

**TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2007**

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

**INDEX TO UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2007**

	<u>Page</u>
ACCOUNTANTS' REVIEW REPORT	1
BALANCE SHEETS	2
STATEMENTS OF OPERATIONS	3
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-23

The Board of Directors
Tower Semiconductor Ltd.
Migdal Ha'emek

Gentlemen:

Re: Review of Unaudited Condensed Interim
Consolidated Financial Statements as of June 30, 2007

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 June 30, 2007.
- Statements of operations for the six months and three months ended June 30, 2007.
- Statements of changes in shareholders' equity for the six months and three months ended June 30, 2007.
- Statements of cash flows for the six months and three months ended June 30, 2007.

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 that 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, results of operations and cash flows as of the date and for the periods presented is summarized in Note 4.


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

Tel Aviv, Israel
August 15, 2007

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

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

	As of June 30,		December 31,
	2007	2006	2006
	(unaudited)		
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	\$ 20,723	\$ 8,581	\$ 39,710
Short-term interest-bearing deposits	--	--	1,230
Designated cash and short-term interest-bearing deposits	--	2,909	--
Proceeds receivables relating public offering	--	31,479	--
Trade accounts receivable:			
Related parties	22,955	8,538	13,625
Others	22,521	13,088	17,873
Other receivables	2,769	7,131	5,425
Inventories	37,691	29,623	34,763
Other current assets	1,465	1,616	1,473
Total current assets	108,124	102,965	114,099
PROPERTY AND EQUIPMENT, NET	507,414	465,106	539,292
INTANGIBLE ASSETS, NET	39,482	54,508	44,981
OTHER ASSETS , NET	1,303	1,371	1,346
TOTAL ASSETS	\$ 656,323	\$ 623,950	\$ 699,718
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current maturities of convertible debentures	\$ 6,611	\$ 6,204	\$ 6,632
Trade accounts payable	55,922	50,410	55,128
Other current liabilities	20,907	11,517	22,096
Total current liabilities	83,440	68,131	83,856
LONG-TERM DEBT FROM BANKS	360,689	515,811	356,947
CONVERTIBLE DEBENTURES	58,609	53,272	62,175
LONG-TERM CUSTOMERS' ADVANCES	42,070	52,528	46,042
OTHER LONG-TERM LIABILITIES	19,441	10,104	17,708
Total liabilities	564,249	699,846	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 123,495,958, 85,768,622 and 102,052,767 shares, respectively	29,283	20,366	24,187
Additional paid-in capital	586,265	540,885	564,580
Capital notes	176,401	--	176,401
Equity component of convertible debentures and Cumulative stock based compensation	27,700	20,381	23,576
Accumulated deficit	(718,503)	(648,456)	(646,682)
	101,146	(66,824)	142,062
Treasury stock, at cost - 1,300,000 shares	(9,072)	(9,072)	(9,072)
Total shareholders' equity (deficit)	92,074	(75,896)	132,990
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 656,323	\$ 623,950	\$ 699,718

