

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FOR THE MONTH OF APRIL 2004

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 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

On April 28, 2004, the Registrant announced its financial results for the three months ended March 31, 2004. Attached hereto as Exhibit 99.1 is the press release relating to such announcement and attached hereto as Exhibit 99.2 are the Registrant's unaudited condensed interim consolidated financial statements as of March 31, 2004 and for the three month period then ended.

This Form 6-K is being incorporated by reference in 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: April 29, 2004

By: /s/ Tamar Cohen

Tamar Cohen
Corporate Secretary

TOWER SEMICONDUCTOR LTD. ANNOUNCES FIRST QUARTER 2004 RESULTS

Wednesday April 28, 8:00 am ET

REVENUES INCREASED BY 116 PERCENT YEAR OVER YEAR AND 37 PERCENT QUARTER TO QUARTER

MIGDAL HAEMEK, Israel--(BUSINESS WIRE)--April 28, 2004--Tower Semiconductor Ltd. (NASDAQ: TSEM; TASE: TSEM) today announced results for the first quarter ended March 31, 2004.

Revenues for the first fiscal quarter were \$27.2 million, an increase of 116 percent over revenues of \$12.6 million in the first quarter of 2003, and an increase of 37 percent over prior-quarter revenues of \$19.8 million.

Loss for the quarter was \$38.5 million, or \$0.61 per share. That compares with a loss of \$46.0 million, or \$0.91 per share, sequentially and a loss of \$14.4 million, or \$0.33 per share in the same quarter last year. The increase in loss, as compared with the first quarter of 2003, is primarily attributed to the commencement of Fab 2 depreciation and amortization on Q-3 2003.

The company expects the current quarter's revenues to be in the range of \$33 million and \$36 million.

"I am very pleased with our performance, which is in line with our plans," said Carmel Vernia, Tower's chairman and chief executive officer. "Fab 2 is demonstrating rapid revenues growth and we begin to see the results of its prior years' heavy investments. Fab 1's utilization is on the rise as well, and I'm glad to report it returned to profitability in Q-1 2004. Both fabs are winning new designs in prototyping and early-production activities for new and existing customers. Overall I am confident we have the infrastructure and organization in place to leverage the global upturn in the semiconductor industry into a successful business."

Tower will host a conference call to discuss these results on Wednesday, April 28, 2004 at 11:00 a.m. Eastern time / 18:00 Israel time. To participate, call 1-800-289-0543 (U.S. toll-free number) or 1-913-981-5526 (international) and mention ID code: TOWER. Callers in Israel are invited to call locally, at 03-925-5910. The conference call also will be Web cast live at www.companyboardroom.com and at www.towersemi.com. The call will be available on both Web sites for replay for 90 days.

About Tower Semiconductor Ltd.

Tower Semiconductor Ltd. is a pure-play independent wafer foundry established in 1993. The company manufactures integrated circuits with geometries ranging from 1.0 to 0.18 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 process technologies, including foundry-standard technology. When complete, Fab 2 is expected to offer full production capacity of 33,000 200mm wafers per month. The Tower Web site 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 complete the Fab 2 project, (iii) the cyclical nature of the semiconductor industry and the resulting periodic overcapacity, (iv) operating our facilities at satisfactory utilization rates, (v) our ability to capitalize on increases in demand for foundry services, (vi) 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 the five-year investment period under our Fab 2 approved enterprise program and of amendments to our modified business plan, (vii) attracting additional customers, (viii) not receiving orders from our wafer partners and technology providers, (ix) failing to maintain and develop our technology processes and services, (x) competing effectively, (xi) our large amount of debt and our satisfying the covenants set forth in our amended facility agreement, and (xii) achieving acceptable device yields, product performance and delivery times (xiii) the completion of the documentation for the Siliconix agreement. 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 Form 20-F and in our Form F-3, as amended, as were filed with the Securities and Exchange Commission and the Israel Securities Authority.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data and per share data)

