FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

For the month of May 2005 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 [X]   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 [X]

On May 26, 2005, the Registrant announced its financial results for the three months ended March 31, 2005. Attached hereto as Exhibit 99.1 is the press release relating to such announcement and attached hereto as Exhibit 99.2 are the Registrant's unaudited condensed interim consolidated financial statements as of March 31, 2005 and for the three month period then ended.

This Form 6-K is being incorporated by reference into all effective registration statements filed by us under the Securities Act of 1933.

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 26, 2005

By: /s/ Nati Somekh Gilboa

Nati Somekh Gilboa
Corporate Secretary

Exhibit 99.1

TOWER SEMICONDUCTOR ANNOUNCES FIRST QUARTER 2005 RESULTS

COMPANY REINVIGORATED BY NEW LEADERSHIP; SIGNED A LETTER OF INTENT WITH ITS BANKS FOR UP TO $60 MILLION OF ADDITIONAL FUNDING, HALF TO BE FROM INVESTORS

Q2 BEGINS WITH NEW CUSTOMER MOMENTUM; TAPE-OUTS EXCEED TOTAL FOR SECOND HALF OF `04

MIGDAL HAEMEK, Israel -- May 26, 2005 -- Tower Semiconductor Ltd. (NASDAQ: TSEM; TASE: TSEM), a pure-play independent specialty foundry, today announced first quarter results for fiscal year 2005, with revenues of $23.2 million. These revenues are compared with $27.2 million in the first quarter of 2004 and $30.1 million in the fourth quarter of 2004.

The 2005 first quarter loss was $55.3 million, or $0.84 per share. This loss is compared with a loss of $38.5 million, or $0.61 per share, for the first quarter of 2004, and a loss of $23.3 million, or $0.36 per share, in the fourth quarter of 2004, which included $32 million, or $0.49 per share, of net capital gain from the sale of Saifun shares.

Tower expects revenues in the second quarter of 2005 to be in the range of $26 to $28 million, including $8 million from a previously announced technology-related agreement.

Russell Ellwanger, a former senior executive at Applied Materials, was appointed chief executive officer. Ellwanger brings more than 25 years of experience, strategic thinking, management skills and knowledge of the semiconductor industry. His appointment significantly strengthens Tower's senior management team.

The company, some of its shareholders and banks are holding discussions for additional funding to the company in the amount of approximately $60 million. Accordingly, in May 2005, Tower signed a Letter of Intent ("LOI") with its banks, which states that financing in the amount of up to $30 million will be provided by the banks, subject to Tower raising a similar amount from investors. To date, certain shareholders of Tower have informed the company of their willingness to invest $23.5 million towards such funding. The LOI is further subject to reaching a definitive amendment to the agreement with the banks.

Since Q4 2004 the company has seen an increase in new customer engagements, design starts and subsequent new product tape-outs to Fab 2. This trend continues during the first half of 2005 and is expected to yield increased new product revenue in the second half of 2005. During Q1, a lead customer started a 0.13-micron design for a high volume product.

"Despite the apparent short term difficulties in our market, our pipeline of new customers, products and value-added technology projects is encouraging," Ellwanger said. "It is especially encouraging to hear from our customers that the added value in several of these tape-outs is significant, and hence will continue to position Tower as a leading specialty foundry for years to come."

In Q1, Tower's management proactively implemented measures to reduce expenses, cost structure and cash burn. In March, the company announced the completion of a workforce cutback, as part of an across-the-board savings plan focused on operational efficiencies.

Tower's exceptional customer and technical support were recognized through an Award of Excellence from ON Semiconductor (NASDAQ: ONNN) for outstanding service and support to its Analog Products Group. In addition, Tower demonstrated benchmark-setting performance in the area of low power FPGAs through its cooperation with QuickLogic (NASDAQ: QUIK).

Tower continues to focus on initiatives discussed in previous financial releases:

1. DIVERSIFYING CUSTOMER BASE

TOTAL CUSTOMER COUNT	Q1 2005	Q1 2004
95% of revenue generated by:	25 customers	17 customers
Fab 2 production customers	6 customers	5 customers
Fab 2 pre-production customers	19 customers	4 customers

2. CUSTOMER BASE PROFILE

TYPE OF CUSTOMER	Q1 2005	Q1 2004
Fabless	76%	60%
IDM	24%	40%

3. SALES BY GEOGRAPHY

REGION	Q1 2005	Q1 2004
U.S.	77%	77%
Israel	5%	8%
Pacific Rim (including Japan)	10%	12%
Europe	8%	3%

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 first quarter, Tower increased its CMOS image sensors share of total revenue, as can be seen in the table below. Non-volatile memory is reduced mainly to the inclusion of income related to a Fab2 technology agreement milestone in Q1 2004, as well as inventory reduction activity by certain NVM customers and pricing pressures in the stand-alone Flash market.

