AMENDMENT NO. 1 ON
FORM 6-K/A

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

For the month of August 2005

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]

EXPLANATORY NOTE

This Amendment No.1 is being filed in connection with the incorporation by reference of this Report in the Registrant's Registration Statement on Form F-2 (File No. 333-126909), to include Management's Discussion and Analysis of Financial Condition and Results of Operations as of June 30, 2005 and for the six months then ended, as required by Item 8.A.5 of Form 20-F.

This Amendment No.1 on Form 6-K/A amends in its entirety the Registrant's Report on Form 6-K for the Month of August 2005, as filed with the Securities and Commission on August 3, 2005.

On August 2, 2005, the Registrant announced its financial results for the six month and three month periods ended June 30, 2005. Attached hereto as Exhibit 99.1 is the press release relating to such announcement. Attached hereto as Exhibit 99.2 are the Registrant's unaudited interim consolidated financial statements for the six month and three month periods ended June 30, 2005.

Attached hereto as Exhibit 99.3 is Management's Discussion and Analysis of Financial Condition and Results of Operations as of June 30, 2005 and for the six months 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: September 22, 2005

By: /S/ Nati Somekh Gilboa

Nati Somekh Gilboa

Corporate Secretary

EXHIBIT 99.1

TOWER SEMICONDUCTOR ANNOUNCES SECOND QUARTER AND SIX MONTHS 2005 RESULTS

FAB2 TAPE-OUTS DURING Q2 AT RECORD HIGH

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

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

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

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

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

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

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

1. DIVERSIFYING CUSTOMER BASE

TOTAL CUSTOMER COUNT	AS OF END OF Q2 2005	AS OF END OF Q2 2004
95% of revenue generated by:	27 customers	21 customers
Fab 2 production customers	9 customers	5 customers
Fab 2 pre-production customers	22 customers	11 customers

2. SALES BY CUSTOMER BASE PROFILE

TYPE OF CUSTOMER	Q2 2005	Q1 2005	Q2 2004
Fabless	72%	76%	71%
IDM	28%	24%	29%

3. SALES BY GEOGRAPHY

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

4. DEVELOPING SPECIALIZED TECHNOLOGY OFFERINGS

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

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

TECHNOLOGY SEGMENT CONSOLIDATED	Q2 2005	Q1 2005	Q2 2004
Core CMOS	54%	69%	53%
Non Volatile memory	9%	8%	23%
CMOS imager sensors	18%	11%	9%
Mixed Signal, RF and Power	19%	12%	15%
FAB1			
Core CMOS	31%	36%	18%
Non Volatile memory	19%	18%	41%
CMOS imager sensors	29%	20%	15%
Mixed Signal, RF and Power	21%	26%	26%
FAB2			
Core CMOS	72%	92%	95%
Non Volatile memory	1%	1%	0%
CMOS imager sensors	9%	5%	3%
Mixed Signal and RF	18%	2%	2%

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

5. DIVERSIFYING REVENUES BY MARKET SEGMENT

Tower maintains its market segment diversification.

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

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

ABOUT TOWER SEMICONDUCTOR LTD.

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

SAFE HARBOR

THIS PRESS RELEASE INCLUDES FORWARD-LOOKING STATEMENTS, WHICH ARE SUBJECT TO RISKS AND UNCERTAINTIES. ACTUAL RESULTS MAY VARY FROM THOSE PROJECTED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, WITHOUT LIMITATION, RISKS AND UNCERTAINTIES ASSOCIATED WITH: (I) THE COMPLETION OF THE EQUIPMENT INSTALLATION, TECHNOLOGY TRANSFER AND RAMP-UP OF PRODUCTION IN FAB 2, (II) HAVING SUFFICIENT FUNDS TO OPERATE THE COMPANY AND TO COMPLETE THE FAB 2 PROJECT, (III) THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY AND THE RESULTING PERIODIC OVERCAPACITY, FLUCTUATIONS IN OPERATING RESULTS, FUTURE AVERAGE SELLING PRICE EROSION THAT MAY BE MORE SEVERE THAN OUR EXPECTATIONS, (IV) OPERATING OUR FACILITIES AT SATISFACTORY UTILIZATION RATES WHICH IS CRITICAL IN ORDER TO COVER THE HIGH LEVEL OF FIXED COSTS ASSOCIATED WITH OPERATING A FOUNDRY, (V) THE SUCCESSFUL COMPLETION OF THE RIGHTS OFFERING (VI) OUR ABILITY TO MEET CERTAIN OF THE COVENANTS STIPULATED IN OUR AMENDED FACILITY AGREEMENT, (VII) THE CLOSING OF THE DEFINITIVE AMENDMENT TO THE FACILITY AGREEMENT AND THE RECEIPT AND CONSUMMATION OF THE INVESTORS' COMMITMENTS TO INVEST AT LEAST $23.5 MILLION, (VIII) OUR ABILITY TO CAPITALIZE ON INCREASES IN DEMAND FOR FOUNDRY SERVICES, (IX) MEETING THE CONDITIONS TO RECEIVE ISRAELI GOVERNMENT GRANTS AND TAX BENEFITS APPROVED FOR FAB 2 AND OBTAINING THE APPROVAL OF THE ISRAELI INVESTMENT CENTER TO EXTEND OR TO EXPAND THE FIVE-YEAR INVESTMENT PERIOD UNDER OUR FAB 2 APPROVED ENTERPRISE PROGRAM, (X) ATTRACTING ADDITIONAL CUSTOMERS, (XI) NOT RECEIVING ORDERS FROM OUR WAFER PARTNERS AND TECHNOLOGY PROVIDERS, (XII) FAILING TO MAINTAIN AND DEVELOP OUR TECHNOLOGY PROCESSES AND SERVICES, (XIII) COMPETING EFFECTIVELY, (XIV) OUR LARGE AMOUNT OF DEBT, (XV) ACHIEVING ACCEPTABLE DEVICE YIELDS, PRODUCT PERFORMANCE AND DELIVERY TIMES, (XVI) THE TIMELY DEVELOPMENT, INTERNAL QUALIFICATION AND CUSTOMER ACCEPTANCE OF NEW PROCESSES AND PRODUCTS, AND (XVII) BUSINESS INTERRUPTION DUE TO TERROR ATTACKS, EARTHQUAKES, AND OTHER ACTS OF GOD.

