES	(1,398)	(179)	6,551
DECREASE IN OTHER LONG-TERM LIABILITIES	(521)	(1,206)	(3,285)
	6,077	(11,454)	(27,127)
DECREASE IN LONG-TERM CUSTOMERS' ADVANCES, NET	(528)	(415)	(2,306)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	5,549	(11,869)	(29,433)
CASH FLOWS - INVESTING ACTIVITIES			
DECREASE IN DESIGNATED CASH, SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS, NET	--	16,535	31,661
INVESTMENTS IN PROPERTY AND EQUIPMENT	(23,836)	(16,666)	(161,187)
INVESTMENT GRANTS RECEIVED	--	872	5,219
PROCEEDS RELATED TO SALE AND DISPOSAL OF PROPERTY AND EQUIPMENT	69	551	600
INVESTMENTS IN OTHER ASSETS	(911)	(3,507)	(5,074)
INCREASE IN SHORT-TERM INTEREST-BEARING DEPOSITS	(3,770)	--	(1,230)
NET CASH USED IN INVESTING ACTIVITIES	(28,448)	(2,215)	(130,011)
CASH FLOWS - FINANCING ACTIVITIES			
PROCEEDS FROM ISSUANCE OF CONVERTIBLE DEBENTURES, NET	--	22,203	58,766
PROCEEDS FROM LONG-TERM DEBT	--	8,590	18,295
PROCEEDS FROM ISSUANCE OF ORDINARY SHARES AND WARRANTS, NET	28,867	--	20,673
PROCEEDS ON ACCOUNT OF A WARRANT	--	--	550
PROCEEDS ON ACCOUNT OF SHARE CAPITAL	--	--	100,000
REPAYMENT OF CONVERTIBLE DEBENTURE	(7,088)	(6,476)	(6,476)
PROCEEDS FROM EXERCISE OF SHARE OPTIONS	2	--	9
NET CASH PROVIDED BY FINANCING ACTIVITIES	21,781	24,317	191,817
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,118)	10,233	32,373
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	39,710	7,337	7,337
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 38,592	\$ 17,570	\$ 39,710
NON-CASH ACTIVITIES			
INVESTMENTS IN PROPERTY AND EQUIPMENT	\$ 8,743	\$ 1,901	\$ 39,913
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS	\$ --	\$ --	\$ 4,146
INVESTMENTS IN OTHER ASSETS	\$ --	\$ --	\$ 433
CONVERSION OF LONG-TERM CUSTOMERS' ADVANCES TO SHARE CAPITAL	\$ 1,666	\$ 4,287	\$ 7,621
CONVERSION OF CONVERTIBLE DEBENTURES TO SHARES CAPITAL	\$ 304	\$ 3,672	\$ 10,619
CONVERSION OF LONG TERM DEBT TO CAPITAL NOTES	\$ --	\$ --	\$ 76,401
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
CASH PAID DURING THE PERIOD FOR INTEREST	\$ 7,221	\$ 10,546	\$ 35,008
CASH PAID DURING THE PERIOD FOR INCOME TAXES	\$ 4	\$ 14	\$ 134

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF MARCH 31, 2007
(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL

A. BASIS FOR PRESENTATION

(1) The unaudited condensed interim consolidated financial statements as of March 31, 2007 and for the three months then ended ("interim financial statements") of Tower Semiconductor Ltd. and subsidiary ("the Company") should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 2006 and for the year then ended, including the notes thereto. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the financial position and results of operations as of the date and 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.

- (2) The interim financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in Israel ("Israeli GAAP"). The interim financial statements differ in certain respects from GAAP in the United States of America ("U.S. GAAP"), as indicated in Note 5. The accounting principles applied in the preparation of these interim financial statements are consistent with those principles applied in the preparation of the most recent annual audited financial statements, except for the accounting principles detailed in paragraph 3 below.
- (3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD
- A. ACCOUNTING STANDARD NO. 29 "ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS"

In July 2006, the Israeli Accounting Standards Board published Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards" - IFRS ("the Standard"). According to the Standard, an entity subject to the Israeli Securities Law and authoritative regulations thereunder (including dual listed companies), excluding foreign corporations, that do not prepare their financial statements in accordance with Israeli GAAP, as defined by the Israeli Securities Law will be required to prepare financial statements in accordance with the IFRS and related interpretations published by the International Accounting Standards Board, for the reporting periods commencing January 1, 2008, including interim periods.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF MARCH 31, 2007
(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

- (3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD (CONT.)
- A. ACCOUNTING STANDARD NO. 29 "ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS" (CONT.)

