



The Global Specialty Foundry Leader

2018 ANNUAL REPORT

Corporate and Business Overview

NASDAQ & TASE: TSEM





TABLE OF CONTENTS

3

Corporate Overview

4

Opening
Vision, Mission, Values

5

Chairman Letter
to Shareholders

6

CEO Letter
to Shareholders

7

Leadership Team

8

Financials Overview

9

Technology Leadership

10-11

Analog IC:
Radio Frequency &
High-Performance Analog

12-13

Analog IC:
Power Management

14-15

Sensors: Visual &
Non-Visual

16

Automotive

17-19

Global Operations &
Manufacturing Quality

20

Transfer, Optimization &
Development Process
Services

21

Aerospace & Defense

22

Research &
Development

23

Worldwide Design
Enablement

24-25

Corporate Social
Responsibility

26-35

Fourth Quarter and
Fiscal Year 2018
Financial Results

OVERVIEW

TOWERJAZZ: THE GLOBAL SPECIALTY FOUNDRY LEADER

TowerJazz manufactures advanced analog integrated circuits for a diversified and strong customer base in various growing markets. Through focusing on long-term customer relationships and gaining new and exciting business, TowerJazz is well-positioned to fulfill current and future needs, while providing full circle value creation.

Technology and Market Leadership

Deeply focused on enhancing its value propositions to its growing customer base, the Company continues to drive innovation within silicon, rather than by pure technological node shrinkage.

TowerJazz specializes in customized analog solutions for manufacturing differentiated products, offering leading edge specialty process technologies including Radio Frequency (RF), High Performance Analog (HPA), integrated Power Management, CMOS Image Sensors (CIS), and Mixed-Signal/CMOS, as well as Micro-Electro-Mechanical Systems (MEMS) capabilities. TowerJazz also offers Transfer Optimization and development Process Services (TOPS) to IDMs and fabless companies.

The Company continuously broadens its technological offerings by developing advanced and sophisticated solutions designed to meet the needs of the world's leading market trends such as connectivity, power efficiency and smart systems (sensors), while enabling competitiveness and high value propositions.

In addition, the Company provides a world-class design enablement platform, complementing its sophisticated technology to enable a quick and accurate design cycle.

Worldwide Manufacturing Excellence

TowerJazz provides global capacity assurance with high quality and flexible worldwide manufacturing capabilities, enabling multi-fab wafer production to best fulfill its customers' needs.

TowerJazz operates seven manufacturing facilities in three geographic regions: two fabs (150mm and 200mm) located in Migdal Haemek, Israel; two fabs (200mm) in the US (Newport Beach, California and San Antonio, Texas); and, three additional fabs (two 200mm and one 300mm) through TowerJazz Panasonic Semiconductor Co., Ltd. (TPSCo) located in Japan.

Through its global manufacturing facilities, TowerJazz drives operational excellence to reduce complexity, maximize transparency, shorten lead times optimize efficiency and hence lower operational costs. Leveraging best-in-class performance from each of the Company's geographic locations into its superb worldwide standards, TowerJazz provides additional capabilities to not only meet, but to exceed its customer expectations.

AT A GLANCE

The global specialty foundry leader, manufacturing advanced analog integrated circuits for growing markets such as automotive, communication, consumer, medical, industrial and aerospace and defense, among others, while aligning with world leading customers' technology roadmaps to ensure long-term business relationships.



Offers **Full Circle Value Creation** with the widest range of customized analog technologies and cutting edge market solutions while continuously expanding its diversified and strong customer base.



A **strong financial foundation and business model** with focus on margin expansion and free cash flow generation, enabling continuous realization of growth and value-add opportunities.



Seven worldwide manufacturing facilities fulfilling growing customer demand and providing capacity assurance, operational flexibility, with geographically spread dual-sourcing capabilities.



Employs over 5,500 **highly devoted, talented and skilled employees worldwide**, with broad knowledge, specialized expertise and profound experience.

TOWERJAZZ MAINTAINS A FIRM FINANCIAL BASE, STRONG TECHNOLOGICAL OFFERING, STRATEGIC MARKET POSITION AND MATERIAL BUSINESS GROWTH OPPORTUNITIES.

THE COMPANY IS FOCUSED ON **VALUE-ADD PERFORMANCE** AND **FURTHER ENHANCING LEADERSHIP AND SUCCESS** FOR ITS CUSTOMERS, PARTNERS, SHAREHOLDERS, AND EMPLOYEES.



Vision

To be the world leader in specialty foundry solutions as measured by our customers, employees and investors.

Mission

TowerJazz's mission is to bring to market specialty foundry solutions that provide unique value to our customers by attentively listening to and proactively providing for their needs, through attracting and retaining the best global talent to serve them.

Values



Embrace a Customer Centric Mentality



Foster a Culture Built on Mutual Trust and Respect



Demand Quality and Excellence in Everything We Do



Exemplify a Data Driven and Results-Oriented Mindset



Emphasize Collaboration and Innovation



Focus on the Right Knowledge, Skills and Attitude

CHAIRMAN LETTER TO SHAREHOLDERS

Dearest Shareholders and Friends,

First, I would like to thank you for your continuous trust and support in TowerJazz.

2018 was an important year for TowerJazz, one in which it (1) released and gained major customer tractions for 300mm RF, power management and image sensor platforms; (2) repurposed its Newport Beach facility to maximize SiGe output, which growth continues in 2019; and (3) qualified multiple 3rd party flows, including SiGe, in its San Antonio manufacturing facility.

Over the past few years, the Company has recorded substantial business, operational and financial achievements, ending 2018 with a very strong balance sheet and record shareholder equity. We have the right leading team, powerful worldwide employee base, operational facilities, and the correct customers, to continue and grow leadership in the strategic analog end markets in which we have chosen to partner.

As this year progresses, we will be announcing additional activities that we are working on, to add further value to the analog market. I have confidence that we are well positioned to continue and realize our ever-growing potential, reaching new heights while constantly striving to fulfill our commitment to bring to market advanced specialty foundry solutions that provide unique value to our customers, and by that creating shareholders value.

Thank you.



AMIR ELSTEIN

Chairman, Board of Directors
TowerJazz



BOARD OF DIRECTORS

Mr. Amir Elstein
Chairman of the Board

Ms. Iris Avner
Director

Mr. Yoav Z. Chelouche
Director, Chairman of the Audit
Committee

Mr. Russell Ellwanger
Director, CEO

Mr. Ilan Flato
Director, Chairman of the
Compensation Committee

Ms. Dana Gross
Director

Mr. Rami Guzman
Director

Mr. Kalman Kaufman
Director, Chairman of the
Nomination Committee

Mr. Alex Kornhauser
Director

Mr. Jerry Neal
Director

CEO LETTER TO SHAREHOLDERS

Dear Shareholders, Customers, Partners and Employees,

The highest imperative of life is value creation. An individual can, and rightly should be judged by whether his or her surroundings were bettered through their existence.

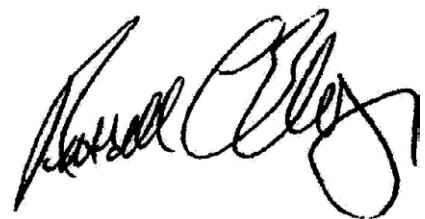
A company must also create value. The character and fiber of any company is closely tied to enabling a motivated employee base. Great companies recognize talent and increase energetic passion by giving opportunities and adequate tools to enable achievements, which in turn expands capability and confidence. The latter two are the indispensable ingredients of success.

The measure of corporate 'value-add' is simple - when both customer and supplier top and bottom line grow, the activity is value-add and sustainable. Why sustainable? The excitement and energy of mutual customer-supplier creation feeds even greater creation. At TowerJazz we are continuously pursuing a model of key customer roadmap alignment and joint development. In so doing, we have strong assurance that our most advanced developments and associated investments will be implemented in the market without an added lag time of serial activities for customer platform qualification. This has proven successful in SiGe optical infrastructure, CMOS image sensors for industrial vision, cinematography, and medical x-ray, and families of trench and super junction FETs. We have now established a strong presence with power management IC's, including 300mm, 65nm platforms and extended a strong customer roadmap for front end module RF switches with the addition of 300mm, 65nm platforms.