A MORE COMPLETE DISCUSSION OF RISKS AND UNCERTAINTIES THAT MAY AFFECT THE ACCURACY OF FORWARD-LOOKING STATEMENTS INCLUDED IN THIS PRESS RELEASE OR WHICH MAY OTHERWISE AFFECT OUR BUSINESS IS INCLUDED UNDER THE HEADING "RISK FACTORS" IN OUR MOST RECENT FILINGS ON FORMS 20-F, F-2 AND 6-K, AS WERE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND THE ISRAEL SECURITIES AUTHORITY. FUTURE RESULTS MAY DIFFER MATERIALLY FROM THOSE PREVIOUSLY REPORTED. WE DO NOT INTEND TO UPDATE THE INFORMATION CONTAINED IN THIS RELEASE.

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	JUNE 30, 2005	DECEMBER 31, 2004
A S S E T S		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 23,459	$ 27,664
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	16,953	53,793
TRADE ACCOUNTS RECEIVABLE	10,853	19,286
OTHER RECEIVABLES	8,862	11,365
INVENTORIES	17,058	25,669
OTHER CURRENT ASSETS	1,310	1,818
TOTAL CURRENT ASSETS	78,495	139,595
LONG-TERM INVESTMENTS		
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR FAB 2 OPERATIONS	--	5,134
PROPERTY AND EQUIPMENT, NET	562,962	609,296
OTHER ASSETS, NET	86,519	93,483
TOTAL ASSETS	$ 727,976	$ 847,508
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
TRADE ACCOUNTS PAYABLE	$ 59,640	$ 65,326
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	6,331	--
OTHER CURRENT LIABILITIES	8,467	10,678
TOTAL CURRENT LIABILITIES	74,438	76,004
LONG-TERM DEBT	497,000	497,000
CONVERTIBLE DEBENTURES	18,992	26,651
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	62,007	64,428
OTHER LONG-TERM LIABILITIES	9,175	15,445
TOTAL LIABILITIES	661,612	679,528
SHAREHOLDERS' EQUITY		
ORDINARY SHARES	16,408	16,274
ADDITIONAL PAID-IN CAPITAL	518,286	517,476
SHAREHOLDER RECEIVABLES	(26)	(26)
ACCUMULATED DEFICIT	(459,232)	(356,672)
	75,436	177,052
TREASURY STOCK	(9,072)	(9,072)
TOTAL SHAREHOLDERS' EQUITY	66,364	167,980
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 727,976	$ 847,508

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

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2005	2004	2005	2004
REVENUES				
SALES	$ 42,375	$ 58,955	$ 19,208	$ 33,652
REVENUES RELATED TO A JOINT DEVELOPMENT AGREEMENT	8,000	1,944	8,000	--
	50,375	60,899	27,208	33,652
COST OF SALES	122,468	104,399	61,254	54,250
GROSS LOSS	(72,093)	(43,500)	(34,046)	(20,598)
OPERATING COSTS AND EXPENSES				
RESEARCH AND DEVELOPMENT	8,649	7,256	3,886	3,751
MARKETING, GENERAL AND ADMINISTRATIVE	8,766	11,021	4,238	5,430
	17,415	18,277	8,124	9,181
OPERATING LOSS	(89,508)	(61,777)	(42,170)	(29,779)
FINANCING EXPENSE, NET	(15,528)	(13,340)	(7,353)	(6,809)
OTHER INCOME, NET	2,476	94	2,283	56
LOSS FOR THE PERIOD	$(102,560)	$ (75,023)	$ (47,240)	$ (36,532)
BASIC LOSS PER ORDINARY SHARE				
LOSS PER SHARE(*)	$ (1.56)	$ (1.16)	$ (0.71)	$ (0.55)
LOSS USED TO COMPUTE BASIC LOSS PER SHARE	$(102,560)	$ (75,009)	$ (47,240)	$ (36,525)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	65,946	64,812	66,190	66,632

(*) BASIC AND DILUTED LOSS PER SHARE IN ACCORDANCE WITH U.S. GAAP ARE THE SAME AS THE ISR. GAAP DATA FOR THE SIX AND THREE MONTHS PERIODS ENDED JUNE 30, 2005 [$1.18 ANS $0.56 IN THE SIX AND THREE MONTHS PERIODS ENDED JUNE 30, 2004]

EXHIBIT 99.2

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

INDEX TO UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2005

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

	AS OF JUNE 30,		DECEMBER 31,
	2005	2004	2004
	(UNAUDITED)		
A S S E T S			
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS	$ 23,459	$ 19,115	$ 27,664
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	16,953	42,279	53,793
TRADE ACCOUNTS RECEIVABLE	10,853	19,113	19,286
OTHER RECEIVABLES	8,862	20,067	11,365
INVENTORIES	17,058	25,712	25,669
OTHER CURRENT ASSETS	1,310	2,112	1,818
TOTAL CURRENT ASSETS	78,495	128,398	139,595
LONG-TERM INVESTMENTS			
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR FAB 2 OPERATIONS	--	4,918	5,134
OTHER LONG-TERM INVESTMENT	--	6,000	--
	--	10,918	5,134
PROPERTY AND EQUIPMENT, NET	562,962	589,271	609,296
OTHER ASSETS, NET	86,519	102,094	93,483
TOTAL ASSETS	$ 727,976	$ 830,681	$ 847,508
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
TRADE ACCOUNTS PAYABLE	$ 59,640	$ 51,082	$ 65,326
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	6,331	--	--
OTHER CURRENT LIABILITIES	8,467	8,853	10,678
TOTAL CURRENT LIABILITIES	74,438	59,935	76,004
LONG-TERM DEBT	497,000	461,000	497,000
CONVERTIBLE DEBENTURES	18,992	25,508	26,651
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	62,007	45,762	64,428
OTHER LONG-TERM LIABILITIES	9,175	8,209	15,445
TOTAL LIABILITIES	661,612	600,414	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 67,586,187, 66,894,593 AND 66,999,796 SHARES, RESPECTIVELY	16,408	16,251	16,274
ADDITIONAL PAID-IN CAPITAL	518,286	517,041	517,476
SHAREHOLDER RECEIVABLES	(26)	(26)	(26)
ACCUMULATED DEFICIT	(459,232)	(293,927)	(356,672)
	75,436	239,339	177,052
TREASURY STOCK, AT COST - 1,300,000 SHARES	(9,072)	(9,072)	(9,072)
TOTAL SHAREHOLDERS' EQUITY	66,364	230,267	167,980
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 727,976	$ 830,681	$ 847,508