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

	Six Months ended June 30,		Three Months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	(unaudited)		(unaudited)		
REVENUES	\$ 112,666	\$ 80,430	\$ 57,062	\$ 44,555	\$ 187,438
COST OF SALES	<u>142,878</u>	<u>126,422</u>	<u>71,384</u>	<u>65,142</u>	<u>267,390</u>
GROSS LOSS	<u>(30,212)</u>	<u>(45,992)</u>	<u>(14,322)</u>	<u>(20,587)</u>	<u>(79,952)</u>
OPERATING COSTS AND EXPENSES					
Research and development	6,952	6,928	3,355	3,574	14,984
Marketing, general and administrative	<u>15,176</u>	<u>10,798</u>	<u>7,351</u>	<u>5,474</u>	<u>24,512</u>
	<u>22,128</u>	<u>17,726</u>	<u>10,706</u>	<u>9,048</u>	<u>39,496</u>
OPERATING LOSS	(52,340)	(63,718)	(25,028)	(29,635)	(119,448)
FINANCING EXPENSE, NET	(19,554)	(25,575)	(9,406)	(14,051)	(48,148)
GAIN ON DEBT RESTRUCTURING	--	--	--	--	80,071
OTHER INCOME, NET	<u>73</u>	<u>591</u>	<u>4</u>	<u>40</u>	<u>597</u>
LOSS FOR THE PERIOD	<u>\$ (71,821)</u>	<u>\$ (88,702)</u>	<u>\$ (34,430)</u>	<u>\$ (43,646)</u>	<u>\$ (86,928)</u>
LOSS PER ORDINARY SHARE					
Basic and diluted Loss per share	<u>\$ (0.63)</u>	<u>\$ (1.18)</u>	<u>\$ (0.28)</u>	<u>\$ (0.55)</u>	<u>\$ (1.05)</u>
Weighted average number of ordinary shares outstanding - in thousands	<u>113,584</u>	<u>75,313</u>	<u>122,014</u>	<u>78,716</u>	<u>82,581</u>

See notes to consolidated financial statements.

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)	\$ 132,990
Changes during the six-month period (unaudited):								
Issuance of shares and warrants	20,922,988	4,973	21,184					26,157
Conversion of convertible debentures to shares	498,828	119	475		(217)			377
Employee stock-based compensation					4,341			4,341
Exercise of share options	21,375	4	26					30
Loss for the period						(71,821)		(71,821)
BALANCE - JUNE 30, 2007 (unaudited)	123,495,958	\$ 29,283	\$ 586,265	\$ 176,401	\$ 27,700	\$ (718,503)	\$ (9,072)	\$ 92,074
BALANCE - JANUARY 1, 2006	68,232,056	16,548	522,237	--	(26)	(559,754)	(9,072)	(30,067)
Changes during the six-month period (unaudited):								
Issuance of shares and warrants	3,438,076	737	6,353					7,090
Equity component of convertible debentures					26,361			26,361
Conversion of convertible debentures into shares	14,098,490	3,081	12,295		(6,535)			8,841
Employee stock-based compensation					581			581
Loss for the period						(88,702)		(88,702)
BALANCE - JUNE 30, 2006 (unaudited)	85,768,622	\$ 20,366	\$ 540,885	\$ --	\$ 20,381	\$ (648,456)	\$ (9,072)	\$ (75,896)
BALANCE - APRIL 1, 2007	122,182,946	28,965	584,400	176,401	25,218	(684,073)	(9,072)	121,839
Changes during the three-month period (unaudited):								
Issuance of shares and warrants	1,192,443	289	1,746					2,035
Conversion of convertible debentures to shares	100,694	25	95		(47)			73
Employee stock-based compensation					2,529			2,529
Exercise of options	19,875	4	24					28
Loss for the period						(34,430)		(34,430)
BALANCE - JUNE 30, 2007 (unaudited)	123,495,958	\$ 29,283	\$ 586,265	\$ 176,401	\$ 27,700	\$ (718,503)	\$ (9,072)	\$ 92,074
BALANCE - APRIL 1, 2006	76,946,189	18,403	531,123	--	19,550	(604,810)	(9,072)	(44,806)
Changes during the three-month period (unaudited):								
Issuance of shares and warrants	724,680	158	2,645					2,803
Equity component of convertible debentures					4,382			4,382
Conversion of convertible debentures into shares	8,097,753	1,805	7,117		(3,753)			5,169
Employee stock-based compensation					202			202
Loss for the period						(43,646)		(43,646)
BALANCE - JUNE 30, 2006 (unaudited)	85,768,622	\$ 20,366	\$ 540,885	\$ --	\$ 20,381	\$ (648,456)	\$ (9,072)	\$ (75,896)
BALANCE - JANUARY 1, 2006	68,232,056	\$ 16,548	\$ 522,237	\$ --	\$ (26)	(559,754)	(9,072)	(30,067)
Changes during 2006 :								
Issuance of shares and warrants	16,729,145	3,860	23,038					26,898
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
Employee stock-based compensation					3,363			3,363
Exercise of options	7,250	2	9					11
Exercise of warrants	350,000	81	469					550
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)	\$ 132,990