TECHNOLOGY SEGMENT CONSOLIDATED	Q1 2005	Q1 2004
Core CMOS	69%	63%
Non Volatile memory	8%	17%
CMOS imager sensors	11%	4%
Mixed Signal	12%	17%
FAB1		
Core CMOS	36%	39%
Non Volatile memory	18%	22%
CMOS imager sensors	20%	7%
Mixed Signal	26%	32%
FAB2		
Core CMOS	92%	85%
Non Volatile memory	1%	13%
CMOS imager sensors	5%	0%
Mixed Signal	2%	2%

The company made progress in 0.13u technology, running initial shuttle with customers test chips and many IP blocks. Tower expects that production ramp will start during the last quarter of 2005 and will increase significantly in 2006.

5. DIVERSIFYING REVENUES BY MARKET SEGMENT

Tower maintains its market segment diversification.

INDUSTRY SEGMENT	Q1 2005	Q1 2004
Consumer	48%	37%
Communication	18%	18%
PC	2%	16%
Industrial, medical and automotive	12%	7%
Multi market and others	20%	22%

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Tower will host a conference call to discuss these results on May 26, at 11a.m. Eastern time/6 p.m. Israel time. To participate, call 1-800-406-5345 (U.S. toll-free number) or 1-913-981-5571 (international) and mention ID code: TOWER. Callers in Israel are invited to call locally 03-925-5910. 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 2 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, INCLUDING IN THE EVENT THAT THE LETTER OF INTENT SIGNED WITH THE BANKS IN MAY 2005 WILL NOT MATERIALIZE INTO A DEFINITIVE AMENDMENT TO THE FACILITY AGREEMENT (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 MEET CERTAIN OF THE COVENANTS STIPULATED IN OUR AMENDED FACILITY AGREEMENT AND THE MATERIALIZATION OF THE LETTER OF INTENT SIGNED WITH THE BANKS IN MAY 2005 INTO A DEFINITIVE AMENDMENT TO THE FACILITY AGREEMENT (VI) OUR ABILITY TO CAPITALIZE ON INCREASES IN DEMAND FOR FOUNDRY SERVICES, (VII) 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, (VIII) ATTRACTING ADDITIONAL CUSTOMERS, (IX) NOT RECEIVING ORDERS FROM OUR WAFER PARTNERS AND TECHNOLOGY PROVIDERS, (X) FAILING TO MAINTAIN AND DEVELOP OUR TECHNOLOGY PROCESSES AND SERVICES, (XI) COMPETING EFFECTIVELY, (XII) OUR LARGE AMOUNT OF DEBT, (XIII) ACHIEVING ACCEPTABLE DEVICE YIELDS, PRODUCT PERFORMANCE AND DELIVERY TIMES, (XIV) THE TIMELY DEVELOPMENT, INTERNAL QUALIFICATION AND CUSTOMER ACCEPTANCE OF NEW PROCESSES AND PRODUCTS, (XV) BUSINESS INTERRUPTION DUE TO EARTHQUAKES, TERROR ATTACKS 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 ANNUAL REPORT ON FORMS 20-F 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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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data and per share data)

	MARCH 31, 2005	DECEMBER 31, 2004
A S S E T S		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 34,507	$ 27,664
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	17,614	53,793
TRADE ACCOUNTS RECEIVABLE	12,141	19,286
OTHER RECEIVABLES	9,430	11,365
INVENTORIES	21,624	25,669
OTHER CURRENT ASSETS	861	1,818
TOTAL CURRENT ASSETS	96,177	139,595
LONG-TERM INVESTMENTS		
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR FAB 2 OPERATIONS	5,071	5,134
OTHER LONG-TERM INVESTMENT	-	-
	5,071	5,134
PROPERTY AND EQUIPMENT, NET	587,707	609,296
OTHER ASSETS, NET	92,478	93,483
TOTAL ASSETS	$ 781,433	$ 847,508
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
TRADE ACCOUNTS PAYABLE	$ 53,249	$ 65,326
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	6,575	-
OTHER CURRENT LIABILITIES	9,625	10,678
TOTAL CURRENT LIABILITIES	69,449	76,004
LONG-TERM DEBT	497,000	497,000
CONVERTIBLE DEBENTURES	19,724	26,651
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	63,326	64,428
OTHER LONG-TERM LIABILITIES	19,274	15,445
TOTAL LIABILITIES	668,773	679,528
SHAREHOLDERS' EQUITY		
ORDINARY SHARES	16,274	16,274
ADDITIONAL PAID-IN CAPITAL	517,476	517,476
SHAREHOLDER RECEIVABLES	(26)	(26)
ACCUMULATED DEFICIT	(411,992)	(356,672)
	121,732	177,052
TREASURY STOCK, AT COST	(9,072)	(9,072)
TOTAL SHAREHOLDERS' EQUITY	112,660	167,980
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 781,433	$ 847,508

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA AND PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31, 2005	THREE MONTHS ENDED MARCH 31, 2004
SALES	$ 23,167	$ 27,247
COST OF SALES	61,214	50,149
GROSS LOSS	(38,047)	(22,902)
OPERATING COSTS AND EXPENSES		
RESEARCH AND DEVELOPMENT	4,763	3,505
MARKETING, GENERAL AND ADMINISTRATIVE	4,528	5,591
	9,291	9,096
OPERATING LOSS	(47,338)	(31,998)
FINANCING EXPENSE, NET	(8,175)	(6,531)
OTHER INCOME, NET	193	38
LOSS FOR THE PERIOD	$(55,320)	$(38,491)
BASIC LOSS PER ORDINARY SHARE		
Loss per share	$ (0.84)	$ (0.61)
LOSS USED TO COMPUTE BASIC LOSS PER SHARE	$(55,320)	$(38,484)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	65,700	63,026

(*) Basic and diluted loss per share in accordance with U.S. GAAP would be $(0.84) for the three months ended March 31, 2005 and $(0.62) for the three months ended March 31, 2004.