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONDENSED 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,
	2005	2004	2005	2004	2004
	(UNAUDITED)		(UNAUDITED)		
REVENUES					
SALES	$ 42,375	$ 58,955	$ 19,208	$ 33,652	$ 124,111
REVENUES RELATED TO A JOINT DEVELOPMENT AGREEMENT	8,000	1,944	8,000	--	1,944
	50,375	60,899	27,208	33,652	126,055
COST OF SALES	122,468	104,399	61,254	54,250	228,410
GROSS LOSS	(72,093)	(43,500)	(34,046)	(20,598)	(102,355)
OPERATING COSTS AND EXPENSES					
RESEARCH AND DEVELOPMENT	8,649	7,256	3,886	3,751	17,053
MARKETING, GENERAL AND ADMINISTRATIVE	8,766	11,021	4,238	5,430	21,297
	17,415	18,277	8,124	9,181	38,350
OPERATING LOSS	(89,508)	(61,777)	(42,170)	(29,779)	(140,705)
FINANCING EXPENSE, NET	(15,528)	(13,340)	(7,353)	(6,809)	(29,745)
OTHER INCOME, NET	2,476	94	2,283	56	32,682
LOSS FOR THE PERIOD	$(102,560)	$ (75,023)	$ (47,240)	$ (36,532)	$(137,768)
BASIC LOSS PER ORDINARY SHARE					
LOSS PER SHARE	$ (1.56)	$ (1.16)	$ (0.71)	$ (0.55)	$ (2.13)
LOSS USED TO COMPUTE BASIC LOSS PER SHARE	$(102,560)	$ (75,009)	$ (47,240)	$ (36,525)	$(137,768)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	65,946	64,812	66,190	66,632	64,717

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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

	ORDINARY SHARES		ADDITIONAL PAID-IN	PROCEEDS ON ACCOUNT OF
	SHARES	AMOUNT	CAPITAL	SHARE CAPITL
BALANCE - JANUARY 1, 2005	66,999,796	$ 16,274	$ 517,476	$ --
CHANGES DURING SIX-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES	586,391	134	810	
LOSS FOR THE PERIOD				
BALANCE - JUNE 30, 2005 (UNAUDITED)	67,586,187	$ 16,408	$ 518,286	$ --
BALANCE - JANUARY 1, 2004	52,996,097	$ 13,150	$ 427,881	$ 16,428
CHANGES DURING SIX-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES	2,358,746	530	15,979	(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 PERIOD				
BALANCE - JUNE 30, 2004 (UNAUDITED)	66,894,593	$ 16,251	$ 517,041	$ --
BALANCE - APRIL 1, 2005	66,999,796	$ 16,274	$ 517,476	$ --
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES	586,391	134	810	
LOSS FOR THE PERIOD				
BALANCE - JUNE 30, 2005 (UNAUDITED)	67,586,187	$ 16,408	$ 518,286	$ --
BALANCE - APRIL 1, 2004	66,882,383	$ 16,248	$ 516,962	$ --
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES	11,960	3	78	
EXERCISE OF SHARE OPTIONS	250		1	
LOSS FOR THE PERIOD				
BALANCE - JUNE 30, 2004 (UNAUDITED)	66,894,593	$ 16,251	$ 517,041	$ --
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 SIX-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES				944
LOSS FOR THE PERIOD		(102,560)		(102,560)
BALANCE - JUNE 30, 2005 (UNAUDITED)	$ (26)	$ (459,232)	$ (9,072)	$ 66,364

BALANCE - JANUARY 1, 2004	$ (26)	$ (218,904)	$ (9,072)	$ 229,457
CHANGES DURING SIX-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES				81
ISSUANCE OF SHARES, NET OF RELATED COST - PUBLIC OFFERING				75,086
EXERCISE OF SHARE OPTIONS				666
LOSS FOR THE PERIOD		(75,023)		(75,023)
BALANCE - JUNE 30, 2004 (UNAUDITED)	$ (26)	$ (293,927)	$ (9,072)	$ 230,267

BALANCE - APRIL 1, 2005	$ (26)	$ (411,992)	$ (9,072)	$ 112,660
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES				944
LOSS FOR THE PERIOD		(47,240)		(47,240)
BALANCE - JUNE 30, 2005 (UNAUDITED)	$ (26)	$ (459,232)	$ (9,072)	$ 66,364

BALANCE - APRIL 1, 2004	$ (26)	$ (257,395)	$ (9,072)	$ 266,717
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):				
ISSUANCE OF SHARES				81
EXERCISE OF SHARE OPTIONS				1
LOSS FOR THE PERIOD		(36,532)		(36,532)
BALANCE - JUNE 30, 2004 (UNAUDITED)	$ (26)	$ (293,927)	$ (9,072)	$ 230,267