See notes to consolidated interim financial statements.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

CASH FLOWS - OPERATING ACTIVITIES	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	(unaudited)		(unaudited)		
Loss for the period	\$ (71,821)	\$ (88,702)	\$ (34,430)	\$ (43,646)	\$ (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	82,330	82,591	39,468	41,253	170,816
Effect of indexation and translation on convertible debentures	178	1,096	(1,003)	1,353	2,569
Other income, net	(73)	(591)	(4)	(40)	(597)
Gain on debt restructuring	--	--	--	--	(80,071)
Changes in assets and liabilities:					
Increase in trade accounts receivable	(13,978)	(4,850)	(9,349)	(2,744)	(14,722)
Decrease (increase) in other receivables and other current assets	1,376	(1,856)	1,252	(1,379)	(2,662)
Decrease (increase) in inventories	(2,928)	(8,923)	554	(5,155)	(14,064)
Increase (decrease) in trade accounts payable	17,119	2,481	7,719	1,673	(4,734)
Increase (decrease) in other current liabilities	(1,093)	2,113	305	2,292	6,551
Decrease in other long-term liabilities	(778)	(1,679)	(257)	(473)	(3,285)
	10,332	(18,320)	4,255	(6,866)	(27,127)
Decrease in long-term customers' advances, net	(922)	(814)	(394)	(399)	(2,306)
Net cash provided by (used in) operating activities	9,410	(19,134)	3,861	(7,265)	(29,433)
CASH FLOWS - INVESTING ACTIVITIES					
Decrease in designated cash, short-term and long-term interest-bearing deposits, net	--	28,752	--	12,217	31,661
Investments in property and equipment	(49,788)	(32,687)	(25,952)	(16,021)	(161,187)
Investment grants received	1,437	3,298	1,437	2,426	5,219
Proceeds related to sale and disposal of property and equipment	89	591	20	40	600
Investments in other assets	(911)	(3,619)	--	(112)	(5,074)
Decrease (increase) in short-term interest-bearing deposits	1,230	--	5,000	--	(1,230)
Net cash used in investing activities	(47,943)	(3,665)	(19,495)	(1,450)	(130,011)
CASH FLOWS - FINANCING ACTIVITIES					
Proceeds from issuance of convertible debentures, net	--	21,929	--	(274)	58,766
Proceeds from long-term debt	--	8,590	--	--	18,295
Proceeds from issuance of ordinary shares and warrants, net	26,604	--	(2,263)	--	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	30	--	28	--	9
Net cash provided by (used in) financing activities	19,546	24,043	(2,235)	(274)	191,817
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,987)	1,244	(17,869)	(8,989)	32,373
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	39,710	7,337	38,592	17,570	7,337
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 20,723	\$ 8,581	\$ 20,723	\$ 8,581	\$ 39,710
NON-CASH ACTIVITIES					
Investments in property and equipment	\$ 9,943	\$ 6,390	\$ 7,600	\$ 3,949	\$ 42,575
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	\$ 3,705	\$ 5,287	\$ 2,039	\$ 1,000	\$ 7,621
Proceeds receivables related public offering	\$ --	\$ 31,479	\$ --	\$ 31,479	\$ --
Conversion of Convertible debentures to share capital	\$ 377	\$ 8,841	\$ 73	\$ 5,169	\$ 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	\$ 13,376	\$ 20,792	\$ 6,155	\$ 10,246	\$ 35,008
Cash paid during the period for income taxes	\$ 25	\$ 56	\$ 21	\$ 42	\$ 134

See notes to consolidated financial statements.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 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 June 30, 2007 and for the six months and 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 4. 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.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 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, commencing in 2008, 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.