	March 31,	December 31,
ASSETS	2004	2003
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,346	\$ 12,448
Short-term interest-bearing deposits	3,000	--
Cash and short-term interest-bearing deposits designated for investments relating to Fab 2	78,265	44,042
Trade accounts receivable	15,555	11,631
Other receivables	14,852	11,073
Inventories	21,584	19,382
Other current assets	2,342	1,729
	-----	-----
Total current assets	146,944	100,305
	-----	-----
LONG-TERM INVESTMENTS		
Long-term interest-bearing deposits designated for investments relating to Fab 2	4,734	4,848
Other long-term investment	6,000	6,000
	-----	-----
	10,734	10,848
	-----	-----
PROPERTY AND EQUIPMENT, NET	566,821	568,412
	-----	-----
OTHER ASSETS, NET	105,397	108,770
	-----	-----
TOTAL ASSETS	\$ 829,896	\$ 788,335
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	\$ 45,051	\$ 40,249
Other current liabilities	8,198	9,564
	-----	-----
Total current liabilities	53,249	49,813
LONG-TERM DEBT	431,000	431,000
CONVERTIBLE DEBENTURES	24,933	25,783
OTHER LONG-TERM LIABILITIES	8,167	5,935
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	45,830	46,347
	-----	-----
Total liabilities	563,179	558,878
	-----	-----
SHAREHOLDERS' EQUITY		
Ordinary shares	16,248	13,150
Additional paid-in capital	516,962	427,881
Proceeds on account of share capital	--	16,428
Shareholder receivables and unearned compensation	(26)	(26)
Accumulated deficit	(257,395)	(218,904)
	-----	-----
Treasury stock, at cost	275,789	238,529
	(9,072)	(9,072)
	-----	-----
Total shareholders' equity	266,717	229,457
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 829,896	\$ 788,335
	=====	=====

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

	Three months ended March 31,	
	2004	2003
	(unaudited)	
SALES	\$ 27,247	\$ 12,592
COST OF SALES	50,149	17,934
GROSS LOSS	(22,902)	(5,342)
OPERATING COSTS AND EXPENSES		
Research and development	3,505	3,857
Marketing, general and administrative	5,591	5,644
	9,096	9,501
OPERATING LOSS	(31,998)	(14,843)
FINANCING INCOME (EXPENSE), NET	(6,531)	493
OTHER INCOME (EXPENSE), NET	38	--
LOSS FOR THE PERIOD	\$(38,491)	\$(14,350)
BASIC LOSS PER ORDINARY SHARE		
Loss per share (a)	\$ (0.61)	\$ (0.33)

(a) Basic and diluted loss per share in accordance with U.S. GAAP would be \$(0.62) for the three months ended March 31, 2004 (\$(0.33) for the three months ended March 31, 2003).

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TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
UNAUDITED CONDENSED INTERIM

CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2004

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

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CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2004

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

Gentlemen:

Re: REVIEW OF UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2004

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

- - Balance sheet as of March 31, 2004.
- - Statement of operations for the three months ended March 31, 2004.
- - Statement of changes in shareholders' equity for the three months ended March 31, 2004.
- - Statement of cash flows for the three months ended March 31, 2004.

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

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

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

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

Respectfully submitted,

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

Tel Aviv, Israel
April 28, 2004

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA AND PER SHARE DATA)