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
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA AND PER SHARE DATA)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,
	2005	2004	2005	2004	2004
	(UNAUDITED)		(UNAUDITED)		
CASH FLOWS - OPERATING ACTIVITIES					
LOSS FOR THE PERIOD	$(102,560)	$ (75,023)	$ (47,240)	$ (36,532)	$(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	71,153	55,406	36,559	28,477	121,067
EFFECT OF INDEXATION AND TRANSLATION ON CONVERTIBLE DEBENTURES	(1,427)	(366)	(1,024)	534	676
OTHER INCOME, NET	(2,476)	(94)	(2,283)	(56)	(32,682)
CHANGES IN ASSETS AND LIABILITIES:					
DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	8,433	(7,482)	1,288	(3,558)	(7,655)
DECREASE (INCREASE) IN OTHER RECEIVABLES AND OTHER CURRENT ASSETS	2,660	(3,168)	624	(1,420)	(413)
DECREASE (INCREASE) IN INVENTORIES	8,611	(6,330)	4,566	(4,128)	(6,287)
INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	(160)	3,479	891	170	404
INCREASE (DECREASE) IN OTHER CURRENT LIABILITIES	(1,465)	(726)	(202)	640	(970)
INCREASE (DECREASE) IN OTHER LONG-TERM LIABILITIES	(7,077)	2,274	(6,510)	42	9,344
	(24,308)	(32,030)	(13,331)	(15,831)	(54,284)
INCREASE (DECREASE) IN LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES, NET	(232)	(504)	(126)	13	19,384
NET CASH USED IN OPERATING ACTIVITIES	(24,540)	(32,534)	(13,457)	(15,818)	(34,900)
CASH FLOWS - INVESTING ACTIVITIES					
DECREASE (INCREASE) IN DESIGNATED CASH, SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS, NET	41,974	1,693	5,732	35,802	(10,037)
INVESTMENTS IN PROPERTY AND EQUIPMENT	(24,105)	(80,287)	(4,455)	(55,033)	(154,975)
INVESTMENT GRANTS RECEIVED	4,358	12,502	870	9,991	32,636
PROCEEDS RELATED TO SALE AND DISPOSAL OF PROPERTY AND EQUIPMENT	1,708	104	1,362	66	2,626
INVESTMENTS IN OTHER ASSETS	(3,600)	(702)	(1,100)	--	(702)
DECREASE IN DEPOSITS, NET	--	--	--	3,000	--
PROCEEDS FROM SALE OF LONG-TERM INVESTMENT	--	--	--	--	38,677
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	20,335	(66,690)	2,409	(6,174)	(91,775)
CASH FLOWS - FINANCING ACTIVITIES					
PROCEEDS FROM (COST RELATED TO) ISSUANCE OF SHARES, NET	--	75,225	--	(240)	75,225
PROCEEDS FROM LONG-TERM DEBT	--	30,000	--	30,000	66,000
PROCEEDS FROM EXERCISE OF SHARE OPTIONS	--	666	--	1	666
NET CASH PROVIDED BY FINANCING ACTIVITIES	--	105,891	--	29,761	141,891
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,205)	6,667	(11,048)	7,769	15,216
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	27,664	12,448	34,507	11,346	12,448
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 23,459	$ 19,115	$ 23,459	$ 19,115	$ 27,664
NON-CASH ACTIVITIES					
INVESTMENTS IN PROPERTY AND EQUIPMENT	$ 12,502	$ 28,182	$ 6,461	$ 26,183	$ 47,675
INVESTMENTS IN OTHER ASSETS	$ 187	$ 19			
CONVERSION OF LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES TO SHARE CAPITAL	944	$ 81	$ 944	$ 81	$ 539
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
CASH PAID DURING THE PERIOD FOR INTEREST	$ 15,904	$ 11,977	$ 7,588	$ 5,446	$ 25,205
CASH PAID DURING THE PERIOD FOR INCOME TAXES	$ 83	$ 97	$ 79	$ 61	$ 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 June 30, 2005 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, 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 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"), 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 6. 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 (4) below.

(3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE FASB

A. SFAS NO. 151. INVENTORY COSTS, AN AMENDMENT OF ARB NO. 43, CHAPTER 4 - In November 2004, the FASB issued SFAS No. 151, "INVENTORY COSTS, AN AMENDMENT OF ARB NO. 43, CHAPTER 4". SFAS No. 151 amends the guidance in ARB 43, Chapter 4, "Inventory Pricing", which provides guidance on the allocation of certain costs to inventory. SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 2005. The provisions of this statement shall be applied prospectively. This Standard is not expected to have a material effect on the Company's financial position and results of operations.

NOTE 1 - GENERAL (cont.)

A. BASIS FOR PRESENTATION (cont.)

(3) RECENT ACCOUNTING PRONOUNCEMENT BY THE FASB (cont.)

B. SFAS 153, EXCHANGE OF NON-MONETARY ASSETS - In December 2004, the FASB issued SFAS No. 153, "EXCHANGES OF NONMONETARY ASSETS AN AMENDMENT OF APB NO. 29". This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. The adoption of this Standard is not expected to have a material effect on the Company's financial position and results of operations.

C. SFAS NO. 154. ACCOUNTING CHANGES AND ERROR CORRECTIONS - This Statement, published in May 2005, replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle, and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions.

Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine the specific effects or the cumulative effect of the change. The Statement also provides guidance for cases in which it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, and/or for cases in which it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods.

NOTE 1 - GENERAL (cont.)

A. BASIS FOR PRESENTATION (cont.)

(3) RECENT ACCOUNTING PRONOUNCEMENT BY THE FASB (cont.)

C. SFAS NO. 154. ACCOUNTING CHANGES AND ERROR CORRECTIONS (cont.)

This Statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This Statement also redefines restatement as the revisiting of previously issued financial statements to reflect the correction of an error.

This Statement also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets, be accounted for as a change in accounting estimate effected by a change in accounting principle. This Statement carries forward without change the guidance contained in Opinion 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This Statement also carries forward the guidance in Opinion 20 requiring justification of a change in accounting principle on the basis of preferability.

The provisions of this Statement are effective for accounting changes and corrections of errors made during fiscal years beginning after December 15, 2005. The adoption of this Standard is not expected to have a material effect on the Company's financial position and results of operations.

(4) 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 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.

NOTE 1 - GENERAL (cont.)

A. BASIS FOR PRESENTATION (cont.)

(5) PRESENTATION

Certain amounts in prior periods financial statements have been reclassified in order to conform to the June 30, 2005 presentation.

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.

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.

NOTE 1 - GENERAL (cont.)

C. FINANCING OF THE COMPANY'S ONGOING OPERATIONS

In the first half 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 approved short-term working plan, based on the current prevailing semiconductor market conditions, in the event the Company raises in a timely manner approximately $60,000 in funds as contemplated by an amendment to the Facility Agreement that was signed in July 2005, and by the commitments of certain of the Company's Equity Investors and Wafer Partners, described in Note 4B below, the Company will still need to raise additional funds in order to finance its short-term activities and liabilities in 2006, at least until the Company achieves positive cash flow from its operations. In addition, for details concerning recent amendments to certain of the Company's financial ratios and covenants through the third quarter of 2006 under the amended Facility Agreement with the Banks, which were obtained subsequent to a waiver letter agreement signed between the Company and the Banks in January 2005, see Note 4B 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 near-term ongoing operations, as well as 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 have been holding discussions to provide additional funding for the Company of an aggregate amount of approximately $60,000. Consequently, in July 2005, an amendment to the Facility Agreement was signed between the Company and its Banks, which is subject to the fulfillment of certain closing conditions, for providing the Company with up to $30,000, through the end of March 2006 (for additional details, see Note 4B below). In addition, as of the approval date of the interim financial statements, certain of the Company's Equity Investors and Wafer Partners have committed and are obligated to invest $24,500 in the framework of the preliminary rights offering prospectus the Company filed in July 2005 in the U.S. and Israel, described in Note 5D below. Further, the Company is currently examining alternatives for additional funding sources.