We enter 2019 with certain geo-economic headwinds but remain confident in our value creation thesis. We look forward to delighting our customers, shareholders, and partners through notable milestone achievements, driven by the most capable, impassioned human capability and built upon a strong and growing financial foundation.

Thank you.

“
**When both
customer and
supplier top and
bottom line grow,
the activity is
value-add and
sustainable**
”



RUSSELL ELLWANGER

TowerJazz Chief Executive Officer
TPSCo Chairman of the Board

LEADERSHIP TEAM



Russell Ellwanger
Chief Executive Officer



Dr. Itzhak Edrei
President



Oren Shirazi
Chief Financial Officer
Senior Vice President of Finance



Rafi Mor
Chief Operating Officer



Dr. Marco Racanelli
Senior Vice President and
General Manager of Analog IC Business
Unit and Newport Beach Site Manager



Zmira Shternfeld-Lavie
Senior Vice President and
General Manager of Transfer, Optimization
and Development Process Services and
Seed Technologies Business Units



Dr. Avi Strum
Senior Vice President and
General Manager of Sensors Business Unit



Dalit Dahan
Senior Vice President of
Human Resources and Information Technology



Yossi Netzer
Senior Vice President
of Corporate Planning



Nati Somekh
Senior Vice President Chief Legal
Officer and Corporate Secretary



Noit Levy Karoubi
Vice President of Investor Relations
and Corporate Communications



Guy Eristoff
Chief Executive Officer, TPSCo

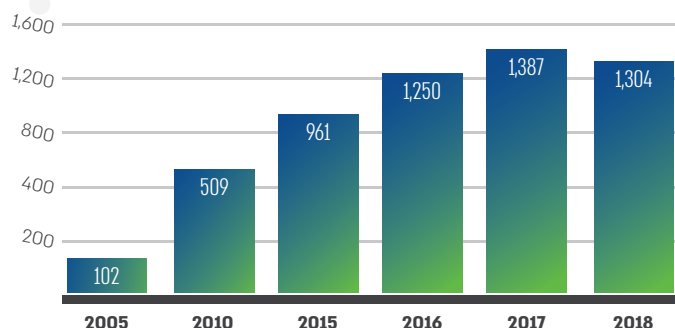
FINANCIALS OVERVIEW

By shaping its strategic priorities, and being mindful of margin increase and cash generation, the Company has notably achieved and maintained a strong and solid financial position. With the ambition to continuously drive high value to its customers, partners, and shareholders, TowerJazz is focused on accurately balancing its extensive technological and operational capabilities with real market demand, in order to maximize both top line and bottom line growth.

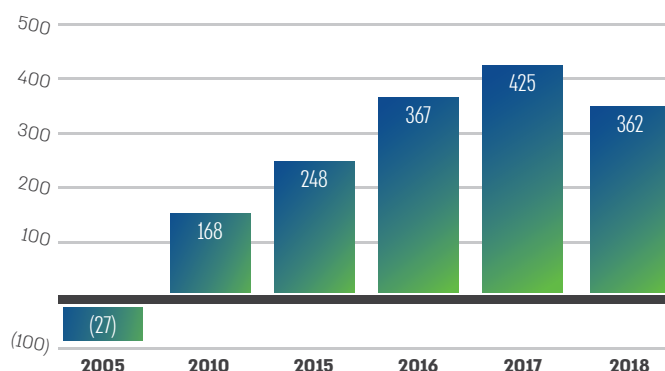
With recent macroeconomic market conditions and their short-term impact, the Company is taking measures to further tailor expenses to ensure business and operational efficiency, enabling that its long-term financial model remains intact, with high confidence towards mid- to long-term targets.

FINANCIAL PERFORMANCE (\$M) PROFITABLE GROWTH AND CASH GENERATION

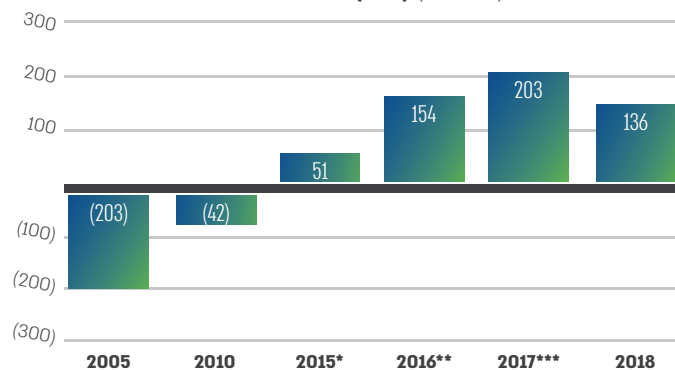
Revenues (\$ Million)



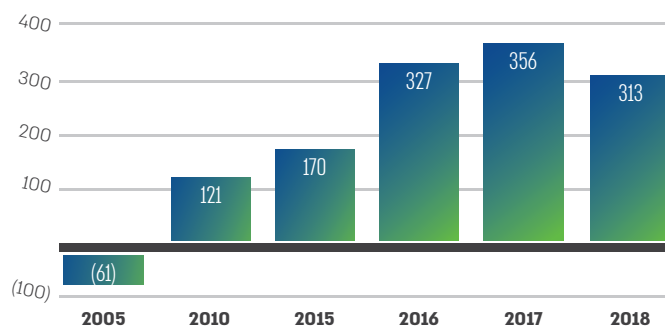
EBITDA (\$ Million)



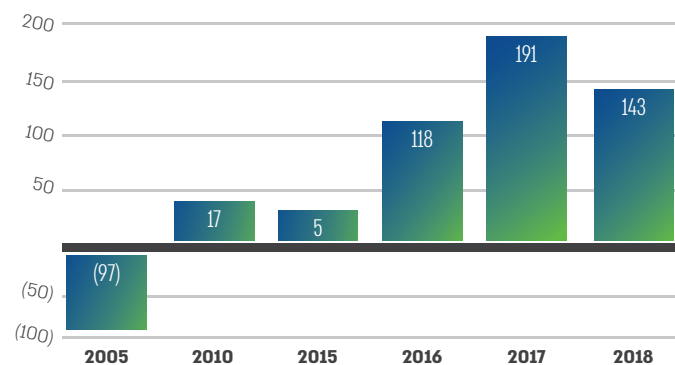
Net Profit (loss) (\$ Million)



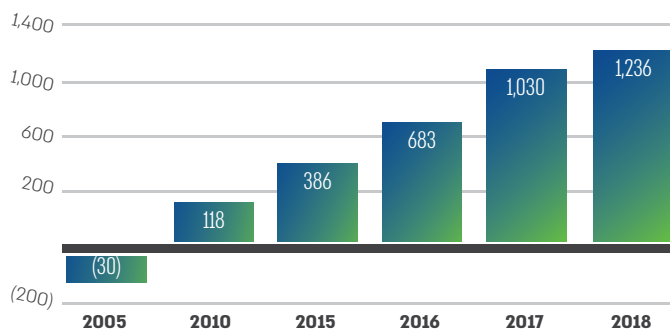
Cash from Operations (\$ Million)



Free Cash Flow (\$ Million)



Shareholders' Equity (\$ Million)



(*) 2015 Net profit as presented above excludes \$81 million non-cash financing expenses related with the accelerated conversion of CD series F.

(**) 2016 Net profit as presented above excludes \$50 million Maxim acquisition gain.

(***) 2017 Net profit as presented above excludes \$82 million income tax benefit resulted from Israeli deferred tax asset realization following valuation allowance release and \$13 million income tax benefit related to U.S. tax reform.

TECHNOLOGY LEADERSHIP

As a leading pure-play analog foundry, TowerJazz is dedicated to continuously pursue new, high-end technological horizons and driving new and even disruptive solutions for a broad range of markets and end applications such as: consumer, industrial, communication, automotive, medical, and aerospace and defense, among others.

Providing its customers with value-add, best-in-class vast and comprehensive specialty technology offering, TowerJazz allows its customers to meet or exceed their precise specifications, enabling them to lead in their market segments.

TowerJazz's modular and customizable processes include: SiGe, BiCMOS, and RF CMOS (SOI and bulk) for radio frequency (RF) and high-performance analog (HPA) applications; CMOS image sensor (CIS); power management, including 700V BCD; CMOS; Mixed-Signal CMOS and MEMS capabilities.