The Company is in the process of examining the effect of the transition to IFRS on the Company's financial position and results of operations.

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 buildings 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.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 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.

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

Under the 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. A resulting increase in an asset's value due to the revaluation should be allocated directly to shareholders' equity (“revaluation reserve”).

The Standard applies to financial statements covering periods beginning January 1, 2007 and onwards and is 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.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 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.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 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.)

According to the Standard:

An intangible asset shall be measured initially at cost.

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 an intangible asset at its cost less any accumulated amortization and any accumulated impairment losses, or for an intangible asset that has an active market, as defined in the Standard, the intangible asset 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 by comparing its recoverable amount with its carrying amount 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.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL (cont.)

A. Basis for Presentation (cont.)

- (5) During the second quarter of 2007, the Company reassessed the estimated useful lives of its machinery and equipment and as a result, with effect from April 1, 2007, machinery and equipment is to be depreciated over estimated useful lives of 7 years rather than 5 years prior to such date. The change reflects the Company's best estimate of the useful lives of its equipment and was also based on experience accumulated from Fab 1 and on recent trends in industry practices. The Company believes that the change better reflects the economics associated with the ownership of the equipment. This change has been accounted for as a change in estimate and was applied prospectively.

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, increased its sales and its EBITDA, reduced its losses, increased its capacity level and utilization rates, raised funds totaling approximately \$238,000 in gross proceeds, excluding the amounts described in Note 3B below (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).

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL (cont.)

C. Financing of the Company's Ongoing Operations (cont.)

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 the Company's customer pipeline and reinforced by forecasted market conditions. As of June 30, 2007, the Company is 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 its 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, including those described in Notes 3B and 3C below.

NOTE 2 - INVENTORIES

Inventories consist of the following (*):

	June 30,		December 31,
	2007	2006	2006
	(unaudited)		
Raw materials	\$ 12,461	\$ 8,287	\$ 11,234
Work in process	24,573	19,956	22,884
Finished goods	657	1,380	645
	\$ 37,691	\$ 29,623	\$ 34,763

(*) Net of aggregate write downs to net realizable value of \$1,989, \$3,183 and \$6,707 as of June 30, 2007, June 30, 2006 and December 31, 2006, respectively.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 3 - RECENT DEVELOPMENTS

- A. March 2007 Private placement in the US** - 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 \$29,000 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 possible adjustments under certain circumstances), exercisable until March 15, 2012 ("Series I Warrants"), and short-term warrants exercisable into approximately 18.8 million shares at an exercise price of \$1.70, 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 December 31, 2007. Subject to certain conditions, 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 Israeli GAAP, Series I Warrants have been initially classified as a liability and subsequently marked to market through profit and loss.

See Note 4F for disclosure of the accounting treatment in accordance with U.S. GAAP.

- B. June 2007 Long-Term Bonds Fund-Raising in Israel** - In June 2007, in a private placement with Israeli institutions of long-term convertible and non-convertible bonds and warrants, the Company received orders totaling a gross amount of approximately \$40,000. In the funding, 342 units were sold, each comprised of: (i) long-term non-convertible-bonds, repayable in six equal annual installments between the dates of December 2011 and December 2016, with a face amount of NIS 250,000 (approximately \$59.7) and carrying an annual interest rate of 8 percent; (ii) long-term convertible-bonds repayable in December 2012 with a 17.2 NIS conversion price (approximately \$4.11) with a face amount of NIS 262,500 (approximately \$62.7), carrying an annual interest of 8 percent, and (iii) 5,800 warrants, each exercisable for four years, for one Tower ordinary share at a price of \$2.04 (approximately 8.54 NIS). The bonds are linked to the Israeli Consumer Price Index (CPI) and were issued at 95.5% of par value. The conversion and exercise prices are subject to reduction in certain limited circumstances. All figures in dollars are presented herein for convenience only, based on the exchange rate prevailing at the time of the private placement. Under Israeli securities laws, the securities were subject to a statutory lock-up. The Company undertook to file a prospectus with the Israel Securities Authority to allow for the unrestricted trade of the securities. The funds raised were held in escrow to be released to the Company if the prospectus is declared effective by the Israel Securities Authority within 90 days from the date of the offering.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 3 - RECENT DEVELOPMENTS (cont.)