The Company's management estimates that it is probable that the closing conditions to the amendment to the Facility Agreement will be satisfied in a timely manner, the rights offering process will be successfully completed and the Equity Investors and Wafer Partners will invest the funds as described above, and that additional funds the Company will need in 2006 from the additional funding sources the Company is currently examining, as described above, will be achieved.

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

NOTE 2 - INVENTORIES

Inventories consist of the following (*):

	June 30, 2005	June 30, 2004	December 31, 2004
	(unaudited)	(unaudited)	
Raw materials	$ 6,354	$ 6,662	$ 9,260
Spare parts and supplies	3,407	3,433	3,950
Work in process	5,709	15,477	10,085
Finished goods	1,588	140	2,374
	$17,058	$25,712	$25,669

(*) Net of aggregate write downs to net realizable value of $3,149, $2,004 and $2,665 as of June 30, 2005, June 30, 2004 and December 31, 2004, respectively.

NOTE 3 - MAJOR CUSTOMERS

Revenues from major customers as a percentage of total revenues were as follows:

	Six months ended June 30, 2005	Six months ended June 30, 2004	Year ended December 31, 2004
	(unaudited)	(unaudited)	
Customer A	29%	19%	24%
Customer B	16	3	2
Customer C	2	14	8
Customer D	0	16	17
Other customers (*)	23	23	28

(*) Represents revenues from five different customers each of whom accounted for between 2% and 10% of revenues during the six months ended June 30, 2005, and to four and six different customers (each of whom accounted for between 1%-9% and 1%-8%, respectively) during the six months ended June 30, 2004 and during 2004, respectively.

NOTE 4 - 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 $155,005 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, the Company does not expect to complete Fab 2 investments by the end of 2005. As of June 30, 2005, the Company completed approximately 71% of the investments under the approved enterprise program.

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 approve a new expansion program to commence on January 1, 2006. During the first half of 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 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 for an expansion program to its Fab 2 approved enterprise program.

B. AMENDMENTS TO THE FACILITY AGREEMENT

During 2005, the Company and the Banks entered into the following amendments to the Facility Agreement:

(1) 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, which were further revised in the framework of the July 2005 amendment to the Facility Agreement described below.

NOTE 4 - RECENT DEVELOPMENTS RELATING TO FAB 2 (cont.)

B. AMENDMENTS TO THE FACILITY AGREEMENT (cont.)

(2) In July 2005, further to a letter of intent signed between the Company and its Banks in May 2005, the Company and its Banks entered into a definitive amendment to the Facility Agreement. The amendment provides, among other things, for Banks financing of up to $30,000 to cover the Company's 2005 interest payments under the Facility Agreement, subject to a similar amount being raised by the Company from investors. In connection with the amendment, certain of the Company's Equity Investors and Wafer Partners, have committed and are obligated to invest an aggregate of $23,500 towards such funding by investors in the context of the rights offering described in Note 5D below.

The up to approximately $30,000 to be provided by the Banks under the July 2005 amendment may be withdrawn in up to three installments through the end of March 2006, will bear annual interest based on the three-month LIBOR plus 2.5% and shall be repayable in a period between twelve to fifteen months from each date any amount is received by the Company. The amendment further provides that a rescheduling of said repayments dates should be discussed following the closing date of the amendment.

Any unutilized amount on account of the up to approximately $30,000 amount will bear a commitment fee at an annual rate of 0.25%.

The July 2005 amendment further provides that: (i) The Israel Corporation undertaking, as detailed in Note 12A(6) to the 2004 annual financial statements, shall be extended from June 30, 2006 to December 31, 2006; (ii) such undertaking will be deemed to have been fulfilled if the Israel Corporation invests in the context of the rights offering at least $14,000; (iii) any amounts raised through March 31, 2006, up to $30,000 from the investors as detailed above, shall not constitute financing from other sources towards the $152,000 fundraising milestone, as detailed in Note 12A(6) to the 2004 annual financial statements; and (iv) the last date in which the Company is to comply with the $152,000 fundraising milestone is postponed from December 31, 2005 to June 30, 2006.

The amendment also revised certain of the financial ratios and covenants through the third quarter of 2006 to align them with the Company's current working plan. The Company's management estimates that it is probable that the Company will comply with the revised financial ratios and covenants under the July 2005 amendment.

For warrants provided to the Banks in connection with the amendment, see Note 5B(5) below.

NOTE 4 - RECENT DEVELOPMENTS RELATING TO FAB 2 (cont.)

B. AMENDMENTS TO THE FACILITY AGREEMENT (cont.)

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. According to the Facility Agreement, satisfying the financial ratios and covenants is a material provision.

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.

NOTE 5 - 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 (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 of the balance sheet date, 240,000 options were outstanding under the plan, with a weighted average exercise price of $6.08.

NOTE 5 - OTHER RECENT DEVELOPMENTS (cont.)

B. SHARE OPTION PLANS (cont.)

(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, in May 2005 625,800 of the 1,043,000 options granted to him, were fully forfeited.

(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. The grant of the options is subject to the approval of the Company's shareholders. If as a result of equity financings consummated after April 30, 2005 (excluding the exercise or conversion of existing warrants, options, convertible debentures or other rights to acquire the Company's securities on such date), 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 April 30, 2007, 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.

(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 of $1.58, which equals 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. The net increase to the total outstanding options under the Company's various employee share option plans during the six-month period ended June 30, 2005, amounted to 1,433,709 options.

NOTE 5 - OTHER RECENT DEVELOPMENTS (cont.)

B. SHARE OPTION PLANS (cont.)

(5) WARRANTS TO THE BANKS - In connection with the July 2005 amendment detailed in Note 4B above, the Company agreed to issue warrants to the Banks exercisable into an aggregate of 8,264,464 ordinary shares of the Company, with an exercise price of $1.21. One-half (4,132,232 warrants) are exercisable for five years ending in July 2010, and one-half (4,132,232 warrants) shall be exercisable for a five-year period commencing on the date on which the Company and its Banks will agree, if at all, upon the rescheduled repayment dates of the new loans of up to approximately $30,000, as described in Note 4B above. The cost of the 4,132,232warrants issued to the Banks in July 2005, determined based on the fair value at the grant date in accordance with SFAS 123, amounted to a total of $2,793. Such amount is to be amortized as deferred financing charges over the terms of the new loans of up to approximately $30,000.