To complement its sophisticated technology offerings, the Company also provides a world-class design enablement platform that facilitates a quick and accurate design cycle.



Analog IC (AIC)

TowerJazz's Analog IC (AIC) business unit provides advanced specialty foundry solutions covering all major analog IC segments from RF to high-performance analog, power management and mixed-signal CMOS.

RADIO FREQUENCY AND HIGH-PERFORMANCE ANALOG

TowerJazz holds a leadership position in RF Silicon-on-Insulator (RF SOI), Silicon Germanium (SiGe) and Silicon Photonics (SiPho) technologies. Today, these are providing solutions for emerging 5G products in both mobile handsets and related infrastructure. In addition, our SiGe technology has dominant market share in high-speed optical communication transceivers for data centers and cloud computing.

The Company is continuously addressing the world's abundant demand for seamless connectivity with its extensive expertise and value-add solutions, including:

- **Silicon Germanium (SiGe):** a strong source for future growth driven by data center, mobile handset, 5G infrastructure, automotive radar, and IoT markets. Its low noise and efficient power delivery make it ideal for LNA (low-noise amplifiers) and PA (power amplifiers) in wireless applications as well as transceivers in optical data communications.
 - **SiGe Low Noise Amplifiers** for mobile handsets, GPS, and IoT with best-in-class noise, linearity, and power consumption performance;
 - **SiGe power amplifiers** for highly efficient WiFi and Bluetooth applications enabling full integration of a front-end-module on a single die; and,
 - **SiGe optical fiber transceivers**, with speeds of 300GHz, supporting top-tier customers with continued development for innovative solutions.
- **Silicon Photonics (SiPho):** integrating optical detectors, waveguides, and modulators on a single die, eliminating the need for costly assembly of discrete components, thereby enabling size and cost advantage.
- **RF SOI:** best-in-class Ron-Coff figure of merit for the switching of RF signals, enabling low loss and high linearity RF switches supporting high data rates and low power consumption.
- **Next Generation Technologies:** Focused on enabling 5G in both handset and fixed wireless points with the Company's 200mm and 300mm RF SOI platforms, SiGe, RF MEMS, and new materials that promise to leapfrog today's performance.

During 2018, TowerJazz continued to enhance its offering and operational capability to position itself for future growth in RF and HPA markets, including the following achievements:

Communication infrastructure (optical)

- Doubled SiGe capacity and qualified SiGe in two different manufacturing facilities providing customers with continued ability to grow. In 2018, this enabled a substantial shift in mix towards higher-margin SiGe flows and prepared the Company for future growth in this space;
- Began prototyping 200/400 Gb/s customer designs in the Company's latest SiGe platforms while ramping production on today's 100Gb/s products;
- Launched initial production of Silicon Photonics, with an industry-leading, open-design platform targeting optical networking and data center interconnected applications; and,
- Launched a next-generation Silicon Photonics project to include integration of lasers.

Wireless communication: front-end-modules supporting 5G era

- Began the ramp of 300mm RF SOI supporting all standards, including the most stringent 5G;
- Delivered next-generation prototypes for 5G handsets; and,
- Demonstrated 5G high-power SiGe phased array transmitter and full 12Gb/s transceiver for fixed wireless applications.



Throughout the years the Company has built a strong customer base in the global delivery of data by supplying wireless front-end modules for handsets and IoT devices as well as optical SiGe to data center, cloud computing, and networks.

TowerJazz's focus is now to help its customers capitalize on the exciting prospects of 5G wireless which promises to continue our growth in serving both ends of the wireless data link with enhanced RF content in handsets and higher data rates for infrastructure and data centers.

Press Releases

August 27, 2018

TowerJazz Addressing Emerging Markets of 5G and mmWave with New Leading Edge SiGe and RF SOI Technologies

August 21, 2018

TowerJazz to Showcase SiGe and Silicon Photonic Process Solutions for 100 to 400Gb/s Optical Data Links at ECOC in Rome, Italy

June 27, 2018

TowerJazz Announces RF SOI 65nm Ramp in its 300mm Fab with Best-in-Class Metrics

March 13, 2018

TowerJazz Announces Industry's First Open Foundry SiPho Design Kits with Leading EDA Tool Support

POWER MANAGEMENT

TowerJazz's advanced power management platforms offer differentiated modular solutions for a wide range of operating voltages, with highly flexible technology that provides ultimate power efficiency and performance for numerous markets including industrial, automotive, consumer, computers and servers, medical, and mobile.

In 2018, the Company continued to focus on providing the broadest, most advanced power management platform in today's foundry market, while continuously expanding its highly competitive offering blend to cover a wider range of voltages to support the market's ever-growing demands.

- **65nm BCD:** released world-leading, most advanced 65nm BCD (Bipolar-CMOS-DMOS) process that enables significant material competitive advantages with breakthrough performance and cost advantages for power products operating up to 16V, in a broad range of applications such as PMICs, load switches, DC-DC converters, LED drivers, motor drivers, battery management, analog, and digital controllers. The low mask count, combined with lowest RDS(on) and 65nm lithography, boosts the Company's capabilities to cost-effectively address this market's various needs for very small die size and high-density digital integration with the highest power efficiency, best-in-class quality and short cycle time.
- **RESURF & SOI Platforms** - a competitive offering ranging from 42V to 200V breakdown voltage, based on superior knowhow to hold such voltages with aggressive power transistors resistance:
 - Supports the increasing demand for higher voltage in various applications across multiple markets including automotive, enabling maximized hybrid/EVs capabilities (through motor controllers and drivers, LED headlights and LiDAR); highly efficient data centers (48V DC-DC) and high voltage power over ethernet ICs in the computer market;
 - The RESURF platform supports power management ICs up to 90V breakdown voltage with a roadmap of up to 140V. This technology enables competitive cost advantage thanks to its high power efficiency, lower power consumption and smaller die size due to the very low RDS(on).



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The Company's extinguished technological mix of both mature and newly developed, best in class 65nm BCD and RESURF power management platforms, strengthens its position as the global specialty foundry leader. Through long term engagements and correlation with the world's developing industrial, consumer and automotive market needs, TowerJazz continues to deliver its customers with a competitive edge in a great variety of segments ensuring additional business growth.

Press Releases

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December 3, 2018

TowerJazz Announces Korea Electrotechnology Research Institute (KERI) Begins Prototyping Gate Driver IC on its Advanced 0.18um SOI Power Platform

May 2, 2018

TowerJazz Announces Release of Advanced 300mm 65nm BCD Power Management Platform Addressing the Massive Power Products Market Operating up to 16V

March 19, 2018

TowerJazz and active-semi® Announce the Ramp to Production of a Motor Driver IC on 200V SOI Technology



Sensors: Visual (CMOS Image Sensor) and Non-Visual

TowerJazz's Sensors business unit offers a variety of advanced technological sensing solutions such as imaging (CMOS image sensors), temperature, UV, magnetic, gas, and radiation, addressing the rapidly growing strength of the optoelectronics and sensor products in the automotive, medical, industrial, consumer and IoT markets, among others.

On top of its worldwide recognized leadership in the CMOS image sensor market, TowerJazz has widely invested in the development of a variety of sensors' technologies serving both established and new fast-growing markets.

CMOS IMAGE SENSORS

TowerJazz's unmatched pixel performance, design flexibility, superb quality, and distinctive customization processes drive its leading position as a CMOS image sensor supplier. The Company provides its customers with leading-edge imaging solutions, enabling them to prime in the broad range of today's both high growth and high margin imaging markets, including high-end photography, industrial, medical, automotive, security, A&D, AR/VR, 3D and face recognition, among others.

The extensive and highly reputable CIS expertise, combined with in-house specialized technology development, continuously meets the market's rigorous requirements with advanced features and a competitive edge.

By engaging in significant long-term business relationships during 2018, TowerJazz enhanced its strong market presence through roadmap alignment with top customers in various imaging fields and co-development of enriching solutions such as:

- Most advanced global shutter pixel platform for the industrial (machine vision) and commercial (face recognition, 3D mapping for AR/VR) applications, optimizing cost and performance;
- High volume manufacturing of large X-Ray sensors for the dental and medical markets on both 200mm and 300mm wafers;
- High-performance pixel platform for the most demanding high-end cameras (cinematography and DSLR) on 65nm technology, including state-of-the-art stitching capabilities; and,
- BSI and stacked wafers technology for higher pixel sensitivity enabling better picture quality in low light conditions, as well as providing higher dynamic range and higher frame rates (faster sensors).