An entity adopting IFRS as of January 1, 2008 and electing to report comparative figures in accordance with the IFRS for only 2007, will be required to prepare opening balance-sheet amounts as of January 1, 2007 based on the IFRS. Reporting in accordance with the IFRS will be carried out based on the provisions of IFRS No. 1, "First-time Adoption of IFRS Standards", which establishes guidance on implementing and transitioning from financial reporting based on domestic national accounting standards to reporting in accordance with IFRS. IFRS No. 1 supersedes the transitional provisions established in other IFRSs (including those established in former domestic national accounting standards), stating that all IFRSs should be adopted retroactively for the opening balance-sheet amounts. Nevertheless, IFRS No. 1 grants exemptions on certain issues by allowing the alternative of not applying the retroactive application in respect thereof.

B. ACCOUNTING STANDARD NO. 26 "INVENTORY"

In August 2006 the Israeli Accounting Standards Board published Accounting Standard No. 26 - "Inventory" ("the Standard"), which outlines the accounting treatment for inventory. The Standard applies to all types of inventory, other than building earmarked for sale and addressed by Accounting Standard No.2 ("Construction of Buildings for Sale"), inventory of work in progress stemming from performance contracts, addressed by Accounting Standard No.4 ("Work Based on Performance Contract"), financial instruments and biological assets relating to agricultural activity and agricultural production during harvest.

The Standard applies to financial statements covering periods beginning January 1, 2007 and onwards and should be implemented retroactively. The Standard did not affect the Company's financial position, results of operations and cash flows.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF MARCH 31, 2007
(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

- (3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD (CONT.)
- C. ACCOUNTING STANDARD NO. 27 "FIXED ASSETS"

In September 2006 the Israeli Accounting Standards Board published Accounting Standard No. 27 (the "Standard"), which establishes the accounting treatment for fixed assets, including recognition of assets, determination of their book value, related depreciation, losses from impairment as well as the disclosure required in the financial statements. The Standard states that a fixed-asset item will be measured at the initial recognition date at cost. The cost should also include the initial estimate of costs required to dismantle and remove the item.

Following the initial recognition, the Standard permits the entity to implement in its accounting policy the measurement

of the fixed assets by the cost method or by revaluation so long as this policy is implemented in regard to all the items in that group.

Cost method - an item will be presented at cost less accumulated depreciation net book value, less accumulated impairment losses.

Revaluation method - an item whose fair value can be measured reliably will be presented at its estimated amount, which equals its fair value at the revaluation date, net of depreciation accumulated subsequently and less accumulated impairment losses. This increase in asset's value due to the revaluation should be allocated directly to shareholders' equity ("revaluation reserve").

This new standard applies to financial statements covering periods beginning January 1, 2007 and onwards and implemented retroactively. The Standard did not affect the Company's financial position or results of operations, except for reclassification in the balance sheet and cash flows report of spare parts from inventory to fixed assets.

In April 2007 the Israeli Accounting Standard Board published Standard no. 28 that amends Standard no. 27 to allow, at transition, the exemptions allowed under IFRS 1 regarding fixed assets.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF MARCH 31, 2007
(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

(3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD (CONT.)

D. ACCOUNTING STANDARD NO. 23, "ACCOUNTING FOR TRANSACTIONS BETWEEN AN ENTITY AND A CONTROLLING PARTY"

In December 2006 the Israeli Accounting Standards Board published Accounting Standard No. 23, "Accounting for Transactions between an Entity and a controlling party (the "Standard"). The Standard applies to entities subject to the Israeli Securities Law - 1968. The Standard establishes the requirements for accounting for transactions between an entity and its controlling party which involve the disposition of an asset, the taking on of a liability, reimbursement or debt concession, and the receiving of loans. The Standard does not apply to business combinations under common control. The Standard stipulates that transactions between an entity and a controlling party will be measured based on fair value; transactions which in nature are owner investments should be reported directly in equity and not be recognized in the controlled entity's profit and loss; the differences between the consideration set in transactions between an entity and a controlling party and their fair value will be allocated directly to equity; and current and deferred taxes pertaining to the items allocated to equity due to transactions with controlling parties will be allocated directly to equity as well.

The Standard applies to transactions between an entity and a controlling party taking place subsequent to January 1, 2007 and for loans granted from or given to a controlling party prior to the Standard's coming into effect, starting on the Standard's effective date. The Standard did not affect the Company's financial position, results of operations and cash flows.

E. ACCOUNTING STANDARD NO. 30 - "INTANGIBLE ASSETS"

In March 2007, The Israeli Accounting Standards Board published Accounting Standard No. 30, "Intangible Assets" (the "Standard"), which sets the accounting treatment for Intangible Assets that are not covered by any other standard, as well as the disclosure requirements in the financial statements for the entity's Intangible Assets.

An intangible asset shall be measured initially at cost.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF MARCH 31, 2007
(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL (CONT.)

A. BASIS FOR PRESENTATION (CONT.)

(3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD (CONT.)