	AS OF MARCH 31,		DECEMBER 31,
	2004	2003	2003
	(UNAUDITED)		
A S S E T S			
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS	\$ 11,346	\$ 12,150	\$ 12,448
SHORT-TERM INTEREST-BEARING DEPOSITS	3,000	9,000	--
CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR INVESTMENTS RELATING TO FAB 2	78,265	21,924	44,042
TRADE ACCOUNTS RECEIVABLE (NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$0, \$125 AND \$0, RESPECTIVELY)	15,555	6,700	11,631
OTHER RECEIVABLES	14,852	24,558	11,073
INVENTORIES	21,584	10,765	19,382
OTHER CURRENT ASSETS	2,342	1,710	1,729
	146,944	86,807	100,305
LONG-TERM INVESTMENTS			
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR INVESTMENTS RELATING TO FAB 2	4,734	12,056	4,848
OTHER LONG-TERM INVESTMENT	6,000	6,000	6,000
	10,734	18,056	10,848
PROPERTY AND EQUIPMENT, NET	566,821	527,486	568,412
OTHER ASSETS, NET	105,397	105,718	108,770
	--	--	--
TOTAL ASSETS	\$ 829,896	\$ 738,067	\$ 788,335
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
SHORT-TERM DEBT	\$ --	\$ 4,000	\$ --
TRADE ACCOUNTS PAYABLE	45,051	82,902	40,249
OTHER CURRENT LIABILITIES	8,198	7,583	9,564
	53,249	94,485	49,813
LONG-TERM DEBT	431,000	282,000	431,000
CONVERTIBLE DEBENTURES	24,933	24,505	25,783
OTHER LONG-TERM LIABILITIES	8,167	5,749	5,935
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	45,830	47,246	46,347
	563,179	453,985	558,878
SHAREHOLDERS' EQUITY			
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 150,000,000, 70,000,000 AND 150,000,000 SHARES, RESPECTIVELY; ISSUED 66,882,383, 44,735,532 AND 52,996,097 SHARES, RESPECTIVELY	16,248	11,294	13,150
ADDITIONAL PAID-IN CAPITAL	516,962	400,887	427,881
PROCEEDS ON ACCOUNT OF SHARE CAPITAL	--	--	16,428
SHAREHOLDER RECEIVABLES AND UNEARNED COMPENSATION	(26)	(34)	(26)
ACCUMULATED DEFICIT	(257,395)	(118,993)	(218,904)
	275,789	293,154	238,529
TREASURY STOCK, AT COST - 1,300,000 SHARES	(9,072)	(9,072)	(9,072)
	266,717	284,082	229,457
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 829,896	\$ 738,067	\$ 788,335

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share data and per share data)

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,
	2004	2003	2003
	(unaudited)		
	-----	-----	-----
SALES	\$ 27,247	\$ 12,592	\$ 61,368
COST OF SALES	50,149	17,934	122,395
GROSS LOSS	(22,902)	(5,342)	(61,027)
OPERATING COSTS AND EXPENSES			
RESEARCH AND DEVELOPMENT	3,505	3,857	20,709
MARKETING, GENERAL AND ADMINISTRATIVE	5,591	5,644	22,615
	9,096	9,501	43,324
OPERATING LOSS	(31,998)	(14,843)	(104,351)
FINANCING INCOME (EXPENSE), NET	(6,531)	493	(9,826)
OTHER INCOME (EXPENSE), NET	38	--	(84)
LOSS FOR THE PERIOD	\$ (38,491)	\$ (14,350)	\$(114,261)
BASIC LOSS PER ORDINARY SHARE			
Loss per share	\$ (0.61)	\$ (0.33)	\$ (2.40)
LOSS USED TO COMPUTE BASIC LOSS PER SHARE	\$ (38,484)	\$ (14,350)	\$(114,114)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	63,026	43,436	47,608

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

TOWER SEMICONDUCTOR LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands, except share data and per share data)