C. TERMINATION OF A JOINT DEVELOPMENT AGREEMENT

In April 2005, a Japanese semiconductor manufacturer corporation elected, and the Company 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. Subsequent to the termination of the agreement, and as a result of its termination, during the second quarter of 2005, the Company recognized revenues in the aggregate amount of $8,000.

NOTE 5 - OTHER RECENT DEVELOPMENTS (cont.)

D. CONTEMPLATED RIGHTS OFFERING

In July 2005, the Company filed in Israel and the U.S. a preliminary prospectus for the distribution of transferable rights to purchase up to $50,000 principal of convertible debentures of the Company. The rights will be distributed to the shareholders of the Company on the record date and certain employees who on the record date hold options to purchase the Company's Ordinary Shares under share option plans that entitle the option holders to participate in a rights offering. Each recipient will receive one right for each 138.68 Ordinary Shares or employee options held on the record date. Each right will entitle the recipient to purchase, at a subscription price of $100.00, 100 debentures, each of $1.00 in principal amount. The debentures are convertible into Ordinary Shares of the Company at a conversion rate of one Ordinary Share per each $1.10 amount of outstanding principal of the debentures. The conversion rate is subject to adjustments and the debentures may be automatically converted into Ordinary Shares of the Company under certain circumstances. The debentures will bear interest at the rate of 5% per annum. Principal, together with accrued interest, is payable in one installment in 2011.

The rights are expected to be listed for trading for a single day on the NASDAQ Small Cap Market and the Tel Aviv Stock Exchange. The debentures are expected to be listed and quoted on these Exchanges.

Certain of the Company's Equity Investors and Wafer Partners have committed and are obligated to invest $24,500 in the framework of the rights offering.

The payment of the principal and the interest on the debentures is subordinated to the prior payment of all amounts payable by the Company to the Banks under the Facility Agreement. The debentures are also effectively subordinated to amounts which the Company might owe to the Investment Center of the Israeli Ministry of Industry, Trade and Labor and to one of the Company's customers.

Completion of the rights offering is subject to the prospectus being declared effective by the U.S. Securities and Exchange Commission and the Israel Securities Authority.

E. In July 2005, the Company's Board of Directors approved the increase of the authorized share capital of the Company from 250,000,000 to 500,000,000 shares, subject to shareholders approval.

NOTE 6 - 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 June 30, 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 June 30, 2005, $16,953 was reclassified from current assets to a long-term asset (as of December 31, 2004 - $53,793 and $5,134, were reclassified from current assets and long-term investments, respectively, to a long-term asset).

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 June 30, 2005, an amount of $15,306 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 June 30, 2005 would have resulted in: an increase in other long-term investments in the amount of $878; an increase in other long-term liabilities in the amount of $1,299; a decrease in other comprehensive loss for the six months ended June 30, 2005 in the net amount of $2,649; an accumulated other comprehensive loss component of equity balance as of June 30, 2005 in the amount of $ 4,406; and in a decrease of $3,955 in property and equipment, net as of June 30, 2005.

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

NOTE 6 - 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 June 30, 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:

	Six months ended June 30,		Three months ended June 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
PRO FORMA LOSS				
Loss for the period, as reported according to U.S. GAAP (see G below)	$(102,560)	$ (75,023)	$ (47,240)	$ (36,532)
Add - stock-based compensation determined under SFAS 123	(1,850)	(2,322)	(758)	(991)
Pro forma loss	$(104,410)	$ (77,345)	$ (47,998)	$ (37,523)
BASIC LOSS PER SHARE				
As reported according to U.S. GAAP (see I below)	$ (1.56)	$ (1.18)	$ (0.71)	$ (0.56)
Pro forma	$ (1.58)	$ (1.22)	$ (0.73)	$ (0.57)

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 June 30, 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.

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

NOTE 6 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

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

	U.S. GAAP REMARK	AS OF JUNE 30, 2005 AS PER ISRAELI GAAP	ADJUST-MENTS	AS PER U.S. GAAP	AS OF DECEMBER 31, 2004 AS PER ISRAELI GAAP	ADJUST-MENTS	AS PER U.S. GAAP
A S S E T S							
CURRENT ASSETS							
CASH AND CASH EQUIVALENTS		$ 23,459	$	$ 23,459	$ 27,664	$	$ 27,664
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOITS	A	16,953	(16,953)	--	53,793	(53,793)	--
TRADE ACCOUNTS RECEIVABLE		10,853		10,853	19,286		19,286
OTHER RECEIVABLES		8,862		8,862	11,365		11,365
INVENTORIES		17,058		17,058	25,669		25,669
OTHER CURRENT ASSETS		1,310		1,310	1,818		1,818
TOTAL CURRENT ASSETS		78,495	(16,953)	61,542	139,595	(53,793)	85,802
LONG-TERM INVESTMENTS							
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR FAB 2 OPERATIONS	A	--	--	--	5,134	(5,134)	--
OTHER LONG-TERM INVESTMENTS	B, C	--	16,184	16,184	--	16,350	16,350
		--	16,184	16,184	5,134	11,216	16,350
PROPERTY AND EQUIPMENT, NET	C	562,962	(3,955)	559,007	609,296	(4,619)	604,677
DESIGNATED CASH AND SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS	A	--	16,953	16,953	--	58,927	58,927
OTHER ASSETS, NET	E	86,519	(196)	86,323	93,483	(196)	93,287
TOTAL ASSETS		$ 727,976	$ 12,033	$ 740,009	$ 847,508	$ 11,535	$ 859,043
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES							
TRADE ACCOUNTS PAYABLE		$ 59,640	$	$ 59,640	$ 65,326	$	$ 65,326
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	E	6,331	(640)	5,691	--		--
OTHER CURRENT LIABILITIES		8,467		8,467	10,678		10,678
TOTAL CURRENT LIABILITIES		74,438	(640)	73,798	76,004		76,004
LONG-TERM DEBT		497,000		497,000	497,000		497,000
CONVERTIBLE DEBENTURES	E	18,992	(1,919)	17,073	26,651	(2,559)	24,092
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES		62,007		62,007	64,428		64,428
OTHER LONG-TERM LIABILITIES	B, C	9,175	16,605	25,780	15,445	18,756	34,201
TOTAL LIABILITIES		661,612	14,046	675,658	679,528	16,197	695,725
SHAREHOLDERS' EQUITY							
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 250,000,000 SHARES; ISSUED 67,586,187 AND 66,999,796 SHARES, RESPECTIVELY		16,408		16,408	16,274		16,274
ADDITIONAL PAID-IN CAPITAL	E	518,286	2,363	520,649	517,476	2,363	519,839
SHAREHOLDER RECEIVABLES		(26)		(26)	(26)		(26)
ACCUMULATED OTHER COMPREHENSIVE LOSS	C	--	(4,406)	(4,406)	--	(7,055)	(7,055)
ACCUMULATED DEFICIT		(459,232)	30	(459,202)	(356,672)	30	(356,642)
		75,436	(2,013)	73,423	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		66,364	(2,013)	64,351	167,980	(4,662)	163,318
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 727,976	$ 12,033	$ 740,009	$ 847,508	$ 11,535	$ 859,043