Exhibit 99.2

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

INDEX TO UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2005

[DELOITTE LOGO]

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The Board of Directors
Tower Semiconductor Ltd.
MIGDAL HA'EMEK

Gentlemen:

Re: Review of Unaudited Condensed Interim
CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2005

At your request, we have reviewed the condensed interim consolidated financial statements ("interim financial statements") of Tower Semiconductor Ltd. and subsidiary ("the Company"), as follows:

- - Balance sheet as of March 31, 2005.

- - Statement of operations for the three months ended March 31, 2005.

- - Statement of changes in shareholders' equity for the three months ended March 31, 2005.

- - Statement of cash flows for the three months ended March 31, 2005.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. The procedures included, inter alia, reading the aforementioned interim financial statements, reading the minutes of the shareholders' meetings and meetings of the board of directors and its committees, and making inquiries with the persons responsible for financial and accounting affairs.

Since the review that was performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the aforementioned interim financial statements.

In performing our review, nothing came to our attention which indicates that material adjustments are required to the interim financial statements for them to be deemed financial statements prepared in conformity with accounting principles generally accepted in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. The effect of the application of the latter on the financial position and results of operations as of the date and for the period presented is summarized in Note 5.

Respectfully submitted,

Brightman Almagor & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
May 26, 2005

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA AND PER SHARE DATA)

	AS OF MARCH 31, 2005	AS OF MARCH 31, 2004	DECEMBER 31, 2004
	(UNAUDITED)	(UNAUDITED)	
A S S E T S			
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS	$ 34,507	$ 11,346	$ 27,664
SHORT-TERM INTEREST-BEARING DEPOSITS	-	3,000	-
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	17,614	78,265	53,793
TRADE ACCOUNTS RECEIVABLE	12,141	15,555	19,286
OTHER RECEIVABLES	9,430	14,852	11,365
INVENTORIES	21,624	21,584	25,669
OTHER CURRENT ASSETS	861	2,342	1,818
TOTAL CURRENT ASSETS	96,177	146,944	139,595
LONG-TERM INVESTMENTS			
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR FAB 2 OPERATIONS	5,071	4,734	5,134
OTHER LONG-TERM INVESTMENT	-	6,000	-
	5,071	10,734	5,134
PROPERTY AND EQUIPMENT, NET	587,707	566,821	609,296
OTHER ASSETS, NET	92,478	105,397	93,483
TOTAL ASSETS	$ 781,433	$ 829,896	$ 847,508
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
TRADE ACCOUNTS PAYABLE	$ 53,249	$ 45,051	$ 65,326
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	6,575	-	-
OTHER CURRENT LIABILITIES	9,625	8,198	10,678
TOTAL CURRENT LIABILITIES	69,449	53,249	76,004
LONG-TERM DEBT	497,000	431,000	497,000
CONVERTIBLE DEBENTURES	19,724	24,933	26,651
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	63,326	45,830	64,428
OTHER LONG-TERM LIABILITIES	19,274	8,167	15,445
TOTAL LIABILITIES	668,773	563,179	679,528
SHAREHOLDERS' EQUITY			
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 250,000,000, 150,000,000 AND 250,000,000 SHARES, RESPECTIVELY; ISSUED 66,999,796, 66,882,383 AND 66,999,796 SHARES, RESPECTIVELY	16,274	16,248	16,274
ADDITIONAL PAID-IN CAPITAL	517,476	516,962	517,476
SHAREHOLDER RECEIVABLES	(26)	(26)	(26)
ACCUMULATED DEFICIT	(411,992)	(257,395)	(356,672)
	121,732	275,789	177,052
TREASURY STOCK, AT COST - 1,300,000 SHARES	(9,072)	(9,072)	(9,072)
TOTAL SHAREHOLDERS' EQUITY	112,660	266,717	167,980
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 781,433	$ 829,896	$ 847,508

See notes to condensed interim 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, 2005 (UNAUDITED)	THREE MONTHS ENDED MARCH 31, 2004 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2004
SALES	$ 23,167	$ 27,247	$ 126,055
COST OF SALES	61,214	50,149	228,410
GROSS LOSS	(38,047)	(22,902)	(102,355)
OPERATING COSTS AND EXPENSES			
RESEARCH AND DEVELOPMENT	4,763	3,505	17,053
MARKETING, GENERAL AND ADMINISTRATIVE	4,528	5,591	21,297
	9,291	9,096	38,350
OPERATING LOSS	(47,338)	(31,998)	(140,705)
FINANCING EXPENSE, NET	(8,175)	(6,531)	(29,745)
OTHER INCOME, NET	193	38	32,682
LOSS FOR THE PERIOD	$ (55,320)	$ (38,491)	$(137,768)
BASIC LOSS PER ORDINARY SHARE			
LOSS PER SHARE	$ (0.84)	$ (0.61)	$ (2.13)
LOSS USED TO COMPUTE BASIC LOSS PER SHARE	$ (55,320)	$ (38,484)	$(137,768)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	65,700	63,026	64,717

See notes to condensed interim consolidated financial statements.

