FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

For the month of July 2006 No. 3

TOWER SEMICONDUCTOR LTD.
(Translation of registrant's name into English)

RAMAT GAVRIEL INDUSTRIAL PARK
P.O. BOX 619, MIGDAL HAEMEK, ISRAEL 23105
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F [X]   Form 40-F [_]

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes [_]   No [X]

On July 26, 2006, the Registrant announced its financial results for the six month and three month periods ended June 30, 2006. Attached hereto are the following exhibits:

Exhibit 99.1   Press release relating to such announcement.

Exhibit 99.2   Registrant's unaudited condensed interim consolidated financial statements as of June 30, 2006 and for the three month period then ended.

Exhibit 99.3   Management's Discussion and Analysis of Financial Condition and Results of Operations

This Form 6-K, including all exhibits hereto, is hereby incorporated by reference into (1) all effective registration statements filed by us under the Securities Act of 1933 and (2) Registration Statement No. 333-131315 on Form F-3, except that the information herein relating to EBITDA and related non-GAAP financial measure disclosures is expressly excluded from such incorporation.

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: July 26, 2006

By: /s/ Nati Somekh Gilboa

Nati Somekh Gilboa
Corporate Secretary

EXHIBIT 99.1

TOWER SEMICONDUCTOR ANNOUNCES RECORD SALES FOR Q2 2006

Q206 SALES UP 132% OVER Q205; ACHIEVED CAPACITY UTILIZATION GREATER THAN 90%, AND HAS BEGUN THE IMPLEMENTATION OF CAPACITY RAMP-UP

MIGDAL HAEMEK, Israel - July 26, 2006 - Tower Semiconductor Ltd. (NASDAQ: TSEM; TASE: TSEM), a pure-play independent specialty foundry, today announced second quarter 2006 results with a sequential record sales to $44.6 million in Q2 2006. These sales represent an increase of 132% over the $19.2 million reported in the second quarter of 2005, excluding $8 million from a previously announced technology-related agreement, and an increase of 24% over the $35.9 million reported in the first quarter of 2006. The 2006 second quarter loss was $43.6 million, or $0.55 per share, which included depreciation and amortization expenses of $37.6 million, compared to a loss of $47.2 million, or $0.71 per share, in the second quarter of 2005, which included $7.2 million net profit from a previously announced technology-related agreement and depreciation and amortization expenses of $36.6 million.

Tower expects further growth for the third quarter of 2006 and guides sal es of $49 to $53 million.

"We are pleased to announce a second consecutive quarter of record sales, and continued positive EBITDA growth. Both Fab 1 and Fab 2 realized record shipments in Q2, at an average utilization greater than 90%, with approximately 50 new revenue products and a total customer base of approximately 55. The Fab 2 ramp plan is on track with the first tools in the process of being installed." said Russell Ellwanger, chief executive officer, Tower Semiconductor. "Although the State of Israel is facing a challenging situation, Tower continues with business as usual and is well positioned to meet its manufacturing and engineering commitments. We expect further record sales in the third quarter and are encouraged by the outlook for the balance of 2006 and beyond".

Tower will host a conference call to discuss these results on Wednesday, July 26, 2006, at 11:00 a.m. Eastern Daylight Time /6 p.m. Israel time. To participate, please call: 1-866-744-5399 (U.S. toll-free number) or 972-3-918-0609 (international) and mention ID code: TOWER. Callers in Israel are invited to call locally 03-918-0609. The conference call will also be web cast 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 2:00 p.m. Eastern Daylight Time on the day of the call.

As used in this release, the term EBITDA consists of loss, according to GAAP (Generally Accepted Accounting Principles), excluding interest and financing expenses (net), tax and depreciation and amortization expenses. EBITDA is not a required GAAP financial measure and may not be comparable to a similarly titled measure employed by other companies. EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP.

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.

CONTACT:

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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 in the short-term and raising the funds required to implement the current ramp up plan and complete Fab 2, (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 satisfy certain of the covenants stipulated in our amended facility agreement, (vi) the receipt of our banks' approval of the ramp up plan for Fab 2 and the entering into and consummation of a definitive agreement with our banks for the restructuring our debt, (vii) our ability to capitalize on increases in demand for foundry services, (viii) meeting the conditions to receive Israeli government grants and tax benefits approved for Fab 2 and obtaining the approval of the Israeli Investment Center for a new expansion program, (ix) attracting additional customers, (x) not receiving orders from our wafer partners, customers and technology providers, (xi) failing to maintain and develop our technology processes and services, (xii) competing effectively, (xiii) our large amount of debt and our ability to repay our debt on a timely basis, (xiv) achieving acceptable device yields, product performance and delivery times, (xv) the timely development, internal qualification and customer acceptance of new processes and products, (xvi) the receipt of shareholder and other approvals as required under applicable law or otherwise, including in connection with the proposed $100 million investment by Israel Corp., (xvii) business interruption due to terror attacks, including the current effect of the military situation, earthquakes, and other acts of God and (xviii) the entering into and the consummation of investment agreements, including the proposed $100 million investment by Israel Corp.

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-1, F-3 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, and expressly disclaim any obligation to update, the information contained in this release.

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

	JUNE 30, 2006	DECEMBER 31, 2005
A S S E T S		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	$ 8,581	$ 7,337
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	2,909	31,661
PROCEEDS RECEIVABLES RELATING PUBLIC OFFERING	31,479	--
TRADE ACCOUNTS RECEIVABLE	21,626	16,776
OTHER RECEIVABLES	7,131	9,043
INVENTORIES	34,401	24,376
OTHER CURRENT ASSETS	1,616	1,048
TOTAL CURRENT ASSETS	107,743	90,241
PROPERTY AND EQUIPMENT, NET	460,328	510,645
OTHER ASSETS, NET	55,879	77,800
TOTAL ASSETS	$ 623,950	$ 678,686
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
CURRENT MATURITIES OF LONG-TERM DEBT	$ --	$ 21,103
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	6,204	6,453
TRADE ACCOUNTS PAYABLE	50,410	59,741
OTHER CURRENT LIABILITIES	11,517	8,972
TOTAL CURRENT LIABILITIES	68,131	96,269
LONG-TERM DEBT	515,811	497,000
CONVERTIBLE DEBENTURES	53,272	19,358
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	52,528	59,621
OTHER LONG-TERM LIABILITIES	10,104	11,012
TOTAL LIABILITIES	699,846	683,260
CONVERTIBLE DEBENTURES	--	25,493
SHAREHOLDERS' DEFICIT	(75,896)	(30,067)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 623,950	$ 678,686