As TowerJazz progresses into new and disruptive CIS technology development, it visibly positions itself to meet current and future market trends, by introducing its differentiated, specialized offerings, such as:

- Time of Flight (ToF) and structured light 3D sensing technologies for the mass market of face recognition and AR/VR which are both on the rise. TowerJazz's world leading and unique global shutter pixel technology, along with its Single Photon Avalanche Diode (SPAD) for direct ToF, provides exclusive solutions for these applications, as well as the mobile and commercial markets;
- The Company's co-developed leading medical X-Ray panel pixel technologies on both 200mm and 300mm; and,
- Analog artificial intelligence (AI) offering with embedded sensors technology, producing "smart sensors", and screen technologies, mainly LCOS and uOLED, for the expanding AR and VR markets.

2018 CIS main accomplishments and leadership opportunities realization:

- Successful prototyping of high-end DSLR sensor with industry leaders;
- Ramp into production the best cinematography sensors in the market;
- Ramp into production products based on the Company's superb, smallest in the world, industrial global shutter pixel; and,
- Successful development of state-of-the-art stacking wafers technology.

DISRUPTIVE SENSORS

The increasing necessity for interactive smart systems, supporting additional functionalities within the automotive, medical, consumer and industrial markets, provides TowerJazz with immense growth opportunities.

Innovation driven, the Company's exceptional R&D expertise and activities promote the ever-expanding span of solutions for the sensors' arena with vast and flexible technology platforms:

- **Remote Temperature Sensors:** provide high sensitivity and accuracy in a broad temperature range, serving the mobile, IoT, industrial, automotive, medical and security markets;
- **Time-temperature Indicator Sensors:** CMOS embedded and reusable sensor with no need for power supply, serving the food industry, agriculture, medical and pharmaceutical markets;
- **Floating gate radiation Sensors:** no power supply required, no scintillator and reusable, serving radiation monitors, radiation badges, sterilization and radon detectors;

- **Magnetic Sensors:** high-temperature hall sensors and high sensitivity Tunnel Magneto-Resistance (TMR) sensors which operate by sensing magnetic field strength, serving the industrial, automotive, and consumer markets as well as the space industry;
- **UV Sensing:** solar blind, with record sensitivity and operation at high temperatures, serving applications such as skin protection, flame diagnostics, free space optical communication, sterilization, and industrial automation; and,
- **Gas and Humidity Sensors:** operation at high temperatures, easy and fast reset and sensor fusion, serving automotive, industrial, medical and environmental applications.

All sensors technologies described above are based on unique platforms developed in-house such as embedded non-volatile floating gate solutions, GaN-based devices, and MEMS-based membranes, alongside our internal design capabilities that provide embedded electronics to preform full sensor on chip.

Developing and expanding the Company's cutting-edge, innovative solutions such as outstanding global shutter pixels, GaN, MEMs, and 300mm X-Ray sensor platforms, as well as the unique non-volatile floating gate, presents abundant opportunities for growth. TowerJazz's co-development and long-term relationships with leading players further advances its position as the partner of choice for high-end, specialized sensors.

Press Releases

November 6, 2018

LeddarTech Selects TowerJazz's 0.18um CIS SPAD Technology for its Next Generation Automotive LiDARs

September 5, 2018

Teledyne e2v's Emerald 12M and 16M image sensors enter mass production

May 29, 2018

Gpixel Begins Prototyping New 25Mp Global Shutter Sensor Based on TowerJazz's 300mm, 65nm Breakthrough Technology for World's Smallest Global Shutter Pixel

May 9, 2018

TowerJazz and Newsight Imaging Announce Advanced CMOS Image Sensor Chips for LiDAR used in ADAS and Autonomous Vehicles

AUTOMOTIVE

TowerJazz is serving the rapidly growing automotive analog IC market with its mature and modular advanced technology platforms that support the entire automotive ecosystem.

The Company's technology offerings and long-term roadmap strategy are aligned with the three main trends that are driving rapid growth in the automotive market: **ubiquitous connectivity, ever-growing automation** and **total powertrain electrification**.

By partnering with the market segment leaders, we develop best-in-class technologies, supporting the widest range of automotive market customers from OEMs and Tier-1 integrators to IDMs and fabless.

With its leading-edge analog technologies, best-in-class design expertise, flexible foundry engagement model and strong culture of quality in all of its **IATF 16949 certified** manufacturing facilities, TowerJazz provides comprehensive solutions for the advanced technological automotive needs based on its advanced CMOS Image Sensor, radio frequency & high performance Analog, mixed-signal and power management platforms:

- CMOS image sensor technology offers superior SPADs for LiDAR. The Company's global shutter (GS) technology provides unparalleled imaging capability in applications that require time-of-flight (ToF) sensing, minimal LED flicker sensitivity, ultra-

low-light sensitivity, and even thermal imaging. The GS technology is a go-to choice for the most advanced textured light applications such as gesture control and passenger monitoring.

- High-performance SiGe technology is already deployed in high volume radar and is ready to enable V2X and 5G communications. With its best-in-class RF SOI and RF CMOS technologies, TowerJazz is a supplier of choice to market leaders in every high-performance RF and analog market segment.
- Advanced power management platforms offer the lowest RDS(on) with superior voltage and current handling capability for a wide range of applications such as motor drivers, DC-DC converters, battery management ICs, PMICs, load switches, voltage regulators, LED drivers and more.

The Company continues to expand its incumbency to gain market share in different market segments by delivering current and next generation technological solutions for the rapidly growing automotive world.

Press Releases

November 6, 2018:

LeddarTech Selects TowerJazz's 0.18µm CIS SPAD Technology for its Next Generation Automotive LiDARs

October 17, 2018:

TowerJazz Showcasing its Extensive Automotive Power, Radar, and LiDAR Foundry Technologies at China Vehicle Connectivity Summit 2018

May 14, 2018:

TowerJazz Achieves IATF 16949 Automotive Quality Certification Expanding its High Quality Automotive Manufacturing Capabilities

May 9, 2018:

TowerJazz and Newsight Imaging Announce Advanced CMOS Image Sensor Chips for LiDAR used in ADAS and Autonomous Vehicles

GLOBAL OPERATIONS AND MANUFACTURING SERVICES



GLOBAL OPERATIONS AND MANUFACTURING QUALITY

Dedicated and committed to providing unique high-end, specialized technology manufacturing capabilities, TowerJazz continues to invest in its worldwide manufacturing facilities, supporting the ever-evolving requirements of its growing customer base.

To best fulfill market needs, TowerJazz drives operational excellence with a strong emphasis on manufacturing quality, reducing complexity, maximizing transparency, shortening lead times and optimizing the cost of operations. During the year, the Company further enhanced its operational performance by allocating resources towards innovative activities for impact and efficiency in manufacturing quality and corporate cost structure.

Main 2018 operational focuses and achievements:

- Improved cycle times and on schedule delivery (OSD) by continued efficiency improvement activities, while maintaining high loading;
- Profound cost savings by implementing a new cost model;
- Increased specialized manufacturing capabilities, mainly SiGe flows, in both US facilities, to best serve the growing demand by existing and potential customers. This activity will continue into 2019;
- Further broadened green initiatives by increasing renewable energy sources which significantly reduced power consumption and conveyed electricity savings of 20 GWh/year.

Through its global manufacturing facilities, TowerJazz provides capacity assurance with high quality and flexible manufacturing capabilities serving fabless companies and IDMs looking to increase production capacity and diversify locations.

The Company operates seven manufacturing facilities in three geographic regions: two fabs (150mm and 200mm) located in Migdal Haemek, Israel, two fabs (200mm) in the US (Newport Beach, California and San Antonio, Texas), and three additional fabs (two 200mm and one 300mm) through TowerJazz Panasonic Semiconductor Co., Ltd. (TPSCo) located in Japan.

