

Tower Semiconductor Announces Record Sales for Q2 2006

**Q206 Sales Up 132% over Q205;
Achieved Capacity Utilization Greater than 90%, and has begun the
Implementation of Capacity Ramp-up**

MIGDAL HAEMEK, Israel — July 26, 2006 — Tower Semiconductor Ltd. (NASDAQ: TSEM; TASE: TSEM), a pure-play independent specialty foundry, today announced second quarter 2006 results with a sequential record sales to \$44.6 million in Q2 2006. These sales represent an increase of 132% over the \$19.2 million reported in the second quarter of 2005, excluding \$8 million from a previously announced technology-related agreement, and an increase of 24% over the \$35.9 million reported in the first quarter of 2006. The 2006 second quarter loss was \$43.6 million, or \$0.55 per share, which included depreciation and amortization expenses of \$37.6 million, compared to a loss of \$47.2 million, or \$0.71 per share, in the second quarter of 2005, which included \$7.2 million net profit from a previously announced technology-related agreement and depreciation and amortization expenses of \$36.6 million.

Tower expects further growth for the third quarter of 2006 and guides sales of \$49 to \$53 million.

"We are pleased to announce a second consecutive quarter of record sales, and continued positive EBITDA growth. Both Fab 1 and Fab 2 realized record shipments in Q2, at an average utilization greater than 90%, with approximately 50 new revenue products and a total customer base of approximately 55. The Fab 2 ramp plan is on track with the first tools in the process of being installed." said Russell Ellwanger, chief executive officer, Tower Semiconductor. "Although the State of Israel is facing a challenging situation, Tower continues with business as usual and is well positioned to meet its manufacturing and engineering commitments. We expect further record sales in the third quarter and are encouraged by the outlook for the balance of 2006 and beyond".

Tower will host a conference call to discuss these results on Wednesday, July 26, 2006, at 11:00 a.m. Eastern Daylight Time /6 p.m. Israel time. To participate, please call: 1-866-744-5399 (U.S. toll-free number) or 972-3-918-0609 (international) and mention ID code: TOWER. Callers in Israel are invited to call locally 03-918-0609. The conference call will also be web cast 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 2:00 p.m. Eastern Daylight Time on the day of the call.

As used in this release, the term EBITDA consists of loss, according to GAAP (Generally Accepted Accounting Principles), excluding interest and financing expenses (net), tax and depreciation and amortization expenses. EBITDA is not a required GAAP financial measure and may not be comparable to a similarly titled measure employed by other companies. EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP.

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.

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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 in the short-term and raising the funds required to implement the current ramp up plan and complete Fab 2, (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) our ability to satisfy certain of the covenants stipulated in our amended facility agreement, (vi) the receipt of our banks' approval of the ramp up plan for Fab 2 and the entering into and consummation of a definitive agreement with our banks for the restructuring our debt, (vii) our ability to capitalize

on increases in demand for foundry services, (viii) meeting the conditions to receive Israeli government grants and tax benefits approved for Fab 2 and obtaining the approval of the Israeli Investment Center for a new expansion program, (ix) attracting additional customers, (x) not receiving orders from our wafer partners, customers and technology providers, (xi) failing to maintain and develop our technology processes and services, (xii) competing effectively, (xiii) our large amount of debt and our ability to repay our debt on a timely basis, (xiv) achieving acceptable device yields, product performance and delivery times, (xv) the timely development, internal qualification and customer acceptance of new processes and products, (xvi) the receipt of shareholder and other approvals as required under applicable law or otherwise, including in connection with the proposed \$100 million investment by Israel Corp., (xvii) business interruption due to terror attacks, including the current effect of the military situation, earthquakes, and other acts of God and (xviii) the entering into and the consummation of investment agreements, including the proposed \$100 million investment by Israel Corp.

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-1, F-3 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, and expressly disclaim any obligation to update, the information contained in this release.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,581	\$ 7,337
Designated cash and short-term interest-bearing deposits	2,909	31,661
Proceeds receivables relating public offering	31,479	--
Trade accounts receivable	21,626	16,776
Other receivables	7,131	9,043
Inventories	34,401	24,376
Other current assets	1,616	1,048
Total current assets	<u>107,743</u>	<u>90,241</u>
PROPERTY AND EQUIPMENT, NET	<u>460,328</u>	<u>510,645</u>
OTHER ASSETS, NET	<u>55,879</u>	<u>77,800</u>
TOTAL ASSETS	<u><u>\$ 623,950</u></u>	<u><u>\$ 678,686</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ --	\$ 21,103
Current maturities of convertible debentures	6,204	6,453
Trade accounts payable	50,410	59,741
Other current liabilities	11,517	8,972
Total current liabilities	<u>68,131</u>	<u>96,269</u>
LONG-TERM DEBT	515,811	497,000
CONVERTIBLE DEBENTURES	53,272	19,358
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	52,528	59,621
OTHER LONG-TERM LIABILITIES	10,104	11,012
Total liabilities	<u>699,846</u>	<u>683,260</u>
CONVERTIBLE DEBENTURES	<u>--</u>	<u>25,493</u>
SHAREHOLDERS' DEFICIT	<u>(75,896)</u>	<u>(30,067)</u>
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	<u><u>\$ 623,950</u></u>	<u><u>\$ 678,686</u></u>

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

	<u>Six months ended</u> <u>June 30,</u>		<u>Three months ended</u> <u>June 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
REVENUES				
Sales	\$ 80,430	\$ 42,375	\$ 44,555	\$ 19,208
Revenues related to a joint development agreement	--	8,000	--	8,000
	<u>80,430</u>	<u>50,375</u>	<u>44,555</u>	<u>27,208</u>
COST OF SALES	<u>126,422</u>	<u>122,468</u>	<u>65,142</u>	<u>61,254</u>
GROSS LOSS	<u>...(45,992)</u>	<u>...(72,093)</u>	<u>...(20,587)</u>	<u>...(34,046)</u>
OPERATING COSTS AND EXPENSES				
Research and development	6,928	8,649	3,574	3,886
Marketing, general and administrative	10,798	8,766	5,474	4,238
	<u>17,726</u>	<u>17,415</u>	<u>9,048</u>	<u>8,124</u>
OPERATING LOSS	<u>(63,718)</u>	<u>(89,508)</u>	<u>(29,635)</u>	<u>(42,170)</u>
FINANCING EXPENSE, NET	<u>(25,575)</u>	<u>(15,528)</u>	<u>(14,051)</u>	<u>(7,353)</u>
OTHER INCOME, NET	<u>591</u>	<u>2,476</u>	<u>40</u>	<u>2,283</u>
LOSS FOR THE PERIOD	<u>\$ (88,702)</u>	<u>\$ (102,560)</u>	<u>\$ (43,646)</u>	<u>\$ (47,240)</u>
 BASIC LOSS PER ORDINARY SHARE				
Loss per share (*)	<u>\$ (1.18)</u>	<u>\$ (1.56)</u>	<u>\$ (0.55)</u>	<u>\$ (0.71)</u>
Weighted average number of ordinary shares outstanding - in thousands	<u>75,313</u>	<u>65,946</u>	<u>78,716</u>	<u>66,190</u>

(*) Basic and diluted loss per share in accordance with U.S. GAAP for the six and three months periods ended June 30, 2006 are \$1.16 and \$0.60, respectively, and are the same as the Isr. GAAP data for the six and three months periods ended June 30, 2005.