	ORDINARY SHARES		ADDITIONAL	PROCEEDS	SHAREHOLDER	ACCUMULATED	TREASURY	TOTAL
	SHARES	AMOUNT	PAID-IN	ON	RECEIVABLES	DEFICIT	STOCK	
	-----	-----	CAPITAL	ACCOUNT OF	AND			
	-----	-----	-----	SHARE CAPITAL	UNEARNED			-----
	-----	-----	-----	-----	COMPENSATION	-----	-----	-----
BALANCE - JANUARY 1, 2004	52,996,097	\$13,150	\$ 427,881	\$16,428	\$(26)	\$ (218,904)	\$(9,072)	\$ 229,457
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):								
ISSUANCE OF SHARES	2,346,786	527	15,901	(16,428)				--
ISSUANCE OF SHARES, NET OF RELATED COSTS - PUBLIC OFFERING	11,444,500	2,550	72,536					75,086
EXERCISE OF SHARE OPTIONS	95,000	21	644					665
LOSS FOR THE PERIOD						(38,491)		(38,491)
BALANCE - MARCH 31, 2004 (UNAUDITED)	66,882,383	\$16,248	\$ 516,962	\$ --	\$(26)	\$ (257,395)	\$(9,072)	\$ 266,717
BALANCE - JANUARY 1, 2003	44,735,532	\$11,294	\$ 400,808	\$ --	\$(53)	\$ (104,643)	\$(9,072)	\$ 298,334
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):								
STOCK-BASED COMPENSATION RELATED TO THE FAB 2 CONSTRUCTOR			145					145
SHARE ISSUANCE COSTS			(66)					(66)
AMORTIZATION OF UNEARNED COMPENSATION					19			19
LOSS FOR THE PERIOD						(14,350)		(14,350)
BALANCE - MARCH 31, 2003 (UNAUDITED)	44,735,532	\$11,294	\$ 400,887	\$ --	\$(34)	\$ (118,993)	\$(9,072)	\$ 284,082
BALANCE - JANUARY 1, 2003	44,735,532	\$11,294	\$ 400,808	\$ --	\$(53)	\$ (104,643)	\$(9,072)	\$ 298,334
CHANGES DURING 2003:								
STOCK-BASED COMPENSATION RELATED TO THE FAB 2 CONSTRUCTOR			145					145
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			4,205					4,205
ISSUANCE OF SHARES, NET OF RELATED COSTS	8,260,565	1,856	22,723					24,579
PROCEEDS ON ACCOUNT OF SHARE CAPITAL				16,428				16,428
AMORTIZATION OF UNEARNED COMPENSATION					27			27
LOSS FOR THE YEAR						(114,261)		(114,261)
BALANCE - DECEMBER 31, 2003	52,996,097	\$13,150	\$ 427,881	\$16,428	\$(26)	\$ (218,904)	\$(9,072)	\$ 229,457

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,
	2004	2003	2003
	(UNAUDITED)		
CASH FLOWS - OPERATING ACTIVITIES			
LOSS FOR THE PERIOD	\$ (38,491)	\$ (14,350)	\$(114,261)
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	26,929	4,664	54,611
DEVALUATION OF CONVERTIBLE DEBENTURES	(900)	--	(878)
OTHER EXPENSE (INCOME), NET	(38)	--	84
CHANGES IN ASSETS AND LIABILITIES:			
DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	(3,924)	756	(4,175)
DECREASE (INCREASE) IN OTHER RECEIVABLES AND OTHER CURRENT ASSETS	(1,748)	(2,547)	1,264
INCREASE IN INVENTORIES	(2,202)	(44)	(6,221)
INCREASE IN TRADE ACCOUNTS PAYABLE	3,309	3,409	801
INCREASE (DECREASE) IN OTHER CURRENT LIABILITIES	(1,366)	(508)	1,467
INCREASE IN OTHER LONG-TERM LIABILITIES	2,232	343	529
	(16,199)	(8,277)	(66,779)
DECREASE IN LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	(517)	--	(899)
NET CASH USED IN OPERATING ACTIVITIES	(16,716)	(8,277)	(67,678)
CASH FLOWS - INVESTING ACTIVITIES			
DECREASE (INCREASE) IN CASH, SHORT-TERM AND LONG TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR INVESTMENTS RELATING TO FAB 2	(34,109)	29,251	14,341
INVESTMENTS IN PROPERTY AND EQUIPMENT	(25,254)	(48,026)	(179,310)
INVESTMENT GRANTS RECEIVED	2,511	6,720	33,811
PROCEEDS FROM SALE OF EQUIPMENT	38	--	222
INVESTMENTS IN OTHER ASSETS	(702)	(5,760)	(22,098)
DECREASE (INCREASE) IN DEPOSITS, NET	(3,000)	1,500	10,500
NET CASH USED IN INVESTING ACTIVITIES	(60,516)	(16,315)	(142,534)
CASH FLOWS - FINANCING ACTIVITIES			
PROCEEDS FROM (COSTS RELATED TO) ISSUANCE OF SHARES, NET	75,465	(115)	24,375
PROCEEDS FROM EXERCISE OF SHARE OPTIONS	665	--	--
PROCEEDS ON ACCOUNT OF SHARE CAPITAL	--	--	16,428
REPAYMENT OF LONG-TERM DEBT	--	(1,000)	(13,000)
PROCEEDS FROM LONG-TERM DEBT, NET IN CONNECTION WITH RE-BORROWING	--	--	187,000
PROCEEDS FROM LONG-TERM DEBT	--	30,000	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	76,130	28,885	214,803
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,102)	4,293	4,591
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	12,448	7,857	7,857
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 11,346	\$ 12,150	\$ 12,448
NON-CASH ACTIVITIES			
INVESTMENTS IN PROPERTY AND EQUIPMENT	\$ 16,259	\$ 27,209	\$ 17,160
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS	\$ --	\$ --	\$ 4,205
INVESTMENTS IN OTHER ASSETS	\$ 35	\$ 5,606	\$ 3,153
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
CASH PAID DURING THE PERIOD FOR INTEREST	\$ 6,531	\$ 4,417	\$ 15,674
CASH PAID DURING THE PERIOD FOR INCOME TAXES	\$ 36	\$ 53	\$ 239