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,	
	2006	2005	2006	2005
REVENUES				
SALES	$ 80,430	$ 42,375	$ 44,555	$ 19,208
REVENUES RELATED TO A JOINT DEVELOPMENT AGREEMENT	--	8,000	--	8,000
	80,430	50,375	44,555	27,208
COST OF SALES	126,422	122,468	65,142	61,254
GROSS LOSS	(45,992)	(72,093)	(20,587)	(34,046)
OPERATING COSTS AND EXPENSES				

RESEARCH AND DEVELOPMENT	6,928	8,649	3,574	3,886
MARKETING, GENERAL AND ADMINISTRATIVE	10,798	8,766	5,474	4,238
	17,726	17,415	9,048	8,124
OPERATING LOSS	(63,718)	(89,508)	(29,635)	(42,170)
FINANCING EXPENSE, NET	(25,575)	(15,528)	(14,051)	(7,353)
OTHER INCOME, NET	591	2,476	40	2,283
LOSS FOR THE PERIOD	$ (88,702)	$(102,560)	$ (43,646)	$ (47,240)
BASIC LOSS PER ORDINARY SHARE				
Loss per share (*)	$ (1.18)	$ (1.56)	$ (0.55)	$ (0.71)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	75,313	65,946	78,716	66,190

(*) Basic and diluted loss per share in accordance with U.S. GAAP for the six and three months periods ended June 30, 2006 are $1.16 and $0.60, respectively, and are the same as the Isr. GAAP data for the six and three months periods ended June 30, 2005.

EXHIBIT 99.2

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2006

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

INDEX TO UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2006

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

	AS OF JUNE 30,		DECEMBER 31,
	2006	2005	2005
	(unaudited)		
A S S E T S			
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS	$ 8,581	$ 23,459	$ 7,337
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	2,909	16,953	31,661
PROCEEDS RECEIVABLES RELATING PUBLIC OFFERING	31,479	--	--
TRADE ACCOUNTS RECEIVABLE:			
RELATED PARTIES	8,538	4,060	5,309
OTHERS	13,088	6,793	11,467
OTHER RECEIVABLES	7,131	8,862	9,043
INVENTORIES	34,401	17,058	24,376
OTHER CURRENT ASSETS	1,616	1,310	1,048
TOTAL CURRENT ASSETS	107,743	78,495	90,241
PROPERTY AND EQUIPMENT, NET	460,328	562,962	510,645
OTHER ASSETS, NET:			
TECHNOLOGY	54,508	71,875	61,441
OTHER	1,371	14,644	16,359
	55,879	86,519	77,800
TOTAL ASSETS	$ 623,950	$ 727,976	$ 678,686
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
CURRENT MATURITIES OF LONG-TERM DEBT	$ --	$ --	$ 21,103
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	6,204	6,331	6,453
TRADE ACCOUNTS PAYABLE	50,410	59,640	59,741
OTHER CURRENT LIABILITIES	11,517	8,467	8,972
TOTAL CURRENT LIABILITIES	68,131	74,438	96,269
LONG-TERM DEBT	515,811	497,000	497,000
CONVERTIBLE DEBENTURES	53,272	18,992	19,358
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	52,528	62,007	59,621
OTHER LONG-TERM LIABILITIES	10,104	9,175	11,012
TOTAL LIABILITIES	699,846	661,612	683,260
CONVERTIBLE DEBENTURES	--	--	25,493
SHAREHOLDERS' EQUITY (DEFICIT)			
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 500,000,000, 250,000,000 AND 500,000,000 SHARES, RESPECTIVELY; ISSUED 85,768,622, 67,586,187 AND 68,232,056 SHARES, RESPECTIVELY	20,366	16,408	16,548
ADDITIONAL PAID-IN CAPITAL	540,885	518,286	522,237
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	20,381	(26)	(26)
ACCUMULATED DEFICIT	(648,456)	(459,232)	(559,754)
	(66,824)	75,436	(20,995)

TREASURY STOCK, AT COST - 1,300,000 SHARES	(9,072)	(9,072)	(9,072)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(75,896)	66,364	(30,067)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 623,950	$ 727,976	$ 678,686

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)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,
	2006	2005	2006	2005	2005
	(UNAUDITED)		(UNAUDITED)		
REVENUES					
SALES	$ 80,430	$ 42,375	$ 44,555	$ 19,208	$ 93,991
REVENUES RELATED TO A JOINT DEVELOPMENT AGREEMENT	-	8,000	-	8,000	8,000
	80,430	50,375	44,555	27,208	101,991
COST OF SALES	126,422	122,468	65,142	61,254	238,358
GROSS LOSS	(45,992)	(72,093)	(20,587)	(34,046)	(136,367)
OPERATING COSTS AND EXPENSES					
RESEARCH AND DEVELOPMENT	6,928	8,649	3,574	3,886	16,029
MARKETING, GENERAL AND ADMINISTRATIVE	10,798	8,766	5,474	4,238	17,418
	17,726	17,415	9,048	8,124	33,447
OPERATING LOSS	(63,718)	(89,508)	(29,635)	(42,170)	(169,814)
FINANCING EXPENSE, NET	(25,575)	(15,528)	(14,051)	(7,353)	(35,651)
OTHER INCOME, NET	591	2,476	40	2,283	2,383
LOSS FOR THE PERIOD	$ (88,702)	$(102,560)	$ (43,646)	$ (47,240)	$(203,082)
BASIC AND DILUTED LOSS PER ORDINARY SHARE					
LOSS PER SHARE	$ (1.18)	$ (1.56)	$ (0.55)	$ (0.71)	$ (3.06)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	75,313	65,946	78,716	66,190	66,371

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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

	ORDINARY SHARES		ADDITIONAL	EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE			
	SHARES	AMOUNT	PAID-IN CAPITAL	STOCK BASED COMPENSATION	ACCUMULATED DEFICIT	TREASURY STOCK	TOTAL
BALANCE - JANUARY 1, 2006	68,232,056	$ 16,548	$ 522,237	$ (26)	$ (559,754)	$ (9,072)	$ (30,067)
CHANGES DURING SIX-MONTH PERIOD (UNAUDITED):							
ISSUANCE OF SHARES	3,438,076	737	4,550				5,287
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES				26,361			26,361
CONVERSION OF CONVERTIBLE DEBENTURES INTO SHARES	14,098,490	3,081	12,295	(6,535)			8,841
ISSUANCE OF WARRANTS			1,803				1,803
EMPLOYEE STOCK-BASED COMPENSATION				581			581
LOSS FOR THE PERIOD					(88,702)		(88,702)
BALANCE - JUNE 30, 2006 (UNAUDITED)	85,768,622	$ 20,366	$ 540,885	$ 20,381	$ (648,456)	$ (9,072)	$ (75,896)
BALANCE - JANUARY 1, 2005	66,999,796	$ 16,274	$ 517,476	$ (26)	$ (356,672)	$ (9,072)	$ 167,980
CHANGES DURING SIX-MONTH PERIOD (UNAUDITED):							