TOWER SEMICONDUCTOR LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA AND PER SHARE DATA)

	ORDINARY SHARES - SHARES	ORDINARY SHARES - AMOUNT	ADDITIONAL PAID-IN CAPITAL	PROCEEDS ON ACCOUNT OF SHARE CAPITAL
BALANCE - JANUARY 1, 2005	66,999,796	$ 16,274	$ 517,476	$ -
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):				
LOSS FOR THE PERIOD				
BALANCE - MARCH 31, 2005 (UNAUDITED)	66,999,796	$ 16,274	$ 517,476	$ -
BALANCE - JANUARY 1, 2004	52,996,097	$ 13,150	$ 427,881	$ 16,428
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES	2,346,786	527	15,901	(16,428)
ISSUANCE OF SHARES, NET OF RELATED COST - PUBLIC OFFERING	11,444,500	2,550	72,536	
EXERCISE OF SHARE OPTIONS	95,000	21	644	
LOSS FOR THE PERIOD				
BALANCE - MARCH 31, 2004 (UNAUDITED)	66,882,383	$ 16,248	$ 516,962	$ -
BALANCE - JANUARY 1, 2004	52,996,097	$ 13,150	$ 427,881	$ 16,428
CHANGES DURING 2004:				
ISSUANCE OF SHARES	2,463,949	553	16,414	(16,428)
ISSUANCE OF SHARES, NET OF RELATED COST - PUBLIC OFFERING	11,444,500	2,550	72,536	
EXERCISE OF SHARE OPTIONS	95,250	21	645	
LOSS FOR THE YEAR				
BALANCE - DECEMBER 31, 2004	66,999,796	$ 16,274	$ 517,476	$ -

	SHAREHOLDER RECEIVABLES AND UNEARNED COMPENSATION	ACCUMULATED DEFICIT	TREASURY STOCK	TOTAL
BALANCE - JANUARY 1, 2005	$ (26)	$ (356,672)	$ (9,072)	$ 167,980
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):				
LOSS FOR THE PERIOD		(55,320)		(55,320)
BALANCE - MARCH 31, 2005 (UNAUDITED)	$ (26)	$ (411,992)	$ (9,072)	$ 112,660
BALANCE - JANUARY 1, 2004	$ (26)	$ (218,904)	$ (9,072)	$ 229,457
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES				-
ISSUANCE OF SHARES, NET OF RELATED COST - PUBLIC OFFERING				75,086
EXERCISE OF SHARE OPTIONS				665
LOSS FOR THE PERIOD		(38,491)		(38,491)
BALANCE - MARCH 31, 2004 (UNAUDITED)	$ (26)	$ (257,395)	$ (9,072)	$ 266,717
BALANCE - JANUARY 1, 2004	$ (26)	$ (218,904)	$ (9,072)	$ 229,457
CHANGES DURING 2004:				
ISSUANCE OF SHARES				539
ISSUANCE OF SHARES, NET OF RELATED COST - PUBLIC OFFERING				75,086
EXERCISE OF SHARE OPTIONS				666
LOSS FOR THE YEAR		(137,768)		(137,768)

BALANCE - DECEMBER 31, 2004	$ (26)	$ (356,672)	$ (9,072)	$ 167,980

See notes to condensed interim consolidated financial statements.