E. ACCOUNTING STANDARD NO. 30 - "INTANGIBLE ASSETS" (CONT.)

Expenditures arising from research (or from the research phase of an internal project) shall not be recognized as an asset and should be expensed when incurred. An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, the criteria for recognition as an intangible asset in the standard are met. Expenditure on an intangible item that was not recognized initially, shall not be recognized as part of the cost of an intangible asset at a later date.

After initial recognition, an entity may choose to measure intangible asset at its cost less any accumulated amortization and any accumulated impairment losses, or for

an intangible asset that have an active market, as defined in the standard, may be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. An entity shall assess whether the useful life of an intangible asset is finite or indefinite. The amortization of an intangible asset with a finite useful life shall be over its useful life using a systematic basis. An intangible asset with an indefinite useful life shall not be amortized. Instead, an entity is required to test an intangible asset with an indefinite useful life for impairment in a manner similar to the method prescribed in Standard No. 15, annually, or whenever there is an indication that the intangible asset may be impaired.

This Standard shall apply to financial statements for annual periods beginning on or after January 1, 2007. The Standard did not affect the Company's financial position, results of operations and cash flows.

- (4) Certain amounts in prior years' financial statements have been reclassified in order to conform to 2007 presentation.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
 NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
 FINANCIAL STATEMENTS AS OF MARCH 31, 2007
 (dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL (CONT.)

B. ESTABLISHMENT AND OPERATIONS OF NEW FABRICATION FACILITY ("FAB 2")

In 2001, the Company's Board of Directors approved the establishment of the Company's second wafer fabrication facility in Israel ("Fab 2"). In Fab 2, the Company manufactures semiconductor integrated circuits on silicon wafers in geometries of 0.18 to 0.13 micron on 200-millimeter wafers. In connection with the establishment, equipping and financing of Fab 2, the Company has entered into several related agreements and other arrangements and since 2001 has completed public and private financing transactions. For additional information, see Note 11A to the 2006 audited consolidated financial statements.

The Fab 2 project is a complex undertaking, which entails substantial risks and uncertainties. For further details concerning the Fab 2 project and related agreements, some of which were amended several times, see Note 11A to the 2006 audited consolidated financial statements.

C. FINANCING OF THE COMPANY'S ONGOING OPERATIONS

In recent years, the Company has experienced significant recurring losses, recurring negative cash flows from operating activities and an increasing accumulated deficit. The Company is working in various ways to mitigate its financial difficulties and among them are the following:

Since the second half of 2005, the Company increased its customer base, mainly in Fab 2, modified its organizational structure to better address its customers and its market positioning, improved its sales and its EBITDA, reduced its losses, increased its capacity level and utilization rates, raised funds totaling approximately \$238,000 in gross proceeds (see Note 3 below and Notes 12C(2); 12I; 12J; and 12K to the 2006 audited consolidated financial statements) and restructured its bank debt (see Note 11A(6) to the 2006 audited consolidated financial statements).

In March 2006, the board of directors of the Company approved a plan to ramp up Fab 2's capacity to approximately 24,000 wafers per month in order to help meet customer needs and product qualification needs, based on its customer pipeline and reinforced by forecasted market conditions. The Company is currently in advanced stages of the Fab 2 ramp-up plan.

For details regarding the financing efforts of the ramp-up plan, including the definitive amendment to the Company's facility agreement with two leading Israeli banks ("Banks") for the restructuring of approximately \$527,000 in debt and the securities purchase agreement with Israel Corporation Ltd. ("TIC") according to which TIC invested \$100,000 in the Company, which both closed in September 2006, see Notes 11A(6) and 11A(4) to the 2006 audited consolidated financial statements.

Further, the Company continues to examine alternatives for additional funding sources in order to further ramp-up the equipping of Fab2.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
 NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
 FINANCIAL STATEMENTS AS OF MARCH 31, 2007
 (dollars in thousands, except share data and per share data)

NOTE 2 - INVENTORIES

Inventories consist of the following (*):

	March 31,		December 31,
	2007	2006	2006
	-----	-----	-----
	2007	2006	2006
	-----	-----	-----
	(unaudited)		
Raw materials	\$11,741	\$ 7,357	\$11,234
Work in process	25,829	14,552	22,884
Finished goods	675	2,559	645
	-----	-----	-----
	\$38,245	\$24,468	\$34,763
	=====	=====	=====

(*) Net of aggregate write downs to net realizable value of \$2,905, \$4,018 and \$6,707 as of March 31, 2007, March 31, 2006 and December 31, 2006, respectively.