B. June 2007 Long-Term Bonds Fund-Raising in Israel (cont.)

In the event the prospectus was not declared effective by the Israel Securities Authority within such period, the investors would have had the option to receive back their investment. As of June 30, 2007, the proceeds were in escrow, and the Company was not entitled to receive them, and as such, the proceeds are not recorded in the Company's balance sheet as cash or deposit or accounts receivable balances as of June 30, 2007, and likewise, no obligation to make repayment on account of the convertible and non-convertible bonds was recorded by the Company in its balance sheet as long-term liabilities as of June 30, 2007. In July 2007, the Company's prospectus was declared effective by the Israel Securities Authority and as such the securities issued in the private placement are no longer subject to the statutory lock-up and in August 2007 the proceeds raised were released to the Company. The prospectus also contemplated a public offering of the same securities issued in the June 2007 private placement. The timing of and the amount and offering prices of such securities has yet to be determined.

- C. July 2007 Letters of intent ("LOIs")** - In July 2007, the Company concluded the signatures of LOIs with its lender banks, Bank Leumi and Bank Hapoalim, and with Israel Corporation, a major shareholder, to provide credit lines totaling up to \$60,000, in order to secure the funding of equipment required for a ramp up plan the Company is considering to execute for Fab 2. Loans to be borrowed, if at all, under the credit lines will bear interest at an annual rate of LIBOR plus 3% and will be repayable by no later than March 2010. The LOIs are subject to the signing and closing of definitive agreements and the receipt of corporate approvals. They also contemplate that the Company will pay the banks and TIC customary fees, including issuing warrants for an aggregate amount of approximately 1.5% of the Company's fully diluted share capital with an exercise price of \$2.04.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - 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 4(I) below for the presentation of the Company's unaudited balance sheet as of June 30, 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 June 30, 2007:

	<u>Significant Unobservable Inputs</u>
Derivatives	\$ 20,342
Facility Agreement	<u>358,904</u>
Total	<u>\$ 379,246</u>

Fair Value Measurements Using Significant Unobservable Inputs:

	<u>Derivatives</u>	<u>Facility Agreement</u>	<u>Total</u>
Beginning balance	\$ 11,264	357,108	368,372
Unrealized gains or losses included in earnings	<u>9,078</u>	<u>1,796</u>	<u>10,874</u>
Ending balance	<u>\$ 20,342</u>	<u>\$ 358,904</u>	<u>\$ 379,246</u>

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

A. Recent Accounting Pronouncements by the FASB (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 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 June 30, 2007, an amount of \$12,849 was reclassified from other long-term liabilities as long-term investments.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

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 June 30, 2007, such transactions would have resulted in: an increase in other long-term investments in the amount of \$1,743; an accumulated other comprehensive income component of equity balance as of June 30, 2007 in the amount of \$414 (as of December 31, 2006, an accumulated other comprehensive loss component of equity balance in the amount of \$203) ; and in a decrease of \$1,329 in property and equipment, net as of June 30, 2007.

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 June 30, 2007 would have been \$780. 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 need not be separated.