ISSUANCE OF SHARES	586,391	134	810				944
LOSS FOR THE PERIOD					(102,560)		(102,560)
BALANCE - JUNE 30, 2005 (UNAUDITED)	67,586,187	$ 16,408	$ 518,286	$ (26)	$ (459,232)	$ (9,072)	$ 66,364
		-	-	-	-	-	-
BALANCE - APRIL 1, 2006	76,946,189	$ 18,403	$ 531,123	$ 19,550	$ (604,810)	$ (9,072)	$ (44,806)
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):							
ISSUANCE OF SHARES	724,680	158	842				1,000
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES				4,382			4,382
CONVERSION OF CONVERTIBLE DEBENTURES INTO SHARES	8,097,753	1,805	7,117	(3,753)			5,169
ISSUANCE OF WARRANTS			1,803				1,803
EMPLOYEE STOCK-BASED COMPENSATION				202			202
LOSS FOR THE PERIOD					(43,646)		(43,646)
BALANCE - JUNE 30, 2006 (UNAUDITED)	85,768,622	$ 20,366	$ 540,885	$ 20,381	$ (648,456)	$ (9,072)	$ (75,896)
BALANCE - APRIL 1, 2005	66,999,796	$ 16,274	$ 517,476	$ (26)	$ (411,992)	$ (9,072)	$ 112,660
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):							
ISSUANCE OF SHARES	586,391	134	810				944
LOSS FOR THE PERIOD					(47,240)		(47,240)
BALANCE - JUNE 30, 2005 (UNAUDITED)	67,586,187	$ 16,408	$ 518,286	$ (26)	$ (459,232)	$ (9,072)	$ 66,364
BALANCE - JANUARY 1, 2005	66,999,796	$ 16,274	$ 517,476	$ (26)	$ (356,672)	$ (9,072)	$ 167,980
CHANGES DURING 2005:							
ISSUANCE OF SHARES	1,232,260	274	1,520				1,794
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			2,793				2,793
STOCK-BASED COMPENSATION RELATED TO RIGHTS OFFERED TO EMPLOYEES			448				448
LOSS FOR THE YEAR					(203,082)		(203,082)
BALANCE - DECEMBER 31, 2005	68,232,056	$ 16,548	$ 522,237	$ (26)	$ (559,754)	$ (9,072)	$ (30,067)

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)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,
	2006	2005	2006	2005	2005
	(UNAUDITED)		(UNAUDITED)		
CASH FLOWS - OPERATING ACTIVITIES					
LOSS FOR THE PERIOD	$ (88,702)	$(102,560)	$ (43,646)	$ (47,240)	$(203,082)
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	75,639	71,153	37,563	36,559	144,852
EFFECT OF INDEXATION AND TRANSLATION ON CONVERTIBLE DEBENTURES	1,096	(1,427)	1,353	(1,024)	(1,031)
OTHER INCOME, NET	(591)	(2,476)	(40)	(2,283)	(2,383)
CHANGES IN ASSETS AND LIABILITIES:					
DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	(4,850)	8,433	(2,744)	1,288	2,510
DECREASE (INCREASE) IN OTHER RECEIVABLES AND OTHER CURRENT ASSETS	(1,856)	2,660	(1,379)	624	1,988
DECREASE (INCREASE) IN INVENTORIES	(10,025)	8,611	(5,717)	4,566	1,293
INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	3,583	(160)	2,235	891	3,082
INCREASE (DECREASE) IN OTHER CURRENT LIABILITIES	2,113	(1,465)	2,292	(202)	(1,839)
DECREASE IN OTHER LONG-TERM LIABILITIES	(1,679)	(7,077)	(473)	(6,510)	(5,368)
	(25,272)	(24,308)	(10,556)	(13,331)	(59,978)
DECREASE IN LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES, NET	(814)	(232)	(399)	(126)	(760)
NET CASH USED IN OPERATING ACTIVITIES	(26,086)	(24,540)	(10,955)	(13,457)	(60,738)
CASH FLOWS - INVESTING ACTIVITIES					
DECREASE IN DESIGNATED CASH, SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS, NET	28,752	41,974	12,217	5,732	27,266
INVESTMENTS IN PROPERTY AND EQUIPMENT	(25,735)	(24,105)	(12,331)	(4,455)	(38,878)
INVESTMENT GRANTS RECEIVED	3,298	4,358	2,426	870	7,496
PROCEEDS RELATED TO SALE AND DISPOSAL OF PROPERTY AND EQUIPMENT	591	1,708	40	1,362	2,179
INVESTMENTS IN OTHER ASSETS	(3,619)	(3,600)	(112)	(1,100)	(3,841)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,287	20,335	2,240	2,409	(5,778)
CASH FLOWS - FINANCING ACTIVITIES					
PROCEEDS FROM ISSUANCE OF CONVERTIBLE DEBENTURE, NET	21,929	--	(274)	--	25,086
PROCEEDS FROM LONG-TERM DEBT	8,590	--	-	--	21,103
REPAYMENT OF CONVERTIBLE DEBENTURES	(6,476)	--	-	--	-

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	24,043	--	(274)	--	46,189
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,244	(4,205)	(8,989)	(11,048)	(20,327)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	7,337	27,664	17,570	34,507	27,664
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 8,581	$ 23,459	$ 8,581	$ 23,459	$ 7,337
NON-CASH ACTIVITIES					
INVESTMENTS IN PROPERTY AND EQUIPMENT	$ 5,288	$ 12,502	$ 3,387	$ 6,461	$ 12,999
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS	$ -	$ --	$ --	$ --	$ 2,793
STOCK-BASED COMPENSATION RELATED TO RIGHTS OFFERED TO EMPLOYEES	$ -	$ --	$ --	$ --	$ 448
INVESTMENTS IN OTHER ASSETS	$ -	$ 187	$	$ --	$ 442
CONVERSION OF LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES TO SHARE CAPITAL	$ 5,287	$ 944	$ 1,000	$ 94	$ 1,794
CONVERSION OF CONVERTIBLE DEBENTURES INTO SHARES	$ 8,841	$ --	$ 5,169	$ --	$ --
PROCEEDS RECEIVABLES RELATED PUBLIC OFFERING	$ 31,479	$ --	$ 31,479	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
CASH PAID DURING THE PERIOD FOR INTEREST	$ 20,792	$ 15,904	$ 10,246	$ 7,588	$ 32,805
CASH PAID DURING THE PERIOD FOR INCOME TAXES	$ 56	$ 83	$ 42	$ 79	$ 86

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2006
(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL

A. BASIS FOR PRESENTATION

(1) The unaudited condensed interim consolidated financial statements as of June 30, 2006 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, 2005 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"), for interim financial statement, which differ in certain respects from GAAP in the United States of America ("U.S. GAAP"), as indicated in Note 5.