ISRAEL

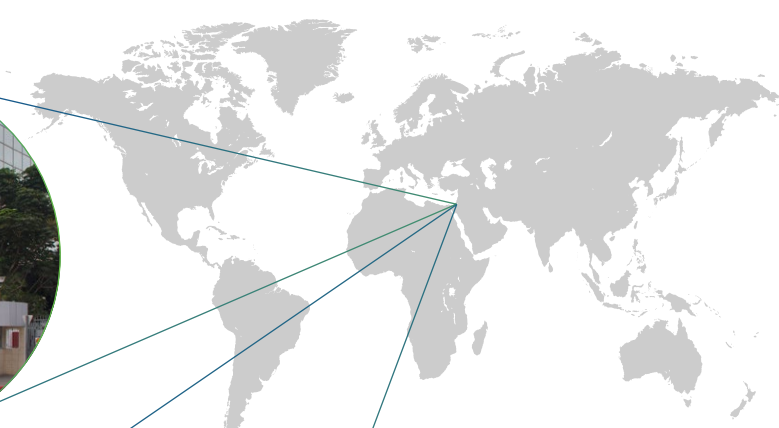
Migdal Haemek

6" (150mm)
 CMOS, CIS, Power,
 Power Discrete
 1µm to 0.35µm
 Planarized BEOL,
 W and Oxide CMP



Migdal Haemek

8" (200mm)
 CMOS, CIS, Power,
 Power Discrete, RF Analog, MEMS
 0.18µm to 0.13µm
 Cu and Al BEOL, EPI, 193nm Scanner



USA

Newport Beach, CA

8" (200mm)

CMOS, CIS,
RF Analog, MEMS

0.18µm to 0.13µm

AI BEOL, SiGe, EPI



San Antonio, TX

8" (200mm)

Power, RF Analog

0.18µm

AI BEOL



JAPAN

Arai

8" (200mm)

Analog, CIS

0.13µm to 0.11µm



Tonami

8" (200mm)

Analog, Power, Power
Discrete, NVM, CCD

0.35µm to 0.15µm



Uozu

12" (300mm)

Analog, CMOS,
CIS, RF CMOS / SOI

65nm to 45nm



TRANSFER, OPTIMIZATION AND DEVELOPMENT PROCESS SERVICES (TOPS)

TowerJazz provides high-end transfer, process development and, manufacturing services through its TOPS business unit for multiple kinds of customers and business models:

- **Integrated Device Manufacturers (IDMs):** providing high volume, secured process transfer services with technical flexibility and future generation developments;
- **Fabless companies:** providing unique processes and tools to fabricate specialty products;
- **Special business models:** from R&D to production, targeting co-development of novel products based on customer needs, including full technical support and project management; and,
- **External services:** supporting those that are looking for technology licensing, manufacturing capabilities and production management.

The Company's distinctive TOPS services provide its customers with a world-class engineering team

with diverse know-how, reputable IP protection, and extensive manufacturing experience. TOPS is exceptional in its process flexibility to adapt business models, and production flows to customer needs, guaranteeing fast ramp to volume production with high yields and noteworthy performance. TowerJazz preserves customer confidence and satisfaction by successfully accommodating customers' unique requirements through established methodologies, including "copy smart" to use existing toolsets, and the use of an internal library of recipes or "copy exact", where necessary.

During the year, TowerJazz has leveraged market challenges by continuously strengthening partnerships with tier-1 IDMs, increasing production capacity and capabilities with investments in additional manufacturing tools alongside the ongoing development of new processes and offerings. Focusing on strategic growth drivers has yielded a significant year-over-year revenue increase. The Company continues to increase its TOPS business in multiple manufacturing facilities, maintaining long-term utilization stability and cost efficiency.

TOPS advantages:

Best-in-class technology transfer teams: focused, experienced professionals with diverse technological knowledge.

High flexibility: adapting business models and production flows to customer requirements.

Culture of trust and respect: securing customer IP. TowerJazz holds the information security standard (ISO27001) certification.

Time to market: Duration for each project is planned according to customer needs and project complexity. A project schedule can vary between 6–13 months from kickoff to production ramp (including new tool installation).

Performance: Once running in mass production, yields are equal to, or better than, the mother fab.



AEROSPACE AND DEFENSE

TowerJazz, through its Newport Beach facility (Jazz Semiconductor), solidified its position serving the Aerospace & Defense arena in a variety of areas, including large format ROICs (readout integrated circuits) in support of numerous IR applications and systems, visible imaging, and SiGe for radar, radio, and high-speed data communications.

In 2018, the Company further expanded its offerings by providing additional valuable solutions:

- In the area of CMOS ROICs, a leadership position was established in two areas – feature rich onshore 130nm node with iDVS and ITAR protocol approval at the 65nm node (including stitching). These are both deemed essential capabilities for future IR detector needs, which are unique and only found at TowerJazz. Major accomplishments include:
 - Significant growth in 130nm customer design;
 - Initial fan out of iDSV on the 130nm node in support of 3DIC integration;
 - First TAA approval for ITAR ROIC fabrication at the 65nm node (TPSCo) and Second TAA in approval process; and,
 - First 130nm stitched design for large format next-generation IR applications.
- Advanced Interposer technology has become an important area in 2018 for the A&D community and is projected to generate an increased demand in 2019 and beyond. The transition of the Company's Interposer offerings into a production phase with additional features in 2019 is expected to solidify our leadership position, with already substantial engagement specifically with DARPA (Defense Advanced Research Projects Agency), as well as other Defense primes;
- In addition, combined with the Company's advancements in SiGe offerings, TowerJazz will continue to enhance its Silicon Photonic platform to include the integration of lasers and other features that will help Silicon Photonics increase DoD and DoE market share as compared to existing discrete solutions; and,
- In the area of visible imaging, the Company's 65nm CIS process was chosen to support next-generation Army Night Vision lab camera evaluation.

Press Releases

October 15, 2018:

TowerJazz Increases ITAR Portfolio, Adds 65nm Technology in Support of Growing Aerospace and Defense Customer Demand

October 2, 2018:

TowerJazz and SRI International Provide CMOS Imager Launched in NASA's Parker Solar Probe Mission



RESEARCH AND DEVELOPMENT: CULTURE OF INNOVATION

TowerJazz drives major activities to continually develop disruptive analog platforms and value-add, breakthrough specialty solutions that lead world markets in diverse fields such as wireless and optical communications, industrial, automotive, consumer, medical electronics, and others. Among the Company's recent research activities are the emerging fields of super-high-frequency devices, smart automotive, and various sensors including artificial intelligence for data processing.

In 2018, TowerJazz successfully delivered breakthrough technologies, novel devices and patents, in alignment with market feedbacks and needs. The Company's accomplishments include:

TowerJazz Innovation Partnerships

- Ongoing successful collaborations with CC-SENS (German-Israeli consortium on CMOS compatible nano-devices for gas sensing) and Horizon 2020 European Commission GREAT consortium on nano-magnetic memories and sensors. As part of these projects, advanced nano-thermometers, gas and magnetic field sensors were successfully fabricated by TowerJazz;
- The Neuromorphic chips program, in cooperation with the Technion- Israeli Institute of Technology, achieved significant progress. TowerJazz patented memristor solution that was fully characterized and shown efficient as an analog memory for emulating synapses (weights) in the neuromorphic circuits with 64 stable memory levels in single Poly memory cells; and,

- Numerous R&D projects in the fields of automotive and medical electronics were initiated and funded by customers.

Latest Grants & Project Wins

In collaboration with a group of European companies and leading universities, TowerJazz won a prestigious H2020 MADEin4 consortium grant. TowerJazz's research focus will be on the implementation of Neural Network (Artificial Intelligence) approaches in Industrial Image Sensing using BSI imagers fabricated by TowerJazz and metrology of large-size image sensors.

Patents

In 2018, TowerJazz was granted 25 US patents and filed multiple new applications. The protected technologies include advanced antenna switches, global shutter and BSI imagers, phase change elements, fingerprint sensors, low-k dielectrics, and advanced power management devices.