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, 2005 (UNAUDITED)	THREE MONTHS ENDED MARCH 31, 2004 (UNAUDITED)	YEAR ENDED DECEMBER 31, 2004
CASH FLOWS - OPERATING ACTIVITIES			
LOSS FOR THE PERIOD	$ (55,320)	$ (38,491)	$(137,768)
ADJUSTMENTS TO RECONCILE LOSS FOR THE PERIOD TO NET CASH USED IN OPERATING ACTIVITIES:			
INCOME AND EXPENSE ITEMS NOT INVOLVING CASH FLOWS:			
DEPRECIATION AND AMORTIZATION	34,594	26,929	121,067
EFFECT OF INDEXATION AND TRANSLATION ON CONVERTIBLE DEBENTURES	(403)	(900)	676
OTHER INCOME, NET	(193)	(38)	(32,682)
CHANGES IN ASSETS AND LIABILITIES:			
DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	7,145	(3,924)	(7,655)
DECREASE (INCREASE) IN OTHER RECEIVABLES AND OTHER CURRENT ASSETS	2,036	(1,748)	(413)
DECREASE (INCREASE) IN INVENTORIES	4,045	(2,202)	(6,287)
INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	(1,051)	3,309	404
DECREASE IN OTHER CURRENT LIABILITIES	(1,263)	(1,366)	(970)
INCREASE (DECREASE) IN OTHER LONG-TERM LIABILITIES	(567)	2,232	9,344
	(10,977)	(16,199)	(54,284)
INCREASE (DECREASE) IN LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES, NET	(106)	(517)	19,384
NET CASH USED IN OPERATING ACTIVITIES	(11,083)	(16,716)	(34,900)
CASH FLOWS - INVESTING ACTIVITIES			
DECREASE (INCREASE) IN DESIGNATED CASH, SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS, NET	36,242	(34,109)	(10,037)
INVESTMENTS IN PROPERTY AND EQUIPMENT	(19,650)	(25,254)	(154,975)
INVESTMENT GRANTS RECEIVED	3,488	2,511	32,636
PROCEEDS RELATED TO SALE AND DISPOSAL OF PROPERTY AND EQUIPMENT	346	38	2,626
INVESTMENTS IN OTHER ASSETS	(2,500)	(702)	(702)
INCREASE IN DEPOSITS, NET	-	(3,000)	-
PROCEEDS FROM SALE OF LONG-TERM INVESTMENT	-	-	38,677
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	17,926	(60,516)	(91,775)
CASH FLOWS - FINANCING ACTIVITIES			
PROCEEDS FROM ISSUANCE OF SHARES, NET	-	75,465	75,225
PROCEEDS FROM LONG-TERM DEBT	-	-	66,000
PROCEEDS FROM EXERCISE OF SHARE OPTIONS	-	665	666
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	76,130	141,891
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,843	(1,102)	15,216
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	27,664	12,448	12,448
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 34,507	$ 11,346	$ 27,664
NON-CASH ACTIVITIES			
INVESTMENTS IN PROPERTY AND EQUIPMENT	$ 9,205	$ 16,259	$ 47,675
INVESTMENTS IN OTHER ASSETS	$ 1,283	$ 35	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
CASH PAID DURING THE PERIOD FOR INTEREST	$ 8,316	$ 6,531	$ 25,205
CASH PAID DURING THE PERIOD FOR INCOME TAXES	$ 4	$ 36	$ 130

See notes to condensed interim consolidated financial statements.

NOTE 1 - GENERAL

A. BASIS FOR PRESENTATION

(1) The unaudited condensed interim consolidated financial statements as of March 31, 2005 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, 2004 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 period presented. The results of operations for the interim period 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"), which, as applicable to these 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 (3) below.

(3) RECENT ACCOUNTING PRONOUNCEMENT BY THE ISRAELI ACCOUNTING STANDARDS BOARD

ACCOUNTING STANDARD NO. 19 "TAXES ON INCOME" - In July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19 "INCOME TAXES" (the "Standard"). The Standard established the guideline for recognizing, measuring, presenting and disclosing taxes on income taxes in the financial statements. The Standard is effective for financial statements relating to reporting periods commencing on, or after, January 1, 2005. The initial adoption of the Standard is accounted for by the cumulative effect of change in accounting method, for the beginning of the period in which the Standard is initially adopted. The implementation of the Standard did not affect the Company's financial position, results of operations and cash flows.

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

In January 2001, the Company's Board of Directors approved the establishment of a new wafer fabrication facility in Israel ("Fab 2"). Fab 2 is designated to manufacture semiconductor integrated circuits on silicon wafers in geometries of 0.18 micron and below on 200-millimeter wafers. The Company has entered into several related agreements and other arrangements and has completed public and private financing deals, which, as of the approval date of the interim financial statements, have provided an aggregate of $1,269,000 of financing for Fab 2.

NOTE 1 - GENERAL (cont.)

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

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, risks and uncertainties, see Note 12A to the 2004 audited consolidated financial statements.

C. FINANCING OF THE COMPANY'S ONGOING OPERATIONS

In the first quarter of 2005 and in recent years, the Company has experienced significant recurring losses from operations and recurring negative cash flows from operating activities and an increasing accumulated deficit. According to the Company's recently approved short-term working plan and based on the current prevailing semiconductor market conditions, assuming no funds are raised based on the Letter of Intent ("LOI") described below or otherwise, the Company foresees to be in a cash shortage. In addition, for details concerning management's current estimation that the Company may not comply with certain of the financial ratios and covenants for the third quarter of 2005 and thereafter contemplated in a letter agreement signed between the Company and the Banks in January 2005, see Note 3B below and Note 12A(6) to the 2004 audited consolidated financial statements.

In light of the above described, the Company has been taking comprehensive measures to obtain the needed funds for its ongoing operations in the near future, as well as measures to reduce its short-term liabilities. The Company has also implemented cost reduction measures, including measures to reduce expenses, cost structure and cash burn, and in March 2005, the Company completed a workforce cutback, as part of an across-the-board savings plan focused on operational efficiencies. In this regard, the Company, certain of its Equity Investors, Wafer Partners, and its Banks are holding discussions for additional funding for the Company in the amount of approximately $60,000. Accordingly, in May 2005, an LOI was signed between the Company and its Banks which states that financing in the amount of up to $30,000 will be provided by the Banks to the Company, subject to a similar amount being raised by the Company from investors. As of the approval date of the interim financial statements, certain of the Company's Equity Investors and Wafer Partners have informed the Company of their willingness to invest $23,500 towards such funding by investors. The LOI is further subject to reaching a definitive amendment to the Facility Agreement. The execution of a definitive amendment to the Facility Agreement is subject, among other matters, to all required internal approvals by the Banks, including the approval of their boards of directors. The Company's management estimates that it is probable that the LOI will materialize into a definitive amendment to the Facility Agreement and that the Equity Investors and Wafer Partners will invest the funds as described above.