The accounting principles applied in the preparation of these interim financial statements are consistent with those principles applied in the preparation of the most recent annual audited financial statements, except for the accounting principles detailed in paragraph 3 below.

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

A. ACCOUNTING STANDARD NO. 21 "EARNINGS PER SHARE"

In February 2006, the Israeli Accounting Standards Board approved for publication Accounting Standard No. 21, "Earnings Per Share" ("Standard No. 21").

With the initial adoption of Standard No. 21, Opinion No. 55 of the Institute of Certified Public Accountants in Israel - Earnings per share is cancelled.

Standard No. 21 prescribes that an entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the entity. The basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the reported period. For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

NOTE 1 - GENERAL (cont.)

A. BASIS FOR PRESENTATION (cont.)

(3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD (cont.)

A. ACCOUNTING STANDARD NO. 21 "EARNINGS PER SHARE" (cont.)

Standard No. 21 is effective for financial statements for periods commencing January 1, 2006 or thereafter. The adoption of Standard No. 21 is accounted for retrospectively and a comparative earnings per share data for prior periods is adjusted. Accordingly, the loss per share presented in the financial statements for the twelve months ended December 31, 2005 was adjusted from $2.55 to $3.06. No adjustments were required for the other periods presented.

B. ACCOUNTING STANDARD NO. 22 "FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION"

The Company adopted Accounting Standard No. 22 "Financial Instruments: Disclosure and Presentation" ("Standard No. 22") approved by the Israeli Accounting Standards Board. The Company issued three series of convertible debentures that are considered compound instruments under Standard No. 22. A compound instrument has to be separated to its components, the equity component and the liability component. The equity component is classified as shareholders' equity and is determined as the excess of the total value over the fair value of the liability component. The standard does not require retroactive application to prior periods.

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 approximately $1,300,000 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 11A to the 2005 audited consolidated financial statements.

NOTE 1 - GENERAL (cont.)

C. FINANCING OF THE COMPANY'S ONGOING OPERATIONS

In the six months ended June 30, 2006 and in recent years, the Company has experienced significant recurring losses from operations, recurring negative cash flows from operating activities, an increasing accumulated deficit and a deficit in shareholders equity. The Company is working in various ways to mitigate its financial difficulties among them are the following:

In March 2006, the board of directors of the Company approved a plan to ramp up Fab 2 in order to meet customer and product qualification needs, based on its customer pipeline and reinforced by forecasted market conditions. According to this plan, the Company will need to raise approximately $130,000 during 2006, which will increase Fab 2 capacity by approximately 50%. The Company plans to raise this amount by way of (i) $30,000 public offering (which was raised with the completion of the TASE offering described in Note 4D) and (ii) $100,000 investment by Israel Corp. (described below).

As part of the financing efforts for the ramp-up plan, in May 2006, the Company signed a Memorandum of Understanding ("MOU") with its banks for the refinancing of the approximately $527,000 of long-term debt under its facility agreement, according to which: (i) $158,000, representing 30% of such debt, will be converted to equity for 51,973,684 ordinary shares, at a price per share of $3.04, which is equal to twice the average closing price of the ordinary shares during the 10 consecutive trading days prior to signing the MOU; (ii) the interest rate cash payments of the long-term loans will be decreased from LIBOR plus 2.5% per annum to LIBOR plus 1.1% per annum; and (iii) the commencement date for the repayment of principal shall be postponed from July 2007 to no earlier than September 2009. The terms of the MOU were subject to a commitment of Israel Corporation Ltd. ("Israel Corp.") to invest $100,000 in capacity expansion as described below. The MOU is further subject to reaching a definitive amendment to the facility agreement based on the terms of the MOU which is expected to also include arrangements to compensate the banks, under certain conditions, for the reduction in the interest on the amount borrowed from the banks (such compensation may include the issuance of securities and/or the extension of the exercise period of the banks' warrants), and revised financial ratios and covenants based on the Company's updated working plan. In this regard, Israel Corp. has committed to the banks to invest $100,000 in consideration for 65,789,474 ordinary shares, at a price per share of $1.52, which equals the average closing price during the 10 consecutive trading days prior to signing the MOU. Such amount may include amounts that may be payable by the Company to Israel Corp. in connection with the agreement for the ordering of equipment described below. Israel Corp.'s investment is subject to the signing of a definitive investment agreement, the approvals of the audit committee, board of directors and shareholders and the closing of a definitive amendment to the facility agreement with the banks based on the terms of the MOU.

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

NOTE 1 - GENERAL (cont.)

C. FINANCING OF THE COMPANY'S ONGOING OPERATIONS (cont.)

In order to implement the ramp-up plan in a timely manner, the Company entered into an agreement with Israel Corp. according to which Israel Corp. will order up to approximately $100,000 worth of equipment for Fab 2. Under the terms of the agreement: (i) Israel Corp. has the right to sell to the Company the equipment at cost, plus related expenses; (ii) the Company has the right to purchase the equipment from Israel Corp. at cost, plus related expenses, subject to the Company having raised $100,000; (iii) upon the purchase of the equipment from Israel Corp., the Company will assume Israel Corp.'s obligations to the equipment suppliers; and (iv) if after 5 months from the signing of the agreement, the equipment has not been sold to the Company by Israel Corp., Israel Corp. may sell the equipment to a third party and the Company will pay Israel Corp. the difference between the cost, plus related expenses, of the purchase of the equipment by Israel Corp. and the net sale price. This agreement was approved by the Audit Committee and the Board of Directors of the Company in May 2006.

The Company is currently examining alternatives for additional funding sources in order to further ramp-up the equipping of Fab2.

NOTE 2 - INVENTORIES

Inventories consist of the following (*):

	June 30, 2006	June 30, 2005	December 31, 2005
	(unaudited)	(unaudited)	
Raw materials	$ 8,220	6,354	$ 6,777
Spare parts and supplies	4,845	3,407	3,738
Work in process	19,956	5,709	11,502
Finished goods	1,380	1,588	2,359
	$34,401	$17,058	$24,376

(*) Net of aggregate write downs to net realizable value of $3,183, $3,149 and $3,259 as of June 30, 2006, June 30, 2005 and December 31, 2005, respectively.