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF MARCH 31, 2004
(dollars in thousands, except share data and per share data)

NOTE 1 - BASIS OF PRESENTATION

- A. The unaudited condensed interim consolidated financial statements as of March 31, 2004 and for the three months then ended ("interim financial statements") of Tower Semiconductor Ltd. ("the Company") and subsidiary should be read in conjunction with the audited consolidated financial statements of the Company and subsidiary as of December 31, 2003 and for the year then ended, including the notes thereto. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the financial position and results of operations as of the date and for the interim period presented. The results of operations for the interim period are not necessarily indicative of the results to be expected on a full-year basis.
- B. The interim financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in Israel, which, as applicable to these interim financial statements, differ in certain respects from GAAP in the United States of America ("U.S. GAAP"), as indicated in Note 5.

The accounting principles applied in the preparation of these interim financial statements are consistent with those principles applied in the preparation of the most recent annual audited financial statements.

C. ESTABLISHMENT AND OPERATIONS OF NEW FABRICATION FACILITY

In January 2001, the Company's Board of Directors approved the establishment of a new wafer fabrication facility in Israel ("Fab 2"), at an expected cost of approximately \$1,500,000. 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 \$1,226,100 of financing for Fab 2.

During the third quarter of 2003, in which Fab 2 was substantially completed, the Company began commercial production and shipment of wafers to its customers utilizing the 0.18 micron process technology. With the commencement of Fab 2 operations, the Company began to depreciate and amortize Fab 2 assets, as well as to expense most of the ongoing direct costs related to the construction and equipping of Fab 2 and transfer of the Fab 2 technology that had been previously capitalized.

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, which were amended several times, risks and uncertainties, see Note 13A to the 2003 audited consolidated financial statements.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
 NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
 FINANCIAL STATEMENTS AS OF MARCH 31, 2004
 (dollars in thousands, except share data and per share data)

NOTE 2 - MAJOR CUSTOMERS

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

	Three months ended March 31,	
	2004	2003
	-----	-----
	(unaudited)	
Customer A	29%	--%
Customer B	18	22
Customer C	4	21
Customer D	1	23
Customer E	--	5
Other customers (*)	30	15

(*) Represents sales to five different customers each of whom accounted for between 5% and 8% of sales during the three months ended March 31, 2004, and to four customers (3%-6%) during the three months ended March 31, 2003.

NOTE 3 - RECENT DEVELOPMENTS RELATING TO FAB 2

A. ORDINARY SHARES ISSUED TO THE PRIMARY WAFER PARTNERS AND EQUITY INVESTORS

In January 2004, the primary Wafer Partners and Equity Investors were issued an aggregate of 2,346,786 Ordinary Shares of the Company in consideration for their final \$16,428 committed investment made in December 2003. The shares were issued at a per share price of \$7.00, a price equal to the offering price at the public offering described in Note 4A.