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

NOTE 2 - MAJOR CUSTOMERS

Sales to major customers as a percentage of total sales were as follows:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
	(Unaudited)	
Customer A	42%	29%
Customer B	12	2
Customer C	1	18
Other customers (*)	18	30

(*) Represents sales to five different customers each of whom accounted for between 1% and 7% of sales during the three months ended March 31, 2005, and to five different customers (each of whom accounted for between 5% and 8%) during the three months ended March 31, 2004.

NOTE 3 - RECENT DEVELOPMENTS RELATING TO FAB 2

A. APPROVED ENTERPRISE STATUS

Under the terms of the approved enterprise program for Fab 2, the Company is eligible to receive grants of 20% of up to $1,250,000 invested in Fab 2 plant and equipment, or an aggregate of up to $250,000, of which as of the balance sheet date, an aggregate of $154,135 has been already received from the Investment Center.

Under the terms of the program, investments in respect of Fab 2 may be completed by December 31, 2005, five years from the date the approval certificate was obtained. Due to the later than planned commencement of construction of Fab 2, prevailing market conditions and slower than planned ramp-up, as of March 31, 2005, the Company completed approximately 70% of the investments under the approved enterprise program. Currently, the Company does not expect to complete Fab 2 investments by the end of 2005. Accordingly, and as a result of the Company's actual investments lagging behind the original terms of the program, the Company notified the Investment Center of its revised investment schedule contemplated in an updated plan for the construction and equipping Fab 2. Such plan reflects, among other things, a reduced rate of annual investments and lower Fab 2 sales than originally planned. In July 2004, the Company received from the Investment Center an approval to the revised investment schedule.

NOTE 3 - RECENT DEVELOPMENTS RELATING TO FAB 2 (cont.)

A. APPROVED ENTERPRISE STATUS (cont.)

Since the approved investment period of five years ends on December 31, 2005, the Company has been holding discussions with the Investment Center to achieve satisfactory arrangements to allow for the extension of the approved investment period beyond December 31, 2005, or to approve a new expansion program that shall commence on January 1, 2006. During 2005, the Company received letters from the Israeli Minister of Industry, Trade and Employment and from the General Manager of the Investment Center stating that they will act under Israeli law to support such extension or expansion. In April 2005, at the Investment Center's request, the Company submitted a revised business plan to the Investment Center for the period commencing on January 1, 2006. As of the approval date of the interim financial statements, the process of reviewing the revised business plan is in its early stages, and the Company's management cannot estimate the outcome of the Company's efforts to obtain approval of an extension of the Fab 2 approved enterprise program or of a new expansion program.

B. FACILITY AGREEMENT - FINANCIAL RATIOS AND COVENANTS AND ADDITIONAL FUNDING

In January 2005, the Company and its Banks signed a waiver letter agreement according to which the Banks waived the Company's non-compliance with certain financial ratios and covenants for the fourth quarter of 2004. The agreement signed also amended certain of the financial ratios and covenants the Company is to comply with during 2005.

As of the balance sheet date, the Company was in full compliance with all of the financial ratios and covenants under the amended Facility Agreement. Management currently estimates that the Company may not comply with certain of the financial ratios and covenants for the third quarter of 2005 and thereafter. However, management estimates that following the signing of the Letter of Intent described in note 1C above, it is probable that satisfactory arrangements with the Banks concerning the financial ratios and covenants for these periods will be achieved. According to the Facility Agreement, satisfying the financial ratios and covenants is a material provision. Achieving arrangements with the Banks is material for the continuation of equipping, operating and construction of Fab 2.

The Facility Agreement provides that if, as a result of any default, the Banks were to accelerate the Company's obligations, the Company would be obligated, among other matters, to immediately repay all loans made by the Banks (which as of the balance sheet date amounted to $497,000) plus penalties, and the Banks would be entitled to exercise the remedies available to them under the Facility Agreement, including enforcement of their lien against all of the Company's assets.

For a LOI signed with the Banks, see Note 1C above.

NOTE 4 - OTHER RECENT DEVELOPMENTS

A. CLASS ACTION

In August 2004, the United States District Court dismissed the class action filed in July 2003 by certain of the Company's shareholders in the United States against the Company and certain of its directors, Wafer Partners and Equity Investors ("the Defendants"). The plaintiffs had asserted claims arising under the Securities Exchange Act of 1934, alleging misstatements and omissions made by the Defendants in materials sent to the Company's shareholders in April 2002 with respect to the approval of an amendment to the Company's investment agreements with its Fab 2 investors. In December 2004, one of the lead plaintiffs filed an appeal of the decision dismissing the complaint. The Company believes that the complaint is without merit and is vigorously contesting it.