NOTE 3 - RECENT DEVELOPMENTS RELATING TO FAB 2

A. APPROVED ENTERPRISE STATUS

Under the terms of the approved enterprise program for Fab 2, the Company was 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 for investments made by December 31, 2005, of which as of the balance sheet date, an aggregate of approximately $161,000 has been received from the Investment Center.

Under the terms of the program, investments in respect of Fab 2 were to be completed by December 31, 2005, five years from the date the approval certificate was obtained. Due to the later than planned construction of Fab 2, market conditions and slower than planned ramp-up, the Company completed approximately 73% of the investments under the approved enterprise program. The Company has been holding discussions with the Investment Center to achieve satisfactory arrangements to approve a new expansion program commencing as of January 1, 2006. During 2005, the Company received letters from the Israeli Minister of Industry, Trade and Employment and from the General Manager of the Investment Center stating that they will act under Israeli law to support such 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 as of January 1, 2006. As of the approval date of the interim financial statements, the Company's management cannot estimate when, if at all, the Company will receive approval of its request for a new expansion program.

B. FACILITY AGREEMENT

In July 2005, the Company and its Banks entered into a definitive amendment to the Facility Agreement. Pursuant to such amendment, the Company borrowed $29,693 and was required to raise through the issuance of shares or convertible debentures $23,500 by December 31, 2005 and an additional $6,500 by March 31, 2006. In January 2006, as described in Note 4C below, the Company completed a rights offering of convertible debentures in which it raised $48,169, $25,500 of which was raised in December 2005, thereby satisfying the abovementioned obligations to raise additional funds.

In addition, in May 2006, the Company and its Banks entered into an amendment to the Facility Agreement, according to which (i) repayments of long-term loans in the amount of approximately $100,000, originally scheduled to be paid between October 2006 and June 2007, were deferred to July 2007 and (ii) the date on which the Company was required to raise an additional approximately $8,000 was deferred from June 30, 2006 to September 30, 2006, such fundraising requirement was satisfied with the completion of the TASE offering described below in Note 4D.

As part of the financing efforts for the ramp-up plan, in May 2006, the Company and its Banks signed an MOU as described above in Note 1C.

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

B. 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. Under the current terms of the Facility Agreement, if not amended, the Company does not expect to be in compliance with all of the financial ratios and covenants under the amended Facility Agreement commencing the fourth quarter of 2006. However, as of the approval date of the financial statements, the Company anticipates, based on discussions currently being held with the Banks, that it will be in compliance with all of the financial ratios and covenants under the amended Facility Agreement, which it expects will be amended in accordance with the MOU described in Note 1C above. According to the Facility Agreement, satisfying the financial ratios and covenants is a material provision. The amended 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 $526,693) 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 4 - OTHER RECENT DEVELOPMENTS

A. CLASS ACTION

In June 2006, the United States Court of Appeals for the Second Circuit affirmed the August 2004 decision of the United States District Court for the Southern District of New York to dismiss the class action suit filed in July 2003 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. The District Court accepted the motion to dismiss filed on behalf of the defendants and noted that the Company's status as a foreign private issuer exempts the Company, its directors and controlling shareholders, from liability under the proxy rules of Section 14(a) of the Securities Exchange Act.

NOTE 4 - OTHER RECENT DEVELOPMENTS (cont.)

B. SHARE OPTION PLANS

(1) OPTIONS GRANTED TO THE CHIEF EXECUTIVE OFFICER ("CEO")

In May 2006, the Company's Audit Committee and Board of Directors approved the grant of options to the CEO of the Company, who also serves as a director, in addition to the options granted to him in April 2005, such that in total, the CEO will hold options to purchase shares that represent 4% of the Company's shares on a fully diluted basis during the two-year period from the approval of the Audit Committee. The exercise price of the initial grant of additional options will be $1.45, the 90-day average closing price of the Company's shares prior to the Board of Directors' approval. In the event of a future equity financing, additional options will be granted to the CEO as described above with an exercise price equal to the price per share of such investment. The new options will vest in the same manner as the CEO's existing options. No additional options will be granted under the CEO's employment agreement, which was approved by the Company's shareholders in October 2005. The new grant of options and its terms are subject to the approval of the Company's shareholders. In accordance with provisions of Standard No. 24 the servicing period toward the proposed grant has started with the approval by the Board of Directors and Audit Committee. The Company evaluated the compensation costs based on current information and will adjust the compensation costs until the date that the shareholders approve the grant, at which time compensation costs will be finally determined. The amount for the services already rendered as of June 30, 2006 was immaterial.

(2) RE-PRICING OF EMPLOYEE OPTIONS

The board of directors approved a plan to offer each of the Company's current employees the opportunity to exchange their existing options to purchase ordinary shares for new options with an exercise price of $1.45, which is the average closing price of the Company's shares on the Nasdaq during the 90 consecutive trading days prior to the board of directors' approval. The new options will be granted based on terms similar to the existing employee option plan with new vesting periods, starting May 2006. As of June 30, 2006, options to purchase approximately 8,440,000 ordinary shares held by current employees, with exercise prices ranging from $1.46 to $25, were outstanding. The Board of Directors further approved that if the total number of employee options, including the options to the CEO, during the then upcoming 24 months will represent less than 8% of the Company's shares on a fully diluted basis, additional options will be allocated for grants to be made to the Company's employees.

No options have been granted under such plan as of the date of the approval of the financial statements.

NOTE 4 - OTHER RECENT DEVELOPMENTS (cont.)

C. 2005 RIGHTS OFFERING

In December 2005, the Company filed in Israel and the U.S. a prospectus for the distribution of transferable rights to purchase up to $50,000 U.S. dollar denominated debentures that are convertible into up to 45,454,545 of the Company's Ordinary Shares. The rights were distributed to the shareholders of record of the Company on December 20, 2005 (the record date), and to certain employees who on the record date held options to purchase the Company's Ordinary Shares under share option plans that entitle the option holders to participate in a rights offering. Each 138.98 Ordinary Shares and/or eligible employee options held on the record date entitled their holder to one right. The rights were exercisable until January 12, 2006. Each right entitled its holder to purchase, at a subscription price of $100.00, 100 U.S. dollar denominated convertible debentures. In connection with the exercise of the rights, the Company issued 48,169,300 convertible debentures, with each debenture of $1.00 in principal amount, or total of $48,169 principal amount of debentures, which bear annual interest at the rate of 5%. The principal of the debentures, together with accrued interest, is payable in one installment on January 12, 2012.