NOTE 3 - 2007 PRIVATE PLACEMENT

In March 2007, the Company completed a private placement of its securities in which it sold ordinary shares and warrants for the purchase of ordinary shares, raising a total of approximately \$28,960 in gross proceeds. In the private placement, the Company issued approximately 18.8 million shares, warrants exercisable into approximately 9.4 million shares at an exercise price of \$2.04 (subject to downwards adjustments), exercisable until March 15, 2012 ("Series I Warrants"), and short-term warrants exercisable into approximately 18.8 million shares at an exercise price which was identical to the closing price of the Company's Ordinary Shares on the NASDAQ on the trading day immediately prior to the closing of the private placement ("Series II Warrants"), exercisable until the later of December 31, 2007 or 90 days from the effectiveness of a registration statement covering the resale of the shares issued and the shares issuable upon exercise of the warrants (the "Registration Statement"). As of the date of approval of the financial statements, the Registration Statement has not been declared effective. Subject to the Registration Statement being effective, the Company can compel the exercise of the Series II Warrants if during any 20 out of 30 consecutive trading days the closing price of the Company's shares on NASDAQ exceeds \$2.12.

In accordance with Standard No. 22 of the Isareli GAAP, the Series I warrants have been initially classified as a liability and subsequently marked to market through profit and loss.

See Note 5F for disclosure of the accounting treatment in accordance with U.S. GAAP.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 4 - SHARE OPTION PLAN

A. OPTIONS GRANTED TO THE CHIEF EXECUTIVE OFFICER ("CEO")

As of the balance sheet date, a total of 14,782,416 options were granted to the CEO under his approved option plans. For additional information, see Note 12B(1)(c) to the 2006 audited consolidated financial statements.

B. EMPLOYEE OPTIONS

In May 2006, the Board of Directors approved that if the total number of employee options, including the options to the CEO, during the then upcoming 24 months will represent less than 8% of the Company's shares on a fully diluted basis, additional options will be allocated for grants to the Company's employees. As of the balance sheet date, approximately 3,900,000 options are reserved for such allocation. For additional information, see Note 12B(1)(d) to the 2006 audited consolidated financial statements.

C. INDEPENDENT DIRECTORS OPTION PLAN

As of the balance sheet date, a total of 430,000 options granted to the Company's independent directors (excluding the CEO and the Chairman of the Board of Directors), were outstanding, following their approval by the shareholders of the Company in January 2007. For additional information, see Note 12B(1)(f) to the 2006 audited consolidated financial statements.

D. OPTIONS TO THE NEW CHAIRMAN OF THE COMPANY'S BOARD OF DIRECTORS

As of the balance sheet date, a total of 3,158,090 options granted to the Chairman of the Board of Directors of the Company, were outstanding, following their approval by the shareholders of the Company in January 2007. For additional information, see Note 12B(1)(b) to the 2006 audited consolidated financial statements.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
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NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP

With regard to the Company's interim financial statements, the material differences between GAAP in Israel and in the U.S. relate to the following. See Note 5(I) below for the presentation of the Company's unaudited balance sheet as of March 31, 2007 in accordance with U.S. GAAP.

A. RECENT ACCOUNTING PRONOUNCEMENTS BY THE FASB

SFAS NO. 157, "FAIR VALUE MEASUREMENTS"

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). The purpose of SFAS No. 157 is to define fair value, establish a framework for measuring fair value, and enhance disclosures about fair value measurements.

The Company decided to early adopt the provisions of SFAS No. 157 effective January 1, 2007, concurrent with the adoption of FASB 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159) see H below.

Fair Value Measurements on earnings as of March 31, 2007:

	Significant Unobservable Inputs -----
Derivatives	10,911
Facility Agreement	358,349

Total	\$369,260 =====

Fair Value Measurements Using Significant Unobservable Inputs:

	Derivatives	Facility Agreement	Total
	-----	-----	-----
Beginning balance	\$ 11,264	357,108	368,372
Unrealized gains or losses included in earnings	(353)	1,241	888
	-----	-----	-----
Ending balance	\$ 10,911	\$358,349	\$369,260
	=====	=====	=====

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
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NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (CONT.)

SFAS NO. 159, "THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES"

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The Company decided to early adopt the provisions of SFAS No. 159 effective January 1, 2007, and elected to carry at fair value the Facility agreement, see H below.

FIN NO. 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

On July 13, 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Measurement of a tax position that meets the more-likely-than-not recognition threshold shall consider the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

The provisions of FIN 48 are effective for the 2007 fiscal year with the cumulative effect of the change in accounting principles recorded as an adjustment to the opening balance of retained earnings. FIN 48 did not have a material effect on the financial condition and results of operations of the Company.

B. PRESENTATION OF NET LONG-TERM LIABILITIES IN RESPECT OF EMPLOYEE SEVERANCE PAY

Under U.S. GAAP, assets and liabilities relating to severance arrangements are to be presented separately and are not to be offset, while according to Israeli GAAP such an offset is required. Accordingly, as of March 31, 2007, an amount of \$13,207 was reclassified from other long-term liabilities as long-term investments.