B. SHARE OPTION PLANS

(1) OPTIONS GRANTED TO DIRECTORS - In accordance with the Company's share option plan for directors, 80,000 options were granted in February 2005 to two newly appointed directors to the Company's Board of Directors (40,000 options each) at an exercise price of $1.87, which equals the market price of the Company's shares on the grant date. As of the approval date of the interim financial statements, 240,000 options were outstanding under the plan, with a weighted average exercise price of $6.08.

(2) EXPIRATION OF OPTIONS GRANTED TO THE COMPANY'S FORMER CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER - Due to the resignation of the Company's former Chairman of the Board of Directors and Chief Executive Officer, all of the 1,043,000 options which were granted to him are fully forfeited as of May 2005.

(3) OPTIONS TO THE COMPANY'S NEW CHIEF EXECUTIVE OFFICER AND DIRECTOR - In April 2005, the Company's Board of Directors approved the grant of options to purchase up to 1,325,724 Ordinary Shares to the Company's new appointed Chief Executive Officer ("CEO"), who was also appointed as a director. These options are exercisable at an exercise price of $1.56, the opening market price of the Company's shares on the date of the board approval of the grant. Granted options will vest over a four-year period, 25% over each year of employment. The options granted are exercisable for a period of ten years from the date of grant. If as a result of future equity financings (excluding the exercise or conversion of currently existing warrants, options or other rights to acquire the Company's securities), the CEO's total number of options granted to him through April 30, 2007 would represent less than 1.2% of the total number of issued and outstanding shares of the Company as of such date, additional options will be granted to the CEO to result in a 1.2% holding of the total number of issued and outstanding shares of the Company as of April 30, 2007. The grant of the options is subject to the approval of the Company's shareholders.

NOTE 4 - OTHER RECENT DEVELOPMENTS (cont.)

B. SHARE OPTION PLANS (cont.)

(4) OPTIONS TO EMPLOYEES - In May 2005, the Company's Board of Directors approved the grant of 2,900,000 options to the Company's employees at an exercise price equal to the Company's share market price as of the date of grant. The options granted will vest over a four-year period from the date of grant and will expire ten years from such date.

C. TERMINATION OF A JOINT DEVELOPMENT AGREEMENT

In April 2005, a Japanese semiconductor manufacturer corporation has elected, and the Company has agreed, to cease the joint development of certain technology and to terminate the agreement entered into between the parties in May 2002 described in Note 12B(3) to the 2004 audited consolidated financial statements ("the Original Agreement"). According to the terms of the termination agreement, the Japanese manufacturer paid an amount of $2,500 in April 2005. In addition, each party expressly released the other party from any obligations or liabilities of any nature in connection with the Original Agreement. The license rights granted to the parties continue pursuant to the terms of the Original Agreement. As a result, during the second quarter of 2005, the Company expects to recognize revenues in the aggregate amount of $8,000, of which $5,500 is presented as deferred revenues and included as a long-term liability as of the balance sheet date.

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 F below for the presentation of the Company's unaudited balance sheet as of March 31, 2005 in accordance with U.S. GAAP.

A. PRESENTATION OF DESIGNATED CASH AND SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS

In accordance with U.S. GAAP, the Company's designated cash, short-term and long-term interest-bearing deposits should be excluded from current assets and long-term investments and presented separately as a non-current asset. Accordingly, as of March 31, 2005, $17,614 and $5,071 were reclassified, respectively, from current assets and long-term investments to a long-term asset (as of December 31, 2004 - $53,793 and $5,134, respectively).

B. PRESENTATION OF NET LONG-TERM LIABILITIES IN RESPECT OF EMPLOYEES

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, 2005 an amount of $16,055 was reclassified from other long-term liabilities to long-term investments (as of December 31, 2004 - $16,350).

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

Complying with SFAS 133 and SFAS 138 and the related interpretations thereon with respect to the Company's hedging transactions as of March 31, 2005 would have resulted in: an increase in other long-term investments in the amount of $1,555; an increase in other long-term liabilities in the amount of $1,124; a decrease in other comprehensive loss for the three months ended March 31, 2005 in the net amount of $3,169; an accumulated other comprehensive loss component of equity balance as of March 31, 2005 in the amount of $3,886; and in a decrease of $4,287 in property and equipment, net as of March 31, 2005.