Talks & Publications

TowerJazz gave several invited talks at international conferences: IEEE S3S, ADMETA, E-MRS, Nano IL among others. The Company's engineers served as editors, reviewers, section chairs and members of the Technical/Steering Committees of some of the world's leading international journals and conferences including IEEE ED and EDL, IEEE IMW, EMRS, MEMRYSIS, and Nano IL. Numerous research papers/book chapters were published in well-known international journals and conference proceedings. Internally, Vol. 9 of the TowerJazz Technical Journal (TJ2) was released, featuring technical papers by employees from TowerJazz fabs and R&D divisions.



WORLDWIDE DESIGN ENABLEMENT

TowerJazz's significantly differentiative and unique design enablement platform enables its customers a quick and accurate design cycle, achieving first-time working silicon and fast time to market.

The Company's worldwide design center offers extensive and highly valuable design tools complementing its specialized technology platforms, meeting the advanced requirements for smart IC's in the widest range of today's sizable markets, such as automotive, consumers, connectivity and industrial, among others.

Committed to ensuring its customers' success of integrated circuits (ICs) design process, TowerJazz provides elite electronic design automation (EDA) tools, design intellectual property (IP), and dedicated expert design services.

Through long term collaboration with the world's leading EDA, IP and design partners, the Company's most accurate and vast design capabilities guarantee its customers with a sophisticated and competitive market advantage with optimal performance and first-time design success.

Press Releases and Partner Announcements

September 5, 2018:

POLYTEDA PowerDRC/LVS and PVCLOUD Qualified for TowerJazz TS18 Platform

September 24, 2018:

Lumerical Collaboration with Mentor on PDK for TowerJazz Marks New Milestone in Silicon Photonics Advancement

August 20, 2018

Empyrean™ AMS Design Platform Supported in TowerJazz's Design Reference Flow

March 13, 2018:

TowerJazz Announces Industry's First Open Foundry SiPho Design Kits with Leading EDA Tool Support

TowerJazz launches initial silicon photonics design kit based on the Mentor Calibre nmPlatform



CORPORATE SOCIAL RESPONSIBILITY

At TowerJazz, social responsibility is a fundamental part of its global culture, with a high focus on corporate social, economic and environmental impact, including ethical and moral aspects, in all of our engagements with customers, partners, shareholders, and employees.

Recognizing social responsibility as imperative to any corporate success, TowerJazz fosters a healthy and balanced corporate culture by providing all employees an opportunity to grow as individuals, while enriching not only their personal lives but enhancing society as a whole. The Company is an equal opportunity employer, with an employee base comprised of individuals from various cultures and backgrounds interacting as one global company with established worldwide organizational standards.

TowerJazz employees are its greatest strength – their capabilities, dedication, loyalty, and passion are primary factors in the Company's collective achievements. TowerJazz management believes that organizational motivation is created when employees gain confidence by being given the tools and opportunities to meet significant challenges. Its diverse employee base provides a broad source for knowledge sharing and a platform for new ideas and innovation.

TowerJazz is engaged in social contributions focused on community well-being, supporting a wide range of activities in education, environmental preservation, programs' funding, donating goods, and providing other services, with the involvement of its dedicated and caring employee volunteers. Also, the Company is focusing on inspiring youth to pursue careers in science and technology.

2018 highlighted community contribution projects:

Global Awareness Investigation and Action (GAIA) Program

TowerJazz has been supporting the GAIA program initiative for many years. The Company provides financial support, access to onsite equipment, engineering support, and collaboration with students from the American International School (AIS) in Israel who participate in various environmental research projects through the GAIA program. In 2018, TowerJazz was directly involved in a groundbreaking research GAIA project where young student researchers from AIS in Israel and the local Ha'Kfar HaYarok School were the lead stakeholders in solving critical questions using technology to increase diversity in the genetic variations of plant food species in Israel. As part of this unique Nature Conservancy Project, a tree

planting took place on the grounds of TowerJazz's Migdal Haemek facility in northern Israel, promoting a new nature conservancy project. TowerJazz serves as the lead supporter of the project to establish and preserve heritage tree orchards under the guidance of students acting as citizen scientists and researchers.

English and Math Coaching

For the past several years, TowerJazz employees have participated in an English learning project, giving the youth in Israel an opportunity to learn English, improve their communication skills, and broaden their English vocabulary. In addition, TowerJazz entered into a new project teaching Math at a local high school in Migdal Haemek, Israel. Both programs take place on a weekly basis throughout the school year.

Youth Club for Kids

Every week, employees at the Migdal Haemek, Israel facility support youth clubs for kids who need help with homework or need emotional support.

Donation Drive

TowerJazz Newport Beach hosted a drive for donations of professional clothing and accessories to benefit the Working Wardrobes Vet Net: Power Up for Success Event and provide active duty military service members with tools and resources as they prepare to make their transition to civilian life.

Spark of Love Toy Drive

During the 2018 holiday season, our Newport Beach employees took part in the Spark of Love Toy Drive by donating new toys and sports equipment which were distributed to underserved children and teens in Southern California.

Thomas House Shelter

In December, TowerJazz partnered with the Thomas House Shelter, an Orange County based shelter for families and children experiencing homelessness. Employees created 100 'blessing backpacks' with daily necessities that were distributed to families in need.

Meal Prep for Food Bank

TowerJazz Texas sponsored an event in partnership with the San Antonio Food Bank to prepare weekend meals and snacks for children in the community. One in four children experience food insecurity, meaning over 200,000 students in the community are at risk of going hungry each weekend when they do not have access to meals at school. TowerJazz employees volunteered to prepare 1,696 backpacks of food.

Race for the Cure - Susan G. Komen Breast Cancer Foundation

TowerJazz Texas was a sponsor for the Susan G. Komen Race for the Cure. The Komen organization is working toward the bold goal of reducing the current number of breast cancer deaths by 50% in the U.S. by 2026 through heightened awareness, early detection through screening, improved treatment methods and increased access to breast health services. TowerJazz employees volunteered to hand out water to the participants and fundraisers of the 5K race, including many breast cancer survivors from the community who participated in the race.



Back to School Event

TowerJazz Texas held a Back to School Event to support children and families in need. As part of the event, essential school supplies were purchased, and 350 backpacks were filled and distributed to the local community.



The GAIA project has initiated a 'Center for Genomic Studies' to establish heritage tree orchards under the guidance of young citizen scientists.



Fourth Quarter and Fiscal Year 2018 Financial Results Press Release

TOWERJAZZ REPORTS FULL YEAR 2018 RESULTS: REVENUE OF \$1.3 BILLION, CASH FROM OPERATIONS OF \$313 MILLION, RESULTING IN NET PROFIT OF \$136 MILLION AND EPS OF \$1.35

SEQUENTIAL GROWTH IN THE FOURTH QUARTER FOR ALL METRICS

MIGDAL HAEMEK, ISRAEL – February 19, 2019– TowerJazz (NASDAQ: TSEM & TASE: TSEM) reported today its results for the full year and for the fourth quarter ended December 31, 2018.

Highlights of the Full Year 2018:

- Revenues of \$1.3 billion resulting in EBITDA of \$362 million, net profit of \$136 million and basic earnings per share of \$1.35;
- Cash generated from operations of \$313 million with \$170 million investments in property and equipment, resulting in free cash flow of \$143 million;
- Further strengthened the balance sheet and financial position during the year:
- Record shareholders equity reaching \$1.2 billion;
- Received upgraded S&P rating from “iIA+ stable” to “iIAA- stable”.

Highlights of the Fourth Quarter of 2018:

- Revenues of \$334 million, up \$11 million as compared with the third quarter of 2018;
- Sequential increase in net profit and basic earnings per share to \$38 million and \$0.37, respectively, from \$34 million and \$0.34, respectively;
- Cash generated from operations of \$91 million with \$49 million invested in property and equipment, resulting in free cash flow of \$43 million.

Business Outlook

TowerJazz expects revenues for the first quarter of 2019 to be \$310 million, with an upward or downward range of 5%.

Mr. Russell Ellwanger, Chief Executive Officer of TowerJazz, commented, “We are pleased with our fourth quarter sequential revenue and margins’ growth, in the face of multiple recent market financial releases citing near-term macroeconomic concerns, resulting in a semiconductor market that is tightly controlling inventories. We enter 2019 with certain geo-economic headwinds but remain confident in our value creation thesis. In each of our focused areas, we have had recent strong customer wins, namely advanced infrastructure, 5G enabling switches, breakthrough power management efficiency, and unrivaled industrial and medical image sensors figure-of-merit. These market segments are strategic and solid mid- to long-term growth drivers. The powerful aforementioned parallel activities of our different

business units, driven by worldwide impassioned human capability, and strengthened by our growing financial resources, will undoubtedly create notable milestones throughout the year.”