C. HEDGING ACTIVITIES IN ACCORDANCE WITH U.S. GAAP (SFAS 133)

Complying with SFAS 133 as amended and the related interpretations thereon as they apply to the Company's hedging transactions, as of March 31, 2007, such transactions would have resulted in: an increase in other long-term investments in the amount of \$1,420; an accumulated other comprehensive loss component of equity balance as of March 31, 2007 in the amount of \$241 (\$203 as of December 31, 2006); and in a decrease of \$1,661 in property and equipment, net as of March 31, 2007.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
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NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (CONT.)

D. ISSUANCE OF CONVERTIBLE DEBENTURES

Under Accounting Principles Board Opinion No. 14 ("APB 14"), the proceeds from the sale of the securities in the Company's January 2002 Israeli public offering are to be allocated to each of the securities issued based on their relative fair value, while according to Israeli GAAP such treatment was not required. Complying with APB 14, based on the average market value of each of the components issued in the first three days following their issuance (in January 2002), would have resulted in an increase in shareholders' equity as of the issuance date in the amount of \$2,363 (net of \$196 related issuance expenses), and a decrease in convertible debentures as of such date in the amount of \$2,559. The additional accumulated effect of amortization of the discount on the convertible debentures under U.S. GAAP as of March 31, 2007 would have been \$970. Commencing with the adoption of Standard No. 22 in January 2006, allocation of proceeds in a unit, to its components, is based on relative fair values under Israeli GAAP as well as under US GAAP.

Under US GAAP, convertible debentures have to be evaluated to determine if they contain embedded derivative that warrant bifurcation. Conversion features embedded in convertible debentures will need to be evaluated as to whether they can be classified as equity based on the criteria established in EITF Issues 00-19 and 05-2. The Company evaluated the conversion features embedded in its debentures (i.e., sale of convertible debentures in 2002 - "2002 debentures", sale of convertible debentures in 2005 - "2005

debentures" and sale of convertible debentures in 2006 - "2006 debentures") and concluded that the conversion feature embedded in the 2005 and 2006 debentures warrant bifurcation while the conversion feature embedded in the 2002 debentures are scoped out.

2002 DEBENTURES:

Under US GAAP, the equity component, in the amount of \$1,681, classified in equity under Israeli GAAP was reclassified as liability.

2005 AND 2006 DEBENTURES:

Under US GAAP, the equity component of the 2005 and 2006 debentures, in the amounts of \$12,358 and \$6,030 respectively classified as equity under Israeli GAAP were reclassified to liabilities and the conversion features were bifurcated from the debt host and marked to market through earnings. The initial amount allocated to the bifurcated conversion features were determined using the "with and without" method based on the fair value of the embedded derivative prescribed in DIG Issue B6.

All the above would have resulted, as of March 31, 2007, mainly in a decrease in convertible debentures in the amount of \$4,624; an increase in the shareholder's equity in the amount of \$5,404; and an increase in other assets in the amount of \$780. The Company's loss for the three-month period ended March 31, 2007 would have increased in the amount of \$2,285.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
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NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (CONT.)

E. ISSUED WARRANTS PRESENTATION

Under U.S. GAAP the Company's series 5 warrants were initially recorded as liability due to the ratchet provision included in them. Upon the effective date of the prospectus filed in Israel registering such warrants, the ratchet expired and the series 5 warrants were eligible for equity classification based on the criteria in EITF 00-19.

Complying with the above would have resulted as of March 31, 2007 mainly in a decrease in other long term liabilities and an increase in shareholder's equity in the amount of \$2,341. The Company's loss for the three-month period ended March 31, 2007 would have increased in the amount of \$747.

F. 2007 PRIVATE PLACEMENT

Under US GAAP all components in the private placement should be classified in equity. As of March 2007 this difference will result in a decrease in liabilities and increase in shareholders equity in the amount of \$3,897.

G. EMPLOYEE STOCK BASED COMPENSATION

The Company adopted, effective January 1, 2006, SFAS 123R according to which the compensation expense related to employee and directors share option awards would have resulted in an increase in the compensations expenses for the period ending March 31, 2007 in the amount of \$289. The Company elected the modified prospective method as its transition method. The adoption of SFAS 123R for US GAAP along with the adoption of Standard no. 24 for Israeli GAAP, decreased the potential differences between US GAAP and Israeli GAAP as it related to stock based compensation.

H. FACILITY AGREEMENT

Under US GAAP the debt modification under the Amendment to the Company's facility agreement, which closed in September 2006, is considered troubled debt restructuring within the scope of FASB No. 15 Accounting by Debtors and Creditors for Troubled Debt Restructurings which requires the following: (i) the amount considered settled for shares and classified in equity is based on the price per share as quoted at the closing date; (ii) the remaining balance after deduction of the amount used as proceeds for the share issuance in (i) above, will remain outstanding; (iii) a new, lower effective interest rate will be calculated as the interest rate that equates future payments to the outstanding balance; and (iv) no gains or losses are recognized in the current period. During the first quarter of 2007 the Company decided to early adopt the provisions of SFAS No. 159 THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES. As required by the standard the Company also adopted the provisions of FASB 157 FAIR VALUE MEASUREMENTS. The adoption of the standard is effective January 1, 2007. According to the standard the Company can choose to carry at fair value eligible items as defined in the standard, from the date of early adoption and accordingly the Company decided to apply the fair value option to the Facility agreement.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
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NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (CONT.)

