

Tower Semiconductor Announces First Quarter 2005 Results

Company Reinvigorated by New Leadership; Signed a Letter of Intent with its Banks for up to \$60 Million of Additional Funding, Half To Be from Investors

*Q2 Begins with New Customer Momentum; Tape-Outs Exceed Total for
Second Half of '04*

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

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

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

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

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

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

"Despite the apparent short term difficulties in our market, our pipeline of new customers, products and value-added technology projects is encouraging," Ellwanger

said. "It is especially encouraging to hear from our customers that the added value in several of these tape-outs is significant, and hence will continue to position Tower as a leading specialty foundry for years to come."

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

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

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

1. Diversifying customer base

Total customer count	Q1 2005	Q1 2004
95% of revenue generated by:	25 customers	17 customers
Fab 2 production customers	6 customers	5 customers
Fab 2 pre-production customers	19 customers	4 customers

2. Customer base profile

Type of customer	Q1 2005	Q1 2004
Fabless	76%	60%
IDM	24%	40%

3. Sales by geography

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

4. Developing specialized technology offerings

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

During the first quarter, Tower increased its CMOS image sensors share of total revenue, as can be seen in the table below. Non-volatile memory is reduced mainly

to the inclusion of income related to a Fab2 technology agreement milestone in Q1 2004, as well as inventory reduction activity by certain NVM customers and pricing pressures in the stand-alone Flash market.

Technology Consolidated	Segment	Q1 2005	Q1 2004
	Core CMOS	69%	63%
	Non Volatile memory	8%	17%
	CMOS imager sensors	11%	4%
	Mixed Signal	12%	17%
Fab1			
	Core CMOS	36%	39%
	Non Volatile memory	18%	22%
	CMOS imager sensors	20%	7%
	Mixed Signal	26%	32%
Fab2			
	Core CMOS	92%	85%
	Non Volatile memory	1%	13%
	CMOS imager sensors	5%	0%
	Mixed Signal	2%	2%

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

5. Diversifying revenues by market segment

Tower maintains its market segment diversification.

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

Tower will host a conference call to discuss these results on May 26, at 11a.m. Eastern time/6 p.m. Israel time. To participate, call 1-800-406-5345 (U.S. toll-free number) or 1-913-981-5571 (international) and mention ID code: TOWER. Callers in Israel are invited to call locally 03-925-5910. The conference call will also be webcast live at www.companyboardroom.com and at www.towersemi.com and will be available thereafter on both websites for replay for 90 days, starting at 2 p.m. Eastern time on the day of the call.

About Tower Semiconductor Ltd.

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

Safe Harbor

This press release includes forward-looking statements, which are subject to risks and uncertainties. Actual results may vary from those projected or implied by such forward-looking statements. Potential risks and uncertainties include, without limitation, risks and uncertainties associated with: (i) the completion of the equipment installation, technology transfer and ramp-up of production in Fab 2, (ii) having sufficient funds to operate the company and to complete the Fab 2 project, including in the event that the letter of intent signed with the banks in May 2005 will not materialize into a definitive amendment to the facility agreement (iii) the cyclical nature of the semiconductor industry and the resulting periodic overcapacity, fluctuations in operating results, future average selling price erosion that may be more severe than our expectations, (iv) operating our facilities at satisfactory utilization rates which is critical in order to cover the high level of fixed costs associated with operating a foundry, (v) our ability to meet certain of the covenants stipulated in our amended facility agreement and the materialization of the letter of intent signed with the banks in May 2005 into a definitive amendment to the facility agreement (vi) our ability to capitalize on increases in demand for foundry services, (vii) meeting the conditions to receive Israeli government grants and tax benefits approved for Fab 2 and obtaining the approval of the Israeli Investment Center to extend or to expand the five-year investment period under our Fab 2 approved enterprise program, (viii) attracting additional customers, (ix) not receiving orders from our wafer partners and technology providers, (x) failing to maintain and develop our technology processes and services, (xi) competing effectively, (xii) our large amount of debt, (xiii) achieving acceptable device yields, product performance and delivery times, (xiv) the timely development, internal qualification and customer acceptance of new processes and products, (xv) business interruption due to earthquakes, terror attacks and other acts of God.

A more complete discussion of risks and uncertainties that may affect the accuracy of forward-looking statements included in this press release or which may otherwise affect our business is included under the heading "Risk Factors" in our most recent Annual Report on Forms 20-F and 6-K, as were filed with the Securities and Exchange Commission and the Israel Securities Authority. Future results may differ materially from those previously reported. We do not intend to update the information contained in this release.

Contact:

Tower Semiconductor USA
Michael Axelrod, +1 408 330 6871
pr@towersemi.com

or

Pacifico Inc.
PR Agency Contact
Mary Curtis, +1 408 293 8600
mcurtis@pacifico.com

or

Fusion IR & Communications
Investor Relations Contact
Sheldon Lutch, +1 212 268 1816
sheldon@fusionir.com