B. APPROVED ENTERPRISE STATUS

Under the terms of the Fab 2 approved enterprise program, investments in respect of Fab 2 are to 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 and prevailing market conditions, the Company does not currently expect to complete Fab 2 investments by the end of 2005. During 2003 the Company has notified the Investment Center of its revised investment schedule contemplated in an updated plan for the construction and equipping of Fab 2, and has also informed the Investment Center of the reduced rate of annual investments and lower than projected expectations for Fab 2 sales. As of the date of the interim financial statements, the Company understands that the Investment Center has completed its evaluation of the revised investments plan. Accordingly, the company has been filing its capital expenditure reports with the Investment Center by reference to the revised investment schedule contemplated in the revised investment plan, and has been provided with the related Investment Center grants.

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

B. APPROVED ENTERPRISE STATUS (cont.)

While Israeli law currently limits the ability of the Investment Center to extend the investment period beyond five years, the Company's management estimates, based on discussions held with the Investment Center, prior and subsequent to the balance sheet date, that it is probable that satisfactory arrangements will be made to enable the extension of the investment period.

C. HEDGING ACTIVITIES

During the reported period, the Company entered into hedging transactions as follows:

- (1) Foreign exchange agreements (cylinder options, options and forward contracts) to hedge exposure related to purchase of machinery and equipment and salary and wage costs, the aggregate outstanding amount of which as of March 31, 2004 was \$19,390 and \$5,200, respectively.
- (2) Agreements to hedge interest rate exposure on long-term bank loans under the Facility Agreement, in the aggregate amount as of March 31, 2004 of \$80,000. As a result, out of the total \$431,000 long-term bank loans under that agreement, as of the balance sheet date, \$292,000 is under hedging transactions.

NOTE 4 - OTHER RECENT DEVELOPMENTS

A. PUBLIC OFFERING COMPLETED IN THE FIRST QUARTER OF 2004

During the first quarter of 2004, the Company completed a public offering of its Ordinary Shares at a price of \$7.00 per share. Following the offering, and including the partial exercise of over-allotment option the Company granted the underwriters, the Company issued 11,444,500 of its Ordinary Shares, in consideration for gross proceeds of \$80,112 (net of related costs - \$75,086).

B. SILICONIX

In December 2003, the Company and chip maker Siliconix incorporated, an 80% owned subsidiary of Vishay Intertechnology Inc., entered into a memorandum of understanding ("MOU") for a long-term manufacturing and supply arrangement. Pursuant to the MOU, Siliconix will place with the Company orders for the purchase of wafers to be manufactured at the Company's Fab 1 valued at approximately \$200,000 over a seven to ten year period. Siliconix will advance the Company \$20,000 to be used primarily for the purchase of additional equipment and other expenses required to satisfy Siliconix orders, which will be credited towards the purchase price of the wafers. The transaction is subject to the approval of both companies' board of directors, the Company's Banks, the Investment Center and to the negotiation of definitive documentation. A definitive agreement is expected to be signed during the second quarter of 2004.

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NOTE 4 - OTHER RECENT DEVELOPMENTS (cont.)

C. CLASS ACTION

In July 2003, certain shareholders of the Company filed a shareholders' class action complaint in the United States against the Company and certain of its directors, Wafer Partners and Equity Investors (the "Defendants"). The plaintiffs have 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. The plaintiffs seek damages in unspecified amounts, which could be substantial, and unspecified rescissory relief. The Company believes that the complaint is without merit and is vigorously contesting it. In January 2004, the Company filed with the court a motion to dismiss the action and in April 2004 the plaintiff filed an opposition to the motion to dismiss. As of the date of the interim financial statements, the Court has not rendered a decision with regard to the motion to dismiss.

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

With regard to the Company's interim financial statements, the material differences between GAAP in Israel and in the U.S. relate to the following. See G below for the presentation of the Company's unaudited balance sheet as of March 31, 2004 in accordance with U.S. GAAP.