The debentures are convertible into the Company's Ordinary Shares at a rate of one ordinary share per $1.10 aggregate principal amount of debentures. The conversion price is subject to downward adjustment under certain circumstances in which the Company sells securities in future financings at a price per share which is lower than the conversion price, provided that such financings close through December 2006 (or under certain conditions, through June 2007). No such adjustment is required following the 2006 public offering described below in Note 4D below. During the six months ended June 30, 2006, $15,508 in aggregate principal amount of debentures was converted into 14,098,490 ordinary shares of the Company.

Subject to the terms of the Facility Agreement, the Company may, at its option, announce the early redemption of the debentures, provided that the outstanding aggregate balance of principal on account of the debentures is equal to or less than $500. The debentures are listed and quoted on the NASDAQ Capital Market and the Tel Aviv Stock Exchange.

Certain of the Company's Equity Investors and Wafer Partners invested $27,811 in the framework of the rights offering.

The debentures and interest thereon are unsecured and rank behind the Company's existing and future secured indebtedness, including indebtedness to the Banks under the Facility Agreement, as well as to the government of Israel in connection with grants the Company received under its approved enterprise programs and to Siliconix.

If on the payment date of the principal and interest on the debentures, there exists an infringement of the covenants and conditions under the Facility Agreement, the date for payment of the interest and principal on the debentures may be postponed, depending on various scenarios under the Facility Agreement until such covenant or condition is settled.

See Note 5 for the accounting for the rights offering in accordance with U.S. GAAP.

NOTE 4 - OTHER RECENT DEVELOPMENTS (cont.)

D. 2006 PUBLIC OFFERING

In June 2006 the Company completed an underwritten public offering of the Company's securities on the Tel-Aviv Stock Exchange (TASE) in Israel resulting in gross proceeds of approximately NIS 140,000,000 (approximately $31,000). In the offering, 78,000 Units were sold at a price per Unit of NIS 1,785 (approximately $0.4). Each Unit consists of (i) convertible debentures in the face amount of NIS 2,100 (approximately $0.47), (ii) five options each exercisable for three months ending on September 27, 2006 for NIS 100 principal amount of convertible debentures at an exercise price equal to 85% of their face amount, linked to the Israeli Consumer Price Index ("CPI"), (iii) 140 warrants each exercisable for three months ending on September 27, 2006 for one ordinary share of the Company at a price of NIS 6.75 (approximately $0.00151), linked to the CPI and (iv) 70 warrants each exercisable for three years ending on June 28, 2009 for one ordinary share of the Company at a price of NIS 7.40 (approximately $0.00166), linked to the CPI. The convertible debentures are convertible into the Company's ordinary shares at a conversion rate of one ordinary share per NIS 8.40 (approximately $0.00189) principal amount of convertible debentures. The convertible debentures carry a zero coupon with principal payable at maturity in December 2011, at a premium of 37% over face value, linked to the CPI. The conversion price is subject to reduction in certain limited circumstances. In accordance with Standard No. 22 the proceeds were allocated to each of the Unit's components based on relative fair values in the first 2 days of trading. After allocation, each of the components is classified as either equity or liability based on the criteria prescribed in Standard No. 22.

In addition, the Company issued 300 such units in consideration for NIS 526,000 through a private placement to its market maker in connection with said offering.

The offering was made in Israel to Israeli residents only. The securities offered were not registered under the Securities Act and may not be sold in the U.S. or to U.S. persons absent registration or an applicable exemption.

See Note 5 for the accounting for the public offering in accordance with U.S. GAAP.

E. AUTHORIZED SHARES

In March 2006, the Board of Directors of the Company approved the increase of the Company's authorized shares from 500,000,000 to 800,000,000. This increase is subject to the approval of the Company's shareholders.

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 H below for the presentation of the Company's unaudited balance sheet as of June 30, 2006 in accordance with U.S. GAAP.

A. RECENT ACCOUNTING PRONOUNCEMENTS BY THE FASB

SFAS NO. 155. ACCOUNTING FOR CERTAIN HYBRID FINANCIAL INSTRUMENTS -

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments". Key provisions of SFAS 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of FAS 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a QSPE holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. In general, these changes will reduce the operational complexity associated with bifurcating embedded derivatives, and increase the number of beneficial interests in securitization transactions, including interest-only strips and principal-only strips, required to be accounted for in accordance with FAS 133. Management does not believe that SFAS 155 will have a material effect on the financial condition, results of operations, or liquidity of the Company.

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

In accordance with U.S. GAAP, the Company's designated cash and short-term interest-bearing deposits should be excluded from current assets and presented separately as a non-current asset. Accordingly, as of June 30, 2006 $2,909 was reclassified from current assets to a long-term asset (as of December 31, 2005 - $31,661, was reclassified from current assets to a long-term asset).

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

C. 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, 2006, an amount of $13,613 was reclassified from other long-term liabilities to long-term investments (as of December 31, 2005 - $13,658).

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

Complying with SFAS 133 as amended and the related interpretations thereon with respect to the Company's hedging transactions as of June 30, 2006 would have resulted in: an increase in other long-term investments in the amount of $3,011; a decrease in other comprehensive loss for the six months ended June 30, 2006 in the net amount of $1,908; an accumulated other comprehensive income component of equity balance as of June 30, 2006 in the amount of $354; and in a decrease of $2,627 in property and equipment, net as of June 30, 2006.

E. DEFERRED FINANCING CHARGES

Under U.S. GAAP, deferred-financing charges are to be presented in other assets, while according to Israeli GAAP effective January 1, 2006 such amount is required to be offset from the related long-term debt. Accordingly, as of June 30, 2006, an amount of $10,882 was reclassified from long-term debt to other assets.

F. ISSUANCE OF CONVERTIBLE DEBENTURES

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 was not required. Complying with APB 14, based on the average market value of each of the components issued in the first three days following their issuance (in January 2002), would have resulted in an increase in shareholders' equity as of the issuance date in the amount of $2,363 (net of $196 related issuance expenses), and a decrease in convertible debentures as of such date in the amount of $2,559. The accumulated effect of amortization of the discount on the convertible debentures under U.S.GAAP as of June 30, 2006 would have been $1,637. Commencing with the adoption of Standard No. 22 in January 2006, allocation of proceeds in a unit, to its components, is based on relative fair values under Israeli GAAP as well as under US GAAP.