H. FACILITY AGREEMENT (CONT.)

The effect of applying the fair value option to the facility agreement as of the January 1, 2007 was \$65,207 which has been recorded as a cumulative effect adjustment to retained earnings (no tax effects have been recorded). The carrying amount of the facility agreement prior to the adoption was \$432,430 and immediately after was \$ 367,223. The Company reasoned its election of the fair value option for the facility agreement on the fact that the application of FASB 15 to the facility agreement did not reflect the economic benefits that has been achieved with the consummation of the facility agreement and that the application of the fair value reflect such benefits in more economic way. Also the adoption of the fair value option will decrease the GAAP

difference that currently exist between Israeli GAAP and IFRS vs. the US GAAP.

Under US GAAP the debt modification under the Amendment is considered to include an embedded derivative that should be separately accounted for. The Company considered the obligation to issue shares as agreed with the Banks and determined that it contains two components (i) a contingent component and (ii) an uncontingent component. The contingent component is the obligation to issue shares equal to half of the amount of the Decreased Amount if the Fourth Quarter 2010 Price is less than \$3.49. The uncontingent component is the obligation to issue shares equal to half of the Decreased Amount regardless of the Fourth Quarter 2010 Price. The Company accounted for the uncontingent component as an additional interest expense and calculated the effective interest rate to include such expense. The Company treated the uncontingent component as an embedded derivative that needs to be bifurcated and separately accounted for based on fair value. Initial separation of the embedded derivative will be done using the "with and without" method described in DIG Issue B6. Changes in the fair value of the embedded derivative will be included in financing expenses.

All the above resulted in a decrease of \$9,704 in the shareholders equity and an increase of the same amount in the long-term loans from the banks as of March 31, 2007. The decrease in the shareholders equity includes cumulative effect as of December 31, 2006, which decreased the accumulated deficit in the amount of \$65,207. The Company's loss for the three-month period ended March 31, 2007 would have decreased in the amount of \$572.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
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NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAEL AND U.S. GAAP (CONT.)

I. BALANCE SHEETS IN ACCORDANCE WITH U.S. GAAP

	U.S. GAAP REMARK	AS OF MARCH 31, 2007			AS OF DECEMBER 31, 2006		
		AS PER ISRAELI GAAP	ADJUST- MENTS	AS PER U.S. GAAP	AS PER ISRAELI GAAP	ADJUST- MENTS	AS PER U.S. GAAP
A S S E T S							
CURRENT ASSETS							
CASH AND CASH EQUIVALENTS		\$ 38,592		\$ 38,592	\$ 39,710		\$ 39,710
SHORT-TERM INTEREST-BEARING DEPOSITS		5,000		5,000	1,230		1,230
TRADE ACCOUNTS RECEIVABLE :							
RELATED PARTIES		14,941		14,941	13,625		13,625
OTHERS		21,186		21,186	17,873		17,873
OTHER RECEIVABLES		5,174		5,174	5,425		5,425
INVENTORIES		38,245		38,245	34,763		34,763
OTHER CURRENT ASSETS		1,676		1,676	1,473		1,473
TOTAL CURRENT ASSETS		124,814	--	124,814	114,099	--	114,099
LONG-TERM INVESTMENTS	B, C		14,627	14,627	--	15,325	15,325
PROPERTY AND EQUIPMENT, NET	C	519,876	(1,661)	518,215	539,292	(1,745)	537,547
INTANGIBLE ASSETS, NET		42,590		42,590	44,981		44,981
OTHER ASSETS, NET	D	1,320	780	2,100	1,346	834	2,180
TOTAL ASSETS		\$ 688,600	\$ 13,746	\$ 702,346	\$ 699,718	\$ 14,414	\$ 714,132
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES							
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	D	6,597	326	6,923	6,632	270	6,902
TRADE ACCOUNTS PAYABLE		57,922		57,922	55,128		55,128
OTHER CURRENT LIABILITIES		20,188		20,188	22,096		22,096
TOTAL CURRENT LIABILITIES		84,707	326	85,033	83,856	270	84,126
LONG-TERM DEBT FROM BANKS	H	358,798	9,704	368,502	356,947	75,483	432,430
CONVERTIBLE DEBENTURES	D	57,853	(4,950)	52,903	62,175	21,688	83,863
LONG-TERM CUSTOMERS' ADVANCES		44,050		44,050	46,042		46,042
OTHER LONG-TERM LIABILITIES	B, E, F	21,353	6,969	28,322	17,708	10,447	28,155
TOTAL LIABILITIES		566,761	12,049	578,810	566,728	107,888	674,616
SHAREHOLDERS' EQUITY							
ORDINARY SHARES, NIS 1 PAR VALUE							
- AUTHORIZED 800,000,000 AND 800,000,000 SHARES RESPECTIVELY; ISSUED 122,182,946 AND 102,052,767 SHARES, RESPECTIVELY		28,965		28,965	24,187		24,187
ADDITIONAL PAID-IN CAPITAL	D, E, F	584,400	38,819	623,219	564,580	6,404	570,984
CAPITAL NOTES		176,401		176,401	176,401		176,401
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	D, G	25,218	(18,268)	6,950	23,576	(18,706)	4,870
ACCUMULATED OTHER COMPREHENSIVE LOSS	C		(241)	(241)	--	(203)	(203)
ACCUMULATED DEFICIT	D, E, F, G, H	(684,073)	(18,613)	(702,686)	(646,682)	(80,969)	(727,651)
TREASURY STOCK, AT COST		130,911	1,697	132,608	142,062	(93,474)	48,588
- 1,300,000 SHARES		(9,072)	--	(9,072)	(9,072)	--	(9,072)