A. PRESENTATION OF CASH AND SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR INVESTMENTS RELATING TO FAB 2

In accordance with U.S. GAAP, cash, short-term and long-term interest-bearing deposits designated for investments relating to Fab 2 should be excluded from current assets and long-term investments and presented separately as a non-current asset. Accordingly, as of March 31, 2004, \$78,265 and \$4,734 were reclassified, respectively, from current assets and long-term investments to a long-term asset (as of December 31, 2003 - \$44,042 and \$4,848, respectively).

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

Under U.S. GAAP, assets and liabilities relating to severance arrangements are to be presented separately and are not to be offset, while according to Israeli GAAP such an offset is required. Accordingly, as of March 31, 2004 an amount of \$14,587 was reclassified from other long-term liabilities to long-term investments (as of December 31, 2003 - \$14,607).

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

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

Complying with SFAS 133 and SFAS 138 and the related interpretations thereon with respect to the Company's hedging transactions as of March 31, 2004 would have resulted in: an increase in other long-term liabilities in the amount of \$10,448; an increase in the Company's current liabilities in the amount of \$260; an increase in other comprehensive loss for the three months ended March 31, 2004 in the net amount of \$456 and in the accumulated other comprehensive loss component of equity as of such date in the amount of \$16,353; and in a decrease of \$5,615 in property and equipment, net as of March 31, 2004.

D. IMPLEMENTATION OF SFAS 123 AND SFAS 148

Had compensation cost for the Company's share option plans been determined based on fair value at the grant dates for awards made through March 31, 2004 in accordance with SFAS 123, as amended by SFAS 148, the Company's pro forma loss and loss per share would have been as follows:

	Three months ended March 31,	
	2004	2003
	(unaudited)	
PRO FORMA LOSS		
Loss for the period, as reported according to U.S. GAAP (see H below)	\$(38,491)	\$(14,350)
Less - stock-based compensation determined under APB 25	--	19
Add - stock-based compensation determined under SFAS 123	(1,331)	(1,611)
Pro forma loss	\$(39,822)	\$(15,942)
 BASIC LOSS PER SHARE As reported according to U.S.		
GAAP (see I below)	\$ (0.62)	\$ (0.33)
Pro forma	\$ (0.65)	\$ (0.37)

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

E. SALE OF SECURITIES

Under Accounting Principles Board Opinion No. 14 ("APB 14"), the proceeds from the sale of the securities in January 2002 are to be allocated to each of the securities issued based on their relative fair value, while according to Israeli GAAP such treatment is not required. Complying with APB 14, based on the average market value of each of the securities issued in the first three days following their issuance (in January 2002), would have resulted in an increase in shareholders' equity as of March 31, 2004 and December 31, 2003 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 three-month period ended March 31, 2004 would have been immaterial.

F. PRESENTATION OF PROCEEDS ON ACCOUNT OF SHARES IN ACCORDANCE WITH U.S. GAAP (SFAS 150)

According to SFAS No. 150, "Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity", a financial instrument that embodies an unconditional obligation (as defined in that guidance), that the issuer must or may settle by issuing a variable number of its equity shares, shall be classified as a liability if, at inception, the monetary value of the obligation is based solely or predominantly on, among others, a fixed monetary amount known at inception. Accordingly, the \$16,428 described in Note 3A, and which according to Israeli GAAP was presented as of December 31, 2003 as "Proceeds on account of share capital", were reclassified as of December 31, 2003 under SFAS 150 as "Liability in respect of variable number of shares to be issued". Such presentation for the U.S. GAAP purposes was required since as of December 31, 2003, the amount of shares the Company was to issue in consideration of the aggregate of \$16,428 was not determined as of such date, and was actually based on mechanisms that embody a variable number of shares. Following the issuance of shares, as described in Note 3A, the \$16,428 amount is presented for U.S. GAAP purposes as well as paid in equity.