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

F. ISSUANCE OF CONVERTIBLE DEBENTURES (cont.)

Under US GAAP, convertible debentures have to be evaluated to determine if they contain embedded derivative that warrant bifurcation. Conversion feature embedded in convertible debentures will need to be evaluated as to whether they can be classified as equity based on the criteria established in EITF Issue 00-19 and 05-2. The Company evaluated the conversion features embedded in its debentures (i.e., sale of convertible debentures in 2002 - "2002 debentures", sale of convertible debentures in 2005 "2005 debentures" and sale of convertible debentures in 2006 "2006 debentures") and concluded that the conversion feature embedded in the 2005 and 2006 debentures warrant bifurcation while the conversion feature embedded in the 2002 debentures is scoped out (for the discussion on the accounting for the debentures under Israeli GAAP see Note 1A(3)b).

2002 DEBENTURES:

Under US GAAP, the equity component, in the amount of $1,681, classified in equity under Israeli GAAP was reclassified to liability.

2005 DEBENTURES:

Under US GAAP, the equity component, in the amount of $13,763 classified as equity under Israeli GAAP was reclassified to liability and the conversion feature was bifurcated from the debt host and marked to market through earnings. The initial amount allocated to the bifurcated conversion feature was determined using the "with and without" method based on the fair value of the embedded derivative prescribed in DIG Issue B6.

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

2006 DEBENTURES:

Under US GAAP, the equity component, in the amount of $4,382, classified in equity under Israeli GAAP was reclassified to liability. The conversion feature will be bifurcated from the debt host and marked to market through earnings. The amount to be allocated to the bifurcated conversion feature would be determined using the "with and without" method.

All the above resulted as of June 30, 2006 mainly in an increase in convertible debentures in the amount of $19,925; an increase in the shareholder's deficit in the amount of $18,906 and an increase in other assets in the amount of $1,109. The Company's loss for the six-month period ended June 30, 2006 would have decreased in the amount of $1,795.

G. EMPLOYEE STOCK BASED COMPENSATION

The Company adopted, effective January 1, 2006, SFAS 123R according to which the compensation expense related to employee and directors share option awards would have been resulted in an increase in the compensations expenses for the period ending June 30, 2006 and an increase in the unearned compensation as of such date in the amount of $818. The Company elected the modified prospective method as its transition method.

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

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

		AS OF JUNE 30, 2006			AS OF DECEMBER 31, 2005		
	U.S. GAAP REMARK	AS PER ISRAELI GAAP	ADJUSTMENTS	AS PER U.S. GAAP	AS PER ISRAELI GAAP	ADJUSTMENTS	AS PER U.S. GAAP
A S S E T S							
CURRENT ASSETS							
CASH AND CASH EQUIVALENTS		$ 8,581	$ --	$ 8,581	$ 7,337	--	$ 7,337
DESIGNATED CASH AND SHORT-TERM INTEREST - BEARING DEPOSITS	B	2,909	(2,909)	--	31,661	(31,661)	--
PROCEEDS RECEIVABLES RELATING PUBLIC OFFERING		31,479	--	31,479	--		--
TRADE ACCOUNTS RECEIVABLE :							
RELATED PARTIES		8,538	--	8,538	5,309	--	5,309
OTHERS		13,088	--	13,088	11,467	--	11,467
OTHER RECEIVABLES		7,131	--	7,131	9,043	--	9,043
INVENTORIES		34,401	--	34,401	24,376	--	24,376
OTHER CURRENT ASSETS		1,616	--	1,616	1,048	--	1,048
TOTAL CURRENT ASSETS		107,743	(2,909)	104,834	90,241	(31,661)	58,580
LONG-TERM INVESTMENTS							
OTHER LONG-TERM INVESTMENTS	C,D	--	16,624	16,624	--	15,425	15,425
		--	16,624	16,624	--	15,425	15,425
PROPERTY AND EQUIPMENT, NET	D,F	460,328	(2,297)	458,031	510,645	(3,291)	507,354
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	B	--	2,909	2,909	--	31,661	31,661
OTHER ASSETS, NET :							
TECHNOLOGY		54,508	--	54,508	61,441	--	61,441
OTHER	E,F	1,371	11,991	13,362	16,359	(196)	16,163
		55,879	11,991	67,870	77,800	(196)	77,604
TOTAL ASSETS		$ 623,950	$ 26,318	$ 650,268	$ 678,686	11,938	$ 690,624
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES							
CURRENT MATURITIES OF LONG TERM DEBT		$ --	$ --	$ --	$ 21,103	$ --	$ 21,103
CURRENT MATURITIES OF CONVERTIBLE DEBENTURE	F	6,204	420	6,624	6,453	(640)	5,813
TRADE ACCOUNTS PAYABLE		50,410	--	50,410	59,741	--	59,741
OTHER CURRENT LIABILITIES		11,517	--	11,517	8,972	--	8,972
TOTAL CURRENT LIABILITIES		68,131	420	68,551	96,269	(640)	95,629
LONG-TERM DEBT	E	515,811	10,882	526,693	497,000	--	497,000

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

CONVERTIBLE DEBENTURES	F	53,272	19,925	73,197	19,358	23,574	42,932
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES		52,528	--	52,528	59,621	--	59,621
OTHER LONG-TERM LIABILITIES	C	10,104	13,613	23,717	11,012	13,658	24,670
TOTAL LIABILITIES		699,846	44,840	744,686	683,260	36,592	719,852
CONVERTIBLE DEBENTURES	F	--	--	--	25,493	(25,493)	--
SHAREHOLDERS' EQUITY							
ORDINARY SHARES, NIS 1 PAR VALUE - AUTHORIZED 500,000,000 SHARES; ISSUED 85,768,622 AND 68,232,056 SHARES		20,366	--	20,366	16,548	--	16,548
ADDITIONAL PAID-IN CAPITAL	F	540,885	(875)	540,010	522,237	2,363	524,600
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	F,G	20,381	(19,008)	1,373	(26)	--	(26)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	D	--	354	354	--	(1,554)	(1,554)
ACCUMULATED DEFICIT	D,F,G	(648,456)	1,007	(647,449)	(559,754)	30	(559,724)
		(66,824)	(18,522)	(85,346)	(20,995)	839	(20,156)
TREASURY STOCK, AT COST - 1,300,000 SHARES		(9,072)	-	(9,072)	(9,072)	--	(9,072)
TOTAL SHAREHOLDERS' EQUITY		(75,896)	(18,522)	(94,418)	(30,067)	839	(29,228)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 623,950	$ 26,318	$ 650,268	$ 678,686	$ 11,938	$ 690,624

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

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

Complying with SFAS 133, APB 14 (F above) and SFAS 123R (G above) would have resulted in a decrease in the loss for the six months period ended June 30, 2006 in the amount of $1,007 and an increase in the loss for the three months period ended June 30, 2006 in the amount of $3,854. Giving effect to all the above, the loss for the six-month and three-month periods ended June 30, 2006 would be $87,725 and $47,500 No material effect on the result of operation for the six-month and three-month periods ended June 30, 2005.