TOTAL SHAREHOLDERS' EQUITY	121,839	1,697	123,536	132,990	(93,474)	39,516
	=====	=====	=====	=====	=====	=====
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 688,600	\$ 13,746	\$ 702,346	\$ 699,718	\$ 14,414	\$ 714,132
	=====	=====	=====	=====	=====	=====

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (CONT.)

J. STATEMENTS OF OPERATIONS IN ACCORDANCE WITH U.S. GAAP

Complying with FASB No. 159 (H above), SFAS 133 (C above), APB 14 (D above) and SFAS 123R (G above) would have resulted in an increase in the loss for the three months periods ended March 31, 2007 in the amount of \$2,851 and a decrease in the loss for the three months periods ended March 31, 2006 in the amount of \$4,861. Giving effect to all the above, the loss for the three-month periods ended March 31, 2007 and 2006 would be \$ 40,242 and \$40,195, respectively.

For the cumulative effect adjustment to retained earnings in the amount of \$65,207 following the early adoption of SFAS 159, See H above.

K. COMPREHENSIVE INCOME (LOSS) IN ACCORDANCE WITH U.S. GAAP (SFAS 130)

Comprehensive income (loss) represents the change in shareholder's equity during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a reporting period except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) represents gains and losses that under U.S. GAAP are included in comprehensive income but excluded from net income. Following are statements of comprehensive loss in accordance with U.S. GAAP:

	Three months ended	
	March 31,	
	2007	2006
	(unaudited)	
Loss for the period, according to U.S. GAAP (see J above)	\$(40,242)	\$(40,195)
Other comprehensive loss:		
Reclassification of unrealized losses on derivatives	332	332
Unrealized gains (losses) on Derivatives	(370)	726
	-----	-----
Net comprehensive loss for the period	\$(40,280)	\$(39,137)
	=====	=====

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
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NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (CONT.)

L. LOSS PER SHARE IN ACCORDANCE WITH U.S. GAAP (SFAS 128)

In accordance with SFAS 128, the basic and diluted loss per share for the three-months ended March 31, 2007 and 2006 would be \$0.38 and \$0.56, respectively.

M. STATEMENTS OF CASH FLOWS IN ACCORDANCE WITH U.S. GAAP (SFAS 95)

Complying with SFAS 95 would not have materially affected the cash flows of the Company for the three-month periods ended March 31, 2007 and 2006.

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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 MARCH 31, 2007 AND FOR THE THREE MONTHS THEN ENDED AND RELATED NOTES INCLUDED IN THIS REPORT AND (2) OUR CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2006 AND RELATED NOTES FOR THE YEAR THEN ENDED AND (3) OUR REPORT OF FORM 6-K, FILED FEBRUARY 8, 2007. OUR FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") IN ISRAEL. DIFFERENCES BETWEEN ISRAELI GAAP AND US GAAP AS THEY RELATE TO OUR FINANCIAL STATEMENTS ARE DESCRIBED IN NOTE 5 TO OUR UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2007 AND IN NOTE 19 TO OUR CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2006.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
	(UNAUDITED)	
	-----	-----
STATEMENT OF OPERATIONS DATA:		
Total revenues	100.0%	100.0%
Cost of total revenues	128.6	170.8
	-----	-----
Gross loss	(28.6)	(70.8)
Research and development expenses, net	6.5	9.3
Marketing, general and administrative expenses	14.1	14.8
	-----	-----
Operating loss	(49.1)	(95.0)
Financing expense, net	(18.2)	(32.1)
Other income, net	0.1	1.5
	-----	-----
Loss	(67.2)%	(125.6)%
	=====	=====

THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THREE MONTHS ENDED MARCH 31, 2006

REVENUES. Revenues for the three months ended March 31, 2007 increased by 55% to \$55.6 million from \$35.9 million for the three months ended March 31, 2006. This \$19.7 million increase was mainly attributable to higher volume of wafer shipments.