2002 debentures:

Under US GAAP, the equity component, in the amount of \$1,681, classified in equity under Israeli GAAP should have not been separated and was required to be included as part of the carrying amount of the debentures.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

D. Issuance of Convertible Debentures (cont.)

2005 and 2006 debentures:

Under US GAAP, the equity component of the 2005 and 2006 debentures, in the amounts of \$12,312 and \$6,030 respectively, as of June 30, 2007, 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 June 30, 2007, mainly in a decrease in convertible debentures in the amount of \$5,987; an increase in the shareholder's equity in the amount of \$6,723; and an increase in other assets in the amount of \$736. The Company's loss for the six month period ended June 30, 2007 would have increased in the amounts of \$1,156.

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 June 30, 2007 mainly in a decrease in other long term liabilities and an increase in shareholder's equity in the amount of \$1,817. The Company's loss for the six month period ended June 30, 2007 would have increased in the amount of \$1,271.

F. March 2007 private placement of ordinary shares and warrants

Under US GAAP all components in the private placement should be classified in equity. As of June 30, 2007 this difference will result in a decrease in liabilities and increase in shareholders equity in the amount of \$3,074. The Company's loss for the six month period ended June 30, 2007 would have increased in the amount of \$796.

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 six month period ending June 30, 2007 in the amount of \$618. 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.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

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.

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.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

H. Facility Agreement (cont.)

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 \$8,912 in the shareholders equity and an increase of the same amount in the long-term loans from the banks as of June 30, 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 six month period ended June 30, 2007 would have decreased in the amount of \$1,364.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - MATERIAL DIFFERENCES BETWEEN ISRAEL AND U.S. GAAP (Cont.)

I. Balance Sheets in accordance with U.S. GAAP

	U.S. GAAP remark	As of June 30, 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
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents		\$ 20,723		\$ 20,723	\$ 39,710		\$ 39,710
Short-term interest-bearing deposits		--		--	1,230		1,230
Trade accounts receivable :							
Related Parties		22,955		22,955	13,625		13,625
Others		22,521		22,521	17,873		17,873
Other receivables		2,769		2,769	5,425		5,425
Inventories		37,691		37,691	34,763		34,763
Other current assets		1,465		1,465	1,473		1,473
Total current assets		108,124	--	108,124	114,099	--	114,099
LONG-TERM INVESTMENTS	B,C	--	14,592	14,592	--	15,325	15,325
PROPERTY AND EQUIPMENT, NET	C	507,414	(1,329)	506,085	539,292	(1,745)	537,547
INTANGIBLE ASSETS, NET		39,482		39,482	44,981		44,981
OTHER ASSETS, NET	D	1,303	736	2,039	1,346	834	2,180
TOTAL ASSETS		\$ 656,323	\$ 13,999	\$ 670,322	\$ 699,718	\$ 14,414	\$ 714,132
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES							
Current maturities of convertible debentures	D	6,611	246	6,857	6,632	270	6,902
Trade accounts payable		55,922		55,922	55,128		55,128
Other current liabilities		20,907		20,907	22,096		22,096
Total current liabilities		83,440	246	83,686	83,856	270	84,126
LONG-TERM DEBT FROM BANKS	H	360,689	8,912	369,601	356,947	75,483	432,430
CONVERTIBLE DEBENTURES	D	58,609	(6,233)	52,376	62,175	21,688	83,863
LONG-TERM CUSTOMERS' ADVANCES		42,070		42,070	46,042		46,042
OTHER LONG-TERM LIABILITIES	B,E,F	19,441	7,958	27,399	17,708	10,447	28,155
Total liabilities		564,249	10,883	575,132	566,728	107,888	674,616
SHAREHOLDERS' EQUITY							
Ordinary shares, NIS 1.00 par value - authorized 800,000,000, 500,000,000 and 800,000,000 shares, respectively; issued 123,495,958, 85,768,622 and 102,052,767 shares, respectively		29,283		29,283	24,187		24,187
Additional paid-in capital	D,E,F	586,265	38,834	625,099	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	27,700	(17,893)	9,807	23,576	(18,706)	4,870
Accumulated other comprehensive loss	C	--	414	414	--	(203)	(203)
Accumulated deficit	D,E,F,G,H	(718,503)	(18,239)	(736,742)	(646,682)	(80,969)	(727,651)
Treasury stock, at cost - 1,300,000 shares		101,146	3,116	104,262	142,062	(93,474)	48,588
Total shareholders' equity		(9,072)	--	(9,072)	(9,072)	--	(9,072)
Total shareholders' equity		92,074	3,116	95,190	132,990	(93,474)	39,516
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 656,323	\$ 13,999	\$ 670,322	\$ 699,718	\$ 14,414	\$ 714,132

