

Tower Semiconductor Announces Closing of Definitive Agreements with its Banks and Israel Corp.

MIGDAL HAEMEK, Israel — September 28, 2006 — Tower Semiconductor Ltd. (NASDAQ: TSEM; TASE: TSEM), a pure-play independent specialty foundry, today announced the closing of the previously announced definitive agreements with its lender banks and with Israel Corp., following the approval of Tower's shareholders at a meeting held today and the completion of all other closing conditions.

According to these agreements, \$158 million of long-term debt was converted by the banks into equity equivalent capital notes, convertible into 51,973,684 Tower's ordinary shares, and \$100 million was invested by Israel Corp. in Tower for an equity equivalent capital note, convertible into 65,789,474 ordinary shares.

Other principal terms of the definitive agreements are described in Tower's proxy statement filed on August 24, 2006 at www.sec.gov and at www.maya.tase.co.il.

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:

Tower Semiconductor
Ilanit Vudinsky, +972 4 650 6434
ilanitvu@towersemi.com

Safe Harbor

This press release includes forward-looking statements, which are subject to risks and uncertainties. Actual results may vary from those projected or implied by such

forward-looking statements. Potential risks and uncertainties include, without limitation, risks and uncertainties associated with: (i) the completion of the equipment installation, technology transfer and ramp-up of production in Fab 2, (ii) having sufficient funds to operate the company 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) our ability to capitalize on increases in demand for foundry services, (vii) meeting the conditions to receive Israeli government grants and tax benefits approved for Fab 2 and obtaining the approval of the Israeli Investment Center for a new expansion program, (viii) attracting additional customers, (ix) not receiving orders from our wafer partners, customers and technology providers, (x) failing to maintain and develop our technology processes and services, (xi) competing effectively, (xii) our large amount of debt and our ability to repay our debt on a timely basis, (xiii) achieving acceptable device yields, product performance and delivery times, (xi) the timely development, internal qualification and customer acceptance of new processes and products, and (xv) business interruption due to terror attacks, including the current effect of the military situation, earthquakes, and other acts of God.

A more complete discussion of risks and uncertainties that may affect the accuracy of forward-looking statements included in this press release or which may otherwise affect our business is included under the heading "Risk Factors" in our most recent filings on Forms 20-F, F-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.