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

NOTE 6 - 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 six-month and three-month periods ended June 30, 2005 and 2004.

H. 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,		Three months ended June 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
Loss for the period, according to U.S. GAAP (see G above)	$(102,560)	$ (75,023)	$ (47,240)	$ (36,532)
Other comprehensive loss:				
Reclassification of unrealized losses on derivatives	664	664	332	332
Unrealized gains (losses) on derivatives	1,985	5,917	(852)	6,705
Net comprehensive loss for the period	$ (99,911)	$ (68,442)	$ (47,760)	$ (29,495)

I. 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 six-month and three-month periods ended June 30, 2005 would be $1.56 and $0.71, respectively (during the corresponding periods - $1.18 and $0.56, respectively).

EXHIBIT 99.3

TOWER SEMICONDUCTOR LTD.

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, 2005 AND FOR THE SIX MONTHS THEN ENDED AND RELATED NOTES INCLUDED IN THIS REPORT AND (2) OUR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES INCLUDED IN OUR ANNUAL REPORT ON FORM 20-F FOR THE YEAR ENDED DECEMBER 31, 2004 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 6 TO OUR UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2005 AND IN NOTE 19 TO OUR AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN OUR 2004 FORM 20-F.

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,	
	2005	2004
	(unaudited)	
STATEMENT OF OPERATIONS DATA:		
Total revenues	100.0%	100.0%
Cost of total revenues	243.1	171.4
Gross loss	(143.1)	(71.4)
Research and development expenses, net	17.2	11.9
Marketing, general and administrative expenses	17.4	18.1
Operating loss	(177.7)	(101.4)
Financing expense, net	(30.8)	(21.9)
Other income, net	4.9	0.1
Loss	(203.6)%	(123.2)%

SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO SIX MONTHS ENDED JUNE 30, 2004

TOTAL REVENUES. Total Revenues for the six months ended June 30, 2005 decreased by 17.3% to $50.4 million from $60.9 million for the six months ended June 30, 2004. This $10.5 million decrease was attributable to lower volume of wafer shipments, which was offset by increased revenues from a joint development agreement of certain technology with a Japanese semiconductor manufacturer.

During the six months ended June 30, 2005, we had four significant customers who contributed between 6% and 29% of our revenues.

COST OF TOTAL REVENUES. Cost of total revenues for the six months ended June 30, 2005 totaled $122.5 million, compared with $104.4 million for the six months ended June 30, 2004. This increase was mainly due to an increase in depreciation and amortization expenses.

GROSS LOSS. Gross loss for the six months ended June 30, 2005 was $72.1 million compared to a gross loss of $43.5 million for the six months ended June 30, 2004. The increase in gross loss was attributable to the decrease in total revenues and to the increased cost of total revenues.

RESEARCH AND DEVELOPMENT. Research and development expenses for the six months ended June 30, 2005 increased to $8.6 million from $7.3 million for the six months ended June 30, 2004. The increase was mainly attributable to an increase in the amortization of intellectual property software and CAD (computer-assisted-design) tools used in design and development activities. Research and development expenses are reflected net of participation grants received from the Israeli government ($0.5 million and $1.1 million, for the six months ended June 30, 2005 and 2004, respectively).

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. Marketing, general and administrative expenses for the six months ended June 30, 2005 decreased to $8.8 million from $11 million for the six months ended June 30, 2004, primarily due to lower sales related expenses as well as to cost reductions and efficiency measures taken by the Company.

OPERATING LOSS. Operating loss for the six months ended June 30, 2005 was $89.5 million, compared to $61.8 million for the six months ended June 30, 2004.

The increase in the operating loss is attributable mainly to the increase in the gross loss.

FINANCING EXPENSES, NET. Financing expenses, net, for the six months ended June 30, 2005 were $15.5 million compared to financing expenses, net, of $13.3 million for the six months ended June 30, 2004. This increase is mainly due to an increase of $3.7 million in connection with our Fab 2 facility agreement attributable to (i) an increase during the six months ended June 30, 2005 in the total amount of long-term loans which financed the construction and equipping of Fab 2, and (ii) the increase in the LIBOR rate from approximately 1% for the six months ended June 30, 2004 to approximately 2.8% for the six months ended June 30, 2005 (the loans bear interest at a rate of Libor + 2.5% per annum).

OTHER INCOME, NET. Other income, net, for the six months ended June 30, 2005 was $2.5 million compared to $0.1 million for the six months ended June 30, 2004. Other income for the six months ended June 30, 2005 was attributable mainly to insurance proceeds related to damage caused to equipment.

LOSS. Our loss for the six months ended June 30, 2005 was $102.6 million, compared to $75 million for the six months ended June 30, 2004. This increase is primarily attributable to the increased operating loss of $27.7 million and the increase in financing expenses, net of $2.2 million offset by increased other income, net of $2.4 million.

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 the change in valuation of the NIS in relation to the dollar. During the six months ended June 30, 2005, the dollar was devaluated against the NIS by 6.2%, and the Israeli Consumer Price Index, or CPI, increased by 0.5%. During the six months ended June 30, 2004, the dollar rose in value against the NIS by 2.7%, while the CPI in Israel increased by 1.4%.

We believe that the rate of inflation in Israel has not had a material effect on our business to date. However, our dollar costs will increase if inflation in Israel exceeds the devaluation of the NIS against the dollar, or if the timing of such devaluation lags behind inflation in Israel.