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - 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 six month period ended June 30, 2007 in the amount of \$2,477. The loss for the six month period ended June 30, 2006 would have decreased in the amount of \$1,007

Giving effect to all the above, the loss for the six month periods ended June 30, 2007 and June 30, 2006 would be \$74,298 and \$87,725, 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:

	Six months ended	
	June 30,	
	2007	2006
	(unaudited)	
Loss for the period, according to U.S. GAAP (see J above)	\$ (74,298)	\$ (87,725)
Other comprehensive loss:		
Reclassification of unrealized losses on derivatives	664	664
Unrealized gains on derivatives	(47)	1,245
Net comprehensive loss for the period	\$ (73,681)	\$ (85,816)

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2007
(dollars in thousands, except share data and per share data)

NOTE 4 - 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 six-month and the three-month periods ended June 30, 2007 would be \$0.65 and \$0.28, respectively (during the corresponding periods - \$1.16 and \$0.60, 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 six-month period ended June 30, 2007 and 2006.

**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 June 30, 2007 and for the six months then ended and related notes included in this report; and (2) our audited consolidated financial statements and related notes included in our Annual Report on Form 20-F for the year ended December 31, 2006 and the other information contained in such Annual Report, particularly the information under the caption "Operating and Financial Review and Prospects". 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 4 to our unaudited condensed interim consolidated financial statements as of June 30, 2007 and in note 19 to our audited 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:

Six months Ended	
June 30,	
<u>2007</u>	<u>2006</u>
<u>(unaudited)</u>	

Statement of Operations Data:

Total revenues	100.0%	100.0%
Cost of total revenues	<u>126.8</u>	<u>157.2</u>
Gross loss	(26.8)	(57.2)
Research and development expenses, net.....	6.2	8.6
Marketing, general and administrative expenses	<u>13.5</u>	<u>13.4</u>
Operating loss.....	(46.5)	(79.2)
Financing expense, net	(17.3)	(31.8)
Other income, net	<u>0.1</u>	<u>0.7</u>
Loss	<u>(63.7)%</u>	<u>(110.3)%</u>

Six Months Ended June 30, 2007 compared to Six Months Ended June 30, 2006

Revenues. Revenues for the six months ended June 30, 2007 increased by 40.1% to \$112.7 million from \$80.4 million for the six months ended June 30, 2006. This \$32.3 million increase was mainly attributed to a higher volume of wafer shipments.

Cost of Total Revenues. Cost of total revenues for the six months ended June 30, 2007 amounted to \$142.9 million, compared with \$126.4 million for the six months ended June 30, 2006. This increase of 13% in cost of revenues, which is relatively low in relation to the 40% increase in sales, was mainly achieved due to (i) the Company's cost structure, according to which the Company has reasonable margins for each incremental dollar of revenue and (ii) a reduction in depreciation and amortization expenses, as described as follows. During the second quarter of 2007, the Company reassessed the estimated useful lives of its machinery and equipment and as a result, with effect from April 1, 2007, its machinery and equipment is to be depreciated over estimated useful lives of 7 years rather than 5 years prior to such date. The change reflects the Company's best estimate of the useful lives of its machinery and equipment and was based on experience accumulated from Fab 1 and recent trends in industry practices. The Company believes that the change better reflects the economics associated with the ownership of the equipment. This change has been accounted for as a change in estimate and was applied prospectively. Total depreciation and amortization expenses included in Cost of Total Revenues was approximately \$70 million for the six months ended June 30, 2007, as compared to approximately \$76 million for the six months ended June 30, 2006; said reduction was mainly attributed to the aforementioned change, which was partially offset by

approximately \$5 million of higher depreciation expenses relating to new capital expenditure items for which depreciation commenced during 2007.