Ellwanger updated: “We continue to progress with our TPSCo partnership, aligned on a first contract extension of 3 years for the next phase of TPSCo, beginning the second quarter of 2019. We expect similar loading as present run rate, with some changes to the pricing tables, resulting in some revenue reduction from our partner. This is expected to be mitigated by core business revenue growth, mainly 300mm which is presently ramping, strong efficiencies, and TPSCo specific cost reduction activities, enabling margins’ growth.”

Full Year Results Overview

Revenues for 2018 were \$1.3 billion compared to \$1.39 billion in 2017. Gross and operating profits for 2018 were \$293 million and \$155 million, respectively, as compared to \$354 million and \$220 million, respectively, in 2017. EBITDA for 2018 was \$362 million, representing 28% EBITDA margin.

Net profit for 2018 was \$136 million, representing \$1.35 basic earnings per share and \$1.32 diluted earnings per share, as compared to \$298 million net profit, or \$3.08 basic earnings per share and \$2.90 diluted earnings per share in 2017. Net profit for 2017 included \$82 million income tax benefit resulted from Israeli deferred tax asset realization following valuation allowance release and \$13 million income tax benefit related to U.S. tax reform.

During 2018, debt was reduced by \$98 million, resulting in an annual financing expenses savings of \$7 million, and included:

- Full conversion of short-term notes in the amount of \$58 million to shares, \$39 million of which were converted during the fourth quarter of 2018. The notes conversion resulted in annual cash savings of \$5 million. Post conversion, the current outstanding share count is 105 million and fully diluted share count remains at 108 million, similar to previous quarters;
- In July 2018, the Company early repaid \$40 million loan, initially borrowed in 2016 in relation to the acquisition of the San Antonio fab and its ramp.
- In June 2018, TPSCo restructured its outstanding

loans originally due 2018-2020, by early repayment of these loans and obtaining a new approximately \$100 million loan from three leading Japanese banks at improved terms and longer duration through June 2025.

Free cash flow for 2018 was \$143 million, with \$313 million cash from operations, net of \$170 million investments in fixed assets, net. The other main cash activities during 2018 were: \$158 million investment in short-term deposits, marketable securities and other investments (mainly interest-bearing bank deposits) and \$49 million of debt repaid, net of debt received, which included mainly the early repayment of the \$40 million loan borrowed in 2016 in relation to the acquisition of the San Antonio fab and its ramp.

Record shareholders' equity as of December 31, 2018 was \$1.24 billion, as compared to \$1.03 billion as of December 31, 2017.

In April 2018, the Company and its series G bonds received an upgraded rating from Ma'alot (an Israeli rating company which is fully owned by S&P Global Ratings). Its previous rating was iA+ with a stable horizon and the new upgraded rating is iAA-, with a stable horizon.

Fourth Quarter Results Overview

Revenues for the fourth quarter of 2018 were \$334 million, \$11 million higher than in the prior quarter and compared to \$358 million in the fourth quarter of 2017.

Gross and operating profits for the fourth quarter of 2018 were \$76 million and \$40 million, respectively, as compared to \$73 million and \$39 million, respectively, in the third quarter of 2018 and as compared to \$89 million and \$54 million, respectively, in the fourth quarter of 2017.

EBITDA for the fourth quarter of 2018 was \$93 million, representing a 28% EBITDA margin, compared with \$89 million in the prior quarter and \$107 million for the fourth quarter of 2017.

Net profit for the fourth quarter of 2018 was \$38 million, or \$0.37 basic earnings per share, as compared to net profit of \$34 million or \$0.34 basic earnings per share in the third quarter of 2018 and \$147 million, or \$1.50 basic earnings per share in the fourth quarter of 2017. Net profit for the fourth quarter of 2017 included \$82 million income tax benefit resulted from Israeli deferred tax asset realization following valuation allowance release and \$13 million income tax benefit related to U.S. tax reform.

Free cash flow for the fourth quarter of 2018 was \$43 million, with \$91 million cash flow from operations and \$49 million investments in fixed assets, net. During the fourth quarter of 2018, \$123 million were invested in

deposits, marketable securities and other investments, net (mainly interest-bearing bank deposits).

Teleconference and Webcast

TowerJazz will host an investor conference call today, Tuesday, February 19, 2019, at 10:00 a.m. Eastern time (9:00 a.m. Central time, 8:00 a.m. Mountain time, 7:00 a.m. Pacific time and 5:00 p.m. Israel time) to discuss the Company's financial results for the fourth quarter and full year 2018 and its outlook.

This call will be webcast and can be accessed via TowerJazz's website at www.towerjazz.com, or by calling 1-888-668-9141 (U.S. Toll-Free), 03-918-0609 (Israel), +972-3-918-0609 (International). For those who are not available to listen to the live broadcast, the call will be archived on TowerJazz's website for 90 days.

The Company presents its financial statements in accordance with U.S. GAAP. The financial information included in the tables below includes unaudited condensed financial data. Some of the financial information in this release, which we describe in this release as "adjusted" financial measures, is non-GAAP financial measures as defined in Regulation G and related reporting requirements promulgated by the Securities and Exchange Commission as they apply to our Company. These adjusted financial measures are calculated excluding one or more of the following: (1) amortization of acquired intangible assets; (2) compensation expenses in respect of equity grants to directors, officers and employees; (3) income tax benefit resulted from Israeli deferred tax asset realization following valuation allowance release; and (4) income tax benefit related to U.S. tax reform. These adjusted financial measures should be evaluated in conjunction with, and are not a substitute for, GAAP financial measures. The tables also present the GAAP financial measures, which are most comparable to the adjusted financial measures, as well as a reconciliation between the adjusted financial measures and the comparable GAAP financial measures. As used and/ or presented in this release, as well as calculated in the tables herein, the term Earnings Before Interest Tax Depreciation and Amortization (EBITDA) consists of net profit in accordance with GAAP, excluding financing and other expense, net, taxes, non-controlling interest, depreciation and amortization expense and stock-based compensation expense. EBITDA is reconciled in the tables below from GAAP operating profit. EBITDA is not a required GAAP financial measure and may not be comparable to a similarly titled measure employed by other companies. EBITDA and the adjusted financial information presented herein should not be considered in isolation or as a substitute for operating profit, net profit or loss, cash flows provided by operating, investing and financing activities, per share data or other profit or cash flow statement data prepared in accordance with GAAP. The term Net Cash, as used and/ or presented in this release, is comprised of cash, cash equivalents, short-term deposits and marketable securities (in the amounts of \$641 million and \$560 million as of December 31, 2018 and December 31, 2017, respectively) less the outstanding principal amount of bank loans (in the amounts of \$100 million and \$138 million as of December 31, 2018 and December 31, 2017, respectively), the outstanding principal amount of capital leases (in the amounts of \$47 million and \$16 million as of December 31, 2018 and December 31, 2017, respectively) and the outstanding principal amount of debentures (in the amount of \$122 million and \$180 million as of December 31, 2018 and December 31, 2017, respectively). The term Net Cash is not a required GAAP financial measure, may not be comparable to a similarly titled measure employed by other companies and should not be considered in isolation or as a substitute for cash, debt, operating profit, net profit or loss, cash flows provided by operating, investing and financing activities, per share data or other profit or cash flow statement data prepared in accordance with GAAP. In addition, the term Free Cash Flow, as used and/ or presented in this release, is calculated to be cash from operating activities (in the amounts of \$91 million and \$85 million for the three months periods ended December 31, 2018

and December 31, 2017, respectively and in the amounts of \$313 million and \$356 million for the years ended December 31, 2018 and December 31, 2017, respectively) less cash for investments in property and equipment, net (in the amounts of \$49 million and \$41 million for the three months periods ended December 31, 2018 and December 31, 2017, respectively and in the amounts of \$170 million and \$165 million for the years ended December 31, 2018 and December 31, 2017, respectively). The term Free Cash Flow is not a required GAAP financial measure, may not be comparable to a similarly titled measure employed by other companies and should not be considered in isolation or as a substitute for operating profit, net profit or loss, cash flows provided by operating, investing and financing activities, per share data or other profit or cash flow statement data prepared in accordance with GAAP.