J. 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,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
Loss for the period, according to U.S. GAAP (see I above)	$(87,725)	$(102,560)	$(47,500)	$(47,240)
Other comprehensive loss:				
Reclassification of unrealized losses on derivatives	664	664	332	332
Unrealized gains on Derivatives	1,245	1,985	518	(852)
Net comprehensive loss for the period	(85,816)	$ (99,911)	(46,650)	$(47,760)

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

In accordance with SFAS 128, the basic and diluted loss per share for the six-month and the three-month periods ended June 30, 2006 would be $1.16 and $0.60, respectively (during the corresponding periods - $1.56 and $0.71, respectively).

L. STATEMENTS OF CASH FLOWS IN ACCORDANCE WITH U.S. GAAP (SFAS 95)

Complying with SFAS 95 would not have materially affected the cash flows of the Company for the six-month and three-month periods ended June 30, 2006 and 2005.

EXHIBIT 99.3

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, 2006 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, 2005 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 5 TO OUR UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2006 AND IN NOTE 20 TO OUR CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005.

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, 2006	SIX MONTHS ENDED JUNE 30, 2005
STATEMENT OF OPERATIONS DATA:		
Total revenues	100.0%	100.0%
Cost of total revenues(1)	157.2	243.1
Gross loss	(57.2)	(143.1)
Research and development expenses, net	8.6	17.2
Marketing, general and administrative expenses	13.4	17.4
Operating loss	(79.2)	(177.7)
FINANCING EXPENSE, NET	(31.8)	(30.8)
Other income, net	0.7	4.9
Loss	(110.3)%	(203.6)%

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

REVENUES. Revenues for the six months ended June 30, 2006 increased by 59.7% to $80.4 million from $50.4 million for the six months ended June 30, 2005. This $30.0 million increase was mainly attributable to higher volume of wafer shipments, offset by $8 million recorded for the six months ended June 30, 2005 from a previously announced technology-related agreement.

COST OF TOTAL REVENUES. Cost of total revenues for the six months ended June 30, 2006 amounted to $126.4 million, compared with $122.5 million for the six months ended June 30, 2005. This 3.2% modest increase in cost of revenues, despite the 59.7% increase in sales, was achieved mainly due to previously announced cost reductions and efficiency measures taken by the Company.

GROSS LOSS. Gross loss for the six months ended June 30, 2006 was $46.0 million compared to a gross loss of $72.1 million for the six months ended June 30, 2005. The decrease in gross loss was mainly attributable to the increase in revenues and previously announced cost reductions and efficiency measures taken by the Company.

RESEARCH AND DEVELOPMENT. Research and development expenses for the six months ended June 30, 2006 decreased to $6.9 million from $8.6 million for the six months ended June 30, 2005. The decrease was mainly attributable to previously announced cost reductions and efficiency measures taken by the Company. Research and development expenses are reflected net of participation grants received from the Israeli government.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. Marketing, general and administrative expenses for the six months ended June 30, 2006 increased to $10.8 million from $8.8 million for the six months ended June 30, 2005, primarily due to increased operational activity.

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(1) Management's review of possible impairment charges for the periods presented, as required by Standard 15 of the Israeli Accounting Standards Board, was performed based on management's business plan, approved by the board of directors of the Company. The business plan is based, among other things, on future completion of the construction and equipping of Fab 2 to reach full capacity. Application of Standard 15 resulted in no impairment charges for the periods presented.

OPERATING LOSS. Operating loss for the six months ended June 30, 2006 was $63.7 million, compared to $89.5 million for the six months ended June 30, 2005. The decrease in the operating loss is attributable mainly to the decrease in the gross loss described above.

FINANCING EXPENSES, NET. Financing expenses, net for the six months ended June 30, 2006 were $25.6 million compared to financing expenses, net of $15.5 million for the six months ended June 30, 2005. This increase is mainly due to an increase of $5.0 million in connection with our Fab 2 credit facility agreement with our banks attributable mainly to (i) an increase in the LIBOR rate (to which our loans with our banks are linked) from an average of approximately 3% per annum for the six months ended June 30, 2005 to an average of approximately 5% per annum for the six months ended June 30, 2006 and (ii) an increase in our outstanding loans from an average of $497 million to an average of approximately $527 million.

OTHER INCOME, NET. Other income, net, for the six months ended June 30, 2006 was $0.6 million compared to $2.5 million for the six months ended June 30, 2005.

LOSS. Our loss for the six months ended June 30, 2006 was $88.7 million, compared to $102.6 million for the six months ended June 30, 2005. This decrease is primarily attributable to the decrease in the operating loss of $25.8 million described above offset by the increase in financing expenses of $10.1 million described above.

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, 2006, the exchange rate of the dollar in relation to the NIS decreased by 3.5%, and the Israeli Consumer Price Index, or CPI, increased by 1.5% (during the six months ended June 30, 2005 there was an increase of 6.2% in the exchange rate of the dollar in relation to the NIS and a increase of 0.4% in the CPI).

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

Almost all of the cash generated from our operations and 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

As of June 30, 2006, we had an aggregate of $11.5 million in cash, cash equivalents, and short-term interest-bearing deposits, of which $2.9 million was contractually restricted for Fab 2 use only. This compares to $40.4 million we had as of June 30, 2005 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.

During the six months ended June 30, 2006, we received $8.6 million from bank loans, $21.9 million in proceeds from the issuance of convertible debentures, net, $3.3 million from Investment Center grants and $0.6 million in proceeds from the sale and disposal of property and equipment. These liquidity resources partially financed our operating activities (net amount of $26.1 million), our investments made during the six months ended June 30, 2006, which aggregated to $29.3 million, mainly in connection with the construction, purchase and installation of equipment and other assets for Fab 2 and repayment of convertible debentures in the amount of $6.5 million.

As of June 30, 2006, we had long-term loans in the amount of $526.7 million we obtained in connection with the establishment of Fab 2 (presented in the balance sheet net of $10.9 million deferred financing charges). As of such date, we had total convertible debentures with par value of $90.2 million, of which $6.2 million are presented as current maturities and $19.8 million of the proceeds were allocated and are presented as equity component of the convertible debentures as part of the shareholders' equity.