COST OF TOTAL REVENUES. Cost of total revenues for the three months ended March 31, 2007 amounted to \$71.5 million, compared with \$61.3 million for the three months ended March 31, 2006. This modest increase of 16.7% in cost of revenues, despite the 55% increase in sales, was achieved mainly due to the Company's cost structure, according to which, the Company has reasonable margins for each incremental dollar of revenue.

GROSS LOSS. Gross loss for the three months ended March 31, 2007 was \$15.9 million compared to a gross loss of \$25.4 million for the three months ended March 31, 2006. The decrease in gross loss was mainly attributable to the improved margins described above.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses for the three months ended March 31, 2007 amounted to \$3.6 million compared to a similar amount for the three months ended March 31, 2006.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. Marketing, general and administrative expenses for the three months ended March 31, 2007 amounted to \$7.8 million compared to \$5.3 million for the three months ended March 31, 2006. The increase is primarily due to stock based compensation expenses and increased expenses resulted directly from the higher revenues mentioned above.

OPERATING LOSS. Operating loss for the three months ended March 31, 2007 was \$27.3 million, compared to \$34.1 million for the three months ended March 31, 2006. The decrease in the operating loss is attributable mainly to the decrease in the gross loss described above.

FINANCING EXPENSES, NET. Financing expenses, net, for the three months ended March 31, 2007 were \$10.1 million compared to financing expenses, net, of \$11.5 million for the three months ended March 31, 2006. This decrease is mainly due to a decrease of \$3.3 million in connection with the successful consummation of our debt restructuring with our banks in September 2006, pursuant to which approximately 30% of the outstanding loans were converted into capital notes and the interest rate applicable to the interest payments was decreased to LIBOR + 1.1% compared to LIBOR + 2.5%. This decrease was offset by an increase of \$2.6 million in costs related to our convertible debentures attributable mainly to an increase in the discount amortization which resulted mainly from the issuance of a new series of convertible debentures (in June 2006) and the decrease in the exchange rate of the dollar in relation to the NIS which caused an increase in the dollar amount of the NIS denominated outstanding convertible debt (see below for more details on currency fluctuations).

OTHER INCOME, NET. Other income, net, for the three months ended March 31, 2007 was \$0.01 million compared to \$0.6 million for the three months ended March 31, 2006.

LOSS. Our loss for the three months ended March 31, 2007 was \$37.4 million, compared to \$45.1 million for the three months ended March 31, 2006. This decrease is primarily attributable to the decrease in the operating loss of \$6.8 million and a \$1.4 million decrease in finance expenses.

IMPACT OF INFLATION AND CURRENCY FLUCTUATIONS

The dollar cost of our operations in Israel is influenced by the timing of any change in the rate of inflation in Israel and the extent to which such change is not offset by a change in valuation of the NIS in relation to the dollar. During the three months ended March 31, 2007, the exchange rate of the dollar in relation to the NIS decreased by 1.7%, and the Israeli Consumer Price Index, or CPI, decreased by 0.2% (during the three months ended March 31, 2006 there was an increase of 1.4% in the exchange rate of the dollar in relation to the NIS and an increase of 0.6% in the CPI).

We believe that the rate of inflation in Israel has not had a material

effect on our business to date. However, our dollar costs will increase if inflation in Israel exceeds the devaluation of the NIS against the dollar, or if the timing of such devaluation lags behind inflation in Israel.

Almost all of the cash generated from our operations and from our financing and investing activities is denominated in U.S. dollars and NIS. Our expenses and costs are denominated in NIS, U.S. dollars, Japanese Yen and Euros. We are, therefore, exposed to the risk of currency exchange rate fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2007, we had an aggregate of \$43.6 million in cash, cash equivalents, and short-term interest-bearing deposits. This compares to \$32.7 million we had as of March 31, 2006 in cash, cash equivalents, and short-term interest-bearing deposits, of which \$15.1 million was contractually restricted for Fab 2 use only.

During the three months ended March 31, 2007, we received \$28.9 million in gross proceeds from the issuance of ordinary shares and warrants, and generated a net amount of \$5.5 million from our operating activities. These liquidity resources financed the investments we made during the three months ended March 31, 2007, which aggregated \$24.7 million, mainly in connection with the purchase and installation of equipment and other assets for the ramp up of Fab 2 and repayment of convertible debentures in the amount of \$7.1 million.

As of March 31, 2007, we had long-term bank loans, at present value, in the amount of \$358.8 million we obtained in connection with the establishment of Fab 2. As of such date, we also had convertible debentures in the aggregate of \$92.6 million, of which \$6.6 million are presented as current maturities and \$20.1 million are presented as equity component of the convertible debentures as part of shareholders' equity.