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

NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

D. IMPLEMENTATION OF SFAS 123 AND SFAS 148

Had compensation cost for the Company's share option plans been determined based on fair value at the grant dates for awards made through March 31, 2005 in accordance with SFAS 123, as amended by SFAS 148, the Company's pro forma loss and loss per share would have been as follows:

	Three months ended March 31, 2005	Three months ended March 31, 2004
	(unaudited)	(unaudited)
PRO FORMA LOSS		
Loss for the period, as reported according to U.S. GAAP (see G below)	$(55,320)	$(38,491)
Add - stock-based compensation determined under SFAS 123	(1,092)	(1,331)
Pro forma loss	$(56,412)	$(39,822)
BASIC LOSS PER SHARE		
As reported according to U.S. GAAP (see H below)	$ (0.84)	$ (0.62)
Pro forma	$ (0.86)	$ (0.65)

E. SALE OF SECURITIES

Under Accounting Principles Board Opinion No. 14 ("APB 14"), the proceeds from the sale of the securities in January 2002 are to be allocated to each of the securities issued based on their relative fair value, while according to Israeli GAAP such treatment is not required. Complying with APB 14, based on the average market value of each of the securities issued in the first three days following their issuance (in January 2002), would have resulted in an increase in shareholders' equity as of March 31, 2005 and December 31, 2004 in the amount of $2,363 (net of $196 related issuance expenses), and a decrease in convertible debentures as of such dates in the amount of $2,559. The effect of amortization of the discount on the convertible debentures under U.S.GAAP for the periods ended at such dates would have been immaterial.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF MARCH 31, 2005
(dollars in thousands, except share data and per share data)

NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

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

	U.S. GAAP REMARK	AS OF MARCH 31, 2005 AS PER ISRAELI GAAP	AS OF MARCH 31, 2005 ADJUST-MENTS	AS OF MARCH 31, 2005 AS PER U.S. GAAP	AS OF DECEMBER 31, 2004 AS PER ISRAELI GAAP	AS OF DECEMBER 31, 2004 ADJUST-MENTS	AS OF DECEMBER 31, 2004 AS PER U.S. GAAP
A S S E T S							
CURRENT ASSETS							
CASH AND CASH EQUIVALENTS		$ 34,507	$	$ 34,507	$ 27,664	$	$ 27,664
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	A	17,614	(17,614)	-	53,793	(53,793)	-
TRADE ACCOUNTS RECEIVABLE		12,141		12,141	19,286		19,286
OTHER RECEIVABLES		9,430		9,430	11,365		11,365
INVENTORIES		21,624		21,624	25,669		25,669
OTHER CURRENT ASSETS		861		861	1,818		1,818
TOTAL CURRENT ASSETS		96,177	(17,614)	78,563	139,595	(53,793)	85,802
LONG-TERM INVESTMENTS							
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR FAB 2 OPERATIONS	A	5,071	(5,071)	-	5,134	(5,134)	-
OTHER LONG-TERM INVESTMENTS	B, C	-	17,610	17,610	-	16,350	16,350
		5,071	12,539	17,610	5,134	11,216	16,350
PROPERTY AND EQUIPMENT, NET	C	587,707	(4,287)	583,420	609,296	(4,619)	604,677
DESIGNATED CASH AND SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS	A	-	22,685	22,685	-	58,927	58,927
OTHER ASSETS, NET	E	92,478	(196)	92,282	93,483	(196)	93,287
TOTAL ASSETS		$ 781,433	$ 13,127	$ 794,560	$ 847,508	$ 11,535	$ 859,043
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES							
TRADE ACCOUNTS PAYABLE		$ 53,249	$	$ 53,249	$ 65,326	$	$ 65,326
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	E	6,575	(640)	5,935	-		-
OTHER CURRENT LIABILITIES		9,625		9,625	10,678		10,678
TOTAL CURRENT LIABILITIES		69,449	(640)	68,809	76,004	-	76,004
LONG-TERM DEBT		497,000		497,000	497,000		497,000
CONVERTIBLE DEBENTURES	E	19,724	(1,919)	17,805	26,651	(2,559)	24,092
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES		63,326		63,326	64,428		64,428
OTHER LONG-TERM LIABILITIES	B, C	19,274	17,179	36,453	15,445	18,756	34,201
TOTAL LIABILITIES		668,773	14,620	683,393	679,528	16,197	695,725
SHAREHOLDERS' EQUITY							
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 250,000,000 SHARES; ISSUED 66,999,796 SHARES		16,274		16,274	16,274		16,274
ADDITIONAL PAID-IN CAPITAL	E	517,476	2,363	519,839	517,476	2,363	519,839
SHAREHOLDER RECEIVABLES		(26)		(26)	(26)		(26)
ACCUMULATED OTHER COMPREHENSIVE LOSS	C	-	(3,886)	(3,886)	-	(7,055)	(7,055)
ACCUMULATED DEFICIT		(411,992)	30	(411,962)	(356,672)	30	(356,642)
		121,732	(1,493)	120,239	177,052	(4,662)	172,390
TREASURY STOCK, AT COST - 1,300,000 SHARES		(9,072)		(9,072)	(9,072)		(9,072)
TOTAL SHAREHOLDERS' EQUITY		112,660	(1,493)	111,167	167,980	(4,662)	163,318
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 781,433	$ 13,127	$ 794,560	$ 847,508	$ 11,535	$ 859,043

NOTE 5 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

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

Complying with SFAS 133 and SFAS 138 (C above) and APB 14 (E above) would not have materially affected the results of operations for the three-month periods ended March 31, 2005 and 2004.

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

In accordance with U.S. GAAP (SFAS 128, including the implementation of SFAS 133 and SFAS 138, and APB 14 as described in G above), the basic and diluted loss per share for the three-month periods ended March 31, 2005 and 2004 would be $0.84 and $0.62, respectively.