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

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005, we had an aggregate of $40.4 million in cash, cash equivalents, and short-term interest-bearing deposits, of which $5.5 million was contractually restricted for Fab 2 use only and $11.4 million was contractually restricted for exclusive use in the Siliconix project. This compares to $61.4 million we had as of June 30, 2004 in cash, cash equivalents, and short-term and interest-bearing deposits, of which $42.3 million was contractually restricted for Fab 2 use only. In addition, as of June 30, 2004, we had $4.9 million in long-term interest-bearing deposits which was contractually restricted for Fab 2 use only. During the six months ended June 30, 2005, we received $4.4 million from Investment Center grants and $1.7 million in proceeds from disposal of property. Our investments made during the six months ended June 30, 2005 aggregated to $27.7 million mainly in connection with the construction, and purchase and installation of equipment and other assets, of Fab 2.

As of June 30, 2005, we had long-term loans in the amount of $497 million in connection with the loans we obtained during 2004, 2003 and 2002 for the establishment of Fab 2. In August 2005, we received additional loans from our banks of $13.4 million, such that as of August 31, 2005 our total bank loans amounted to $510.4 million.

We completed the construction of the building and infrastructure of Fab 2 during the third quarter of 2003 and since then have been in the process of ramping-up Fab 2, our new advanced wafer facility adjacent to Fab 1 in Migdal Haemek, Israel. Production capacity of Fab 2 at the end of June 2005 was 14,600 wafers per month. We currently expect to have production capacity of 15,400 wafers per month by the end of 2005, of which approximately 800 wafers per month are expected to be in 0.13-micron. As of June 30, 2005, we had received a total of $1,171 million for Fab 2, as set forth below in tabular form. The remainder of the Fab 2 ramp up costs may be funded by additional grants available from the Investment Center, sales of our securities, additional loans, including from our banks, wafer prepayments from our customers, cash flow from operations and/or from other sources.

During the first half of 2005 and in recent years, we have experienced significant recurring losses from operations and recurring negative cash flows from operating activities and an increasing accumulated deficit. According to our approved short-term working plan, based on the current prevailing semiconductor market conditions, in the event we raise in a timely manner approximately $60,000 in funds as contemplated by an amendment to the facility agreement with our banks that was signed in July 2005, and by the commitments of certain of our equity investors and wafer partners, we will still need to raise additional funds in order to finance our short-term activities and liabilities in 2006, at least until we achieve positive cash flow from our operations. See Note 4B to the unaudited condensed interim consolidated financial statements as of June 30, 2005 for details concerning recent amendments to the financial ratios and covenants through the third quarter of 2006 under the amended facility agreement with our banks, which were obtained subsequent to a waiver letter agreement signed between us and our banks in January 2005.

In light of the financing requirements described above, we have been taking comprehensive measures to obtain the needed funds for our near-term ongoing operations, as well as to reduce our short-term liabilities. We have also implemented cost reduction measures, including measures to reduce expenses, cost structure and cash burn, and in March 2005, we completed a workforce cutback, as part of an across-the-board savings plan focused on operational efficiencies. In this regard, we have been holding discussions with certain of our equity investors, wafer partners and our banks, to provide additional funding of an aggregate amount of approximately $60 million. Consequently, we signed an amendment to the facility agreement with our banks in July 2005, which closed in August 2005. As set forth in the amendment, our banks agreed to provide us with up to approximately $30 million through the end of March 2006, of which $13.4 million was drawn down in August 2005, provided that we raise a similar amount from investors. As of August 31, 2005, certain of our equity investors and wafer partners have committed and are obligated to invest $25.5 million in the framework of a rights offering.

The following chart illustrates the amounts received from various financial sources that funded the construction and ramp-up of Fab 2, as of June 30, 2005 and the amounts expected to be received from various sources for that purpose as of that date. We cannot assure you that we will be able to obtain funds from these sources as expected due to poor conditions in capital markets, poor conditions in the semiconductor market, failure to benefit from upswings in the semiconductor market or other factors, any or all of which may affect our ability to raise funds. If we do not satisfy our need for funds for Fab 2 or if the timing of the receipt of financing lags behind the timing of expenses, we may from time to time experience a lack of liquidity for our activities. The table does not reflect the amendment to the facility agreement that was signed in July 2005 with our banks that provides for financing in the amount of up to $30 million through the end of March 2006 nor the commitments of our equity investors and wafer partners to invest $25.5 million in the framework of a rights offering.

Financial Sources based on agreements and arrangements completed through June 30, 2005	RECEIVED AS OF JUNE 30, 2005	AMOUNTS EXPECTED OR REQUIRED TO BE RECEIVED AFTER JUNE 30, 2005	TOTAL (5)
	(IN MILLIONS)		
Wafer Partners and other equity investors..........	$306	$0	$306
Israel Government Investment Center................	155	95(1)	250
Credit facility....................................	497(2)	0(4)	497
Other financing sources............................	213	26(3)(4)	239

(1) Under Israeli Law, we are required to complete our approved investment program for Fab 2 by the end of 2005. Currently, we do not expect to complete our investments by December 2005 and failure to achieve a satisfactory arrangement with the Investment Center by way of an expansion plan may result in the cancellation of all or a portion of our grants, including those expected to be received subsequent to December 31, 2005, and the Investment Center may require us to repay all or a portion of grants already received.

(2) Under the credit facility agreement, we are required to comply with minimum production capacity milestones and maintain certain financial ratios and additional conditions and covenants.

(3) Under the amendments to our Fab 2 credit facility, we are required to raise additional financing from specified sources by various prescribed dates in an aggregate amount of $152.0 million by no later than June 30, 2006. As of June 30, 2005, we have raised an aggregate of $126 million and are required to raise additional $26 million by June 30, 2006, in addition to our commitments under the July 2005 amendment to raise, in equity or convertible debentures, $23.5 million by October 31, 2005 and $6.5 million by March 31, 2006. We expect to raise the remaining funding towards the $152 million through: (i) equity investments, including the sale of convertible securities and/or (ii) wafer prepayments from customers.

(4) We have agreed with our banks and the Israel Corporation Ltd. to complete a rights offering on pre-determined terms if we do not complete the required fundraising of $152 million described above. This arrangement may result in the availability of up to $12 million additional loans under our credit facility and up to $14 million from Israel Corp.

(5) We will be required to make capital investments and acquire and implement advanced technologies in order to complete the ramp-up Fab 2. In addition to the amounts listed in footnote 3 above, we will require additional cash to complete the full ramp-up of Fab 2.