Gross Loss. Gross loss for the six months ended June 30, 2007 was \$30.2 million, compared to a gross loss of \$46.0 million for the six months ended June 30, 2006. The decrease in gross loss was mainly attributable to the 40% increase in sales as compared to a 13% increase in Cost of Total Sales as described above.

Research and Development expenses. Research and development expenses for the six months ended June 30, 2007 amounted to \$7 million, compared to a similar amount for the six months ended June 30, 2006.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses for the six months ended June 30, 2007 amounted to \$15.2 million, compared to \$10.8 million for the six months ended June 30, 2006. The increase is primarily due to stock based compensation expenses and increased expenses deriving directly from the higher revenues mentioned above.

Operating Loss. Operating loss for the six months ended June 30, 2007 was \$52.3 million, compared to \$63.7 million for the six months ended June 30, 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 six months ended June 30, 2007 were \$19.6 million, compared to financing expenses, net, of \$25.6 million for the six months ended June 30, 2006. This decrease is mainly due to a decrease of \$7.2 million in connection with the consummation of the debt restructuring with our banks in September 2006, pursuant to which, approximately 30% of our then 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%, and due to the increase in the exchange rate of the dollar in relation to the NIS which caused a decrease in the dollar amount of our NIS denominated outstanding convertible debt (see below for more details on currency fluctuations). This decrease was offset by an increase of \$2.5 million in the discount amortization on our convertible debentures which resulted mainly from the issuance of a new series of convertible debentures in June 2006.

Other Income, Net. Other income, net, for the six months ended June 30, 2007 was \$0.01 million, compared to \$0.6 million for the six months ended June 30, 2006.

Loss. Our loss for the six months ended June 30, 2007 was \$71.8 million, compared to \$88.7 million for the six months ended June 30, 2006. This decrease is primarily attributable to the decrease in the operating loss of \$11.4 million and a \$6 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 six months ended June 30, 2007, the exchange rate of the dollar in relation to the NIS increased by 0.6%, and the Israeli Consumer Price Index ("CPI") increased by 1%. (During the six months ended June 30, 2006, there was a decrease of 3.5% in the exchange rate of the dollar in relation to the NIS and an increase of 1.5% 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 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 June 30, 2007, we had an aggregate of \$20.7 million in cash and cash equivalents. This compares to \$11.5 million we had as of June 30, 2006 in cash, cash equivalents and short-term interest-bearing deposits, of which \$2.9 million was contractually restricted for Fab 2 use only.

During the six months ended June 30, 2007, we received \$26.6 million in net proceeds from the issuance of ordinary shares and warrants, \$1.4 million from Investment Center grants and generated a net amount of \$9.4 million from our operating activities. These liquidity resources financed the capital expenditure investments we made during the six months ended June 30, 2007, which aggregated \$50.7 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 June 30, 2007, we had long-term bank loans, at present value, in the amount of \$360.7 million we obtained in connection with the establishment of Fab 2. As of such date, we also had outstanding convertible debentures in the aggregate amount of \$91.2 million, of which \$6.6 million are presented as current maturities and \$20.0 million are presented as an equity component of the convertible debentures as part of shareholders' equity. The amounts of cash and cash equivalents and liabilities in regard of debentures and convertible debentures described in this section entitled "Liquidity and Capital Resources" do not include the approximately \$40 million raised in our June 2007 fundraising, which were released to us in August 2007, all as described in Note 3B to our financial statements as of June 30, 2007.