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

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

	U.S. GAAP REMARK	AS OF MARCH 31, 2004			AS OF DECEMBER 31, 2003		
		AS PER ISRAELI GAAP	ADJUST- MENTS	AS PER U.S. GAAP	AS PER ISRAELI GAAP	ADJUST- MENTS	AS PER U.S. GAAP
A S S E T S							
CURRENT ASSETS							
CASH AND CASH EQUIVALENTS		\$ 11,346	\$	\$ 11,346	\$ 12,448	\$	\$ 12,448
SHORT-TERM INTEREST-BEARING DEPOSITS		3,000		3,000	--		--
CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR INVESTMENTS RALATING TO FAB 2	A	78,265	(78,265)	--	44,042	(44,042)	--
TRADE ACCOUNTS RECEIVABLE		15,555		15,555	11,631		11,631
OTHER RECEIVABLES		14,852		14,852	11,073		11,073
INVENTORIES		21,584		21,584	19,382		19,382
OTHER CURRENT ASSETS		2,342		2,342	1,729		1,729
TOTAL CURRENT ASSETS		146,944	(78,265)	68,679	100,305	(44,042)	56,263
LONG-TERM INVESTMENTS							
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR INVESTMENTS RALATING TO FAB 2		4,734	(4,734)	--	4,848	(4,848)	--
OTHER LONG-TERM INVESTMENTS	B	6,000	14,587	20,587	6,000	14,607	20,607
		10,734	9,853	20,587	10,848	9,759	20,607
PROPERTY AND EQUIPMENT, NET	C	566,821	(5,615)	561,206	568,412	(5,947)	562,465
CASH AND SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR INVESTMENTS RELATING TO FAB 2		--	82,999	82,999	--	48,890	48,890
OTHER ASSETS	E	105,397	(196)	105,201	108,770	(196)	108,574
TOTAL ASSETS		\$ 829,896	\$ 8,776	\$ 838,672	\$ 788,335	\$ 8,464	\$ 796,799
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES							
TRADE ACCOUNTS PAYABLE		\$ 45,051	\$	\$ 45,051	\$ 40,249	\$	\$ 40,249
OTHER CURRENT LIABILITIES	C	8,198	260	8,458	9,564		9,564
TOTAL CURRENT LIABILITIES		53,249	260	53,509	49,813	--	49,813
LONG-TERM DEBT		431,000		431,000	431,000		431,000
CONVERTIBLE DEBENTURES	E	24,933	(2,559)	22,374	25,783	(2,559)	23,224
OTHER LONG-TERM LIABILITIES	B, C	8,167	25,035	33,202	5,935	24,527	30,462
LIABILITY IN RESPECT OF A VARIABLE NUMBER OF SHARES TO BE ISSUED	F	--	--	--	--	16,428	16,428
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES		45,830		45,830	46,347		46,347
TOTAL LIABILITIES		563,179	22,736	585,915	558,878	38,396	597,274
SHAREHOLDERS' EQUITY							
ORDINARY SHARES, NIS 1 PAR VALUE - AUTHORIZED 150,000,000 SHARES; ISSUED 66,882,383 AND 52,996,097 SHARES, RESPECTIVELY		16,248		16,248	13,150		13,150
ADDITIONAL PAID-IN CAPITAL	E	516,962	2,363	519,325	427,881	2,363	430,244
SHAREHOLDER RECEIVABLES AND UNEARNED COMPENSATION		(26)		(26)	(26)		(26)
PROCEEDS ON ACCOUNT OF SHARE CAPITAL	F	--	--	--	16,428	(16,428)	--
ACCUMULATED OTHER COMPREHENSIVE LOSS	C	--	(16,353)	(16,353)	--	(15,897)	(15,897)
ACCUMULATED DEFICIT	H	(257,395)	30	(257,365)	(218,904)	30	(218,874)
TREASURY STOCK, AT COST - 1,300,000 SHARES		275,789	(13,960)	261,829	238,529	(29,932)	208,597
		(9,072)		(9,072)	(9,072)		(9,072)
TOTAL SHAREHOLDERS' EQUITY		266,717	(13,960)	252,757	229,457	(29,932)	199,525
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 829,896	\$ 8,776	\$ 838,672	\$ 788,335	\$ 8,464	\$ 796,799

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

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

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

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 H above), the basic and diluted loss per share for the three-month periods ended March 31, 2004 and 2003 would be \$0.62 and \$0.33, respectively.