About TowerJazz

Tower Semiconductor Ltd. (NASDAQ: TSEM, TASE: TSEM) and its subsidiaries operate collectively under the brand name TowerJazz, the global specialty foundry leader. TowerJazz manufactures next-generation integrated circuits (ICs) in growing markets such as consumer, industrial, automotive, medical and aerospace and defense. TowerJazz's advanced technology is comprised of a broad range of customizable process platforms such as: SiGe, BiCMOS, mixed-signal/CMOS, RF CMOS, CMOS image sensor, integrated power management (BCD and 700V), and MEMS. TowerJazz also provides world-class design enablement for a quick and accurate design cycle as well as Transfer Optimization and development Process Services (TOPS) to IDMs and fabless companies that need to expand capacity. To provide multi-fab sourcing and extended capacity for its customers, TowerJazz operates two manufacturing facilities in Israel (150mm and 200mm), two in the U.S. (200mm) and three facilities in Japan (two 200mm and one 300mm). For more information, please visit www.towerjazz.com.

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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 and you should not place any undue reliance on such forward-looking statements. Potential risks and uncertainties include, without limitation, risks and uncertainties associated with: (i) demand in our customers' end markets; (ii) over demand for our foundry services and/or products that exceeds our capacity; (iii) maintaining existing customers and attracting additional customers; (iv) high utilization and its effect on cycle time, yield and on schedule delivery which may cause customers to transfer their product(s) to other fabs; (v) operating results fluctuate from quarter to quarter making it difficult to predict future performance; (vi) impact of our debt and other liabilities on our financial position and operations; (vii) our ability to successfully execute acquisitions, integrate them into our business, utilize our expanded capacity and find new business; (viii) fluctuations in cash flow; (ix) our ability to satisfy the covenants stipulated in our agreements with our lender banks and bondholders (as of December 31, 2018 we are in compliance with all such covenants included in our banks' agreements, bond G indenture and others); (x) pending litigation, including the shareholder class actions that were filed against the Company, certain officers, its directors and/or its external auditor in the US and Israel, following a short sell thesis report issued by a short-

selling focused firm, which has been dismissed and closed in the US and is still pending in Israel; (xi) our majority stake in TPSCo and integration of the San Antonio fabrication facility, including new customer engagements, qualification and production ramp-up; (xii) the closure of TJP within the scope of restructuring our activities and business in Japan, settling any future claims or potential claims from first parties; (xiii) meeting the conditions set in the approval certificates received from the Israeli Investment Center under which we received a significant amount of grants in past years; (xiv) receipt of orders that are lower than the customer purchase commitments; (xv) failure to receive orders currently expected; (xvi) possible incurrence of additional indebtedness; (xvii) effect of global recession, unfavorable economic conditions and/or credit crisis; (xviii) our ability to accurately forecast financial performance, which is affected by limited order backlog and lengthy sales cycles; (xix) possible situations of obsolete inventory if forecasted demand exceeds actual demand when we manufacture products before receipt of customer orders; (xx) the cyclical nature of the semiconductor industry and the resulting periodic overcapacity, fluctuations in operating results and future average selling price erosion; (xxi) the execution of debt re-financing and/or fundraising to enable the service of our debt and/or other liabilities; (xxii) operating our facilities at high utilization rates which is critical in order to cover a portion or all of the high level of fixed costs associated with operating a foundry, and our debt, in order to improve our results; (xxiii) the purchase of equipment to increase capacity, the timely completion of the equipment installation, technology transfer and raising the funds therefor; (xxiv) the concentration of our business in the semiconductor industry; (xxv) product returns; (xxvi) our ability to maintain and develop our technology processes and services to keep pace with new technology, evolving standards, changing customer and end-user requirements, new product introductions and short product life cycles; (xxvii) competing effectively; (xxviii) use of outsourced foundry services by both fabless semiconductor companies and integrated device manufacturers; (xxix) achieving acceptable device yields, product performance and delivery times; (xxx) our dependence on intellectual property rights of others, our ability to operate our business without infringing others' intellectual property rights and our ability to enforce our intellectual property against infringement; (xxxi) retention of key employees and recruitment and retention of skilled qualified personnel; (xxxii) exposure to inflation, currency rates (mainly the Israeli Shekel and Japanese Yen) and interest rate fluctuations and risks associated with doing business locally and internationally, as well fluctuations in the market price of our traded securities; (xxxiii) issuance of ordinary shares as a result of conversion and/or exercise of any of our convertible securities, as well as any sale of shares by any of our shareholders, or any market expectation thereof, which may depress the market price of our ordinary shares and may impair our ability to raise future capital; (xxxiv) meeting regulatory requirements worldwide, including environmental and governmental regulations; (xxxv) negotiation and closure of a definitive agreement in relation to the fab establishment in China, as well as implementation of this project through required funding and resources and receipt of future proceeds therefrom; and (xxxvi) business interruption due to fire and other natural disasters, the security situation in Israel and other events beyond our control such as power interruptions.

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 Tower's most recent filings on Forms 20-F and 6-K, as were filed with the Securities and Exchange Commission (the "SEC") and the Israel Securities Authority. Future results may differ materially from those previously reported. The Company does not intend to update, and expressly disclaims any obligation to update, the information contained in this release.

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(Financial tables follow)

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	\$ 385,091	\$ 445,961
Short-term deposits	120,079	--
Marketable securities	135,850	113,874
Trade accounts receivable	153,409	149,666
Inventories	170,778	143,315
Other current assets	22,752	21,516
Total current assets	<u>987,959</u>	<u>874,332</u>
LONG-TERM INVESTMENTS	35,945	26,073
PROPERTY AND EQUIPMENT, NET	657,234	635,124
INTANGIBLE ASSETS, NET	13,435	19,841
GOODWILL	7,000	7,000
DEFERRED TAX AND OTHER LONG-TERM ASSETS, NET	88,404	111,269
TOTAL ASSETS	<u>\$ 1,789,977</u>	<u>\$ 1,673,639</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt	\$ 10,814	\$ 105,958
Trade accounts payable	104,329	115,347
Deferred revenue and customers' advances	20,711	14,338
Other current liabilities	67,867	66,730
Total current liabilities	<u>203,721</u>	<u>302,373</u>
LONG-TERM DEBT	256,669	228,723
LONG-TERM CUSTOMERS' ADVANCES	28,131	31,908
LONG-TERM EMPLOYEE RELATED LIABILITIES	13,898	14,662
DEFERRED TAX AND OTHER LONG-TERM LIABILITIES	51,353	66,267
TOTAL LIABILITIES	<u>553,772</u>	<u>643,933</u>
TOTAL SHAREHOLDERS' EQUITY	1,236,205	1,029,706
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,789,977</u>	<u>\$ 1,673,639</u>

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

	Three months ended		
	December 31,	September 30,	December 31,
	2018	2018	2017
REVENUES	\$ 333,590	\$ 322,596	\$ 357,614
COST OF REVENUES	257,957	249,975	268,256
GROSS PROFIT	75,633	72,621	89,358
OPERATING COSTS AND EXPENSES:			
Research and development	18,378	18,236	18,370
Marketing, general and administrative	17,016	15,826	16,502
	35,394	34,062	34,872
OPERATING PROFIT	40,239	38,559	54,486
FINANCING AND OTHER EXPENSE, NET	(3,907)	(2,497)	(7,080)
PROFIT BEFORE INCOME TAX	36,332	36,062	47,406
INCOME TAX BENEFIT (EXPENSE), NET	183	(2,388)	101,236 (a)
PROFIT BEFORE NON CONTROLLING INTEREST	36,515	33,674	148,642 (a)
NON CONTROLLING INTEREST	1,558	(28)	(1,431)
NET PROFIT	\$ 38,073	\$ 33,646	\$ 147,211 (a)
BASIC EARNINGS PER SHARE	\$ 0.37	\$ 0.34	\$ 1.50 (a)
Weighted average number of shares	103,997	100,158	98,312
DILUTED EARNINGS PER SHARE	\$ 0.36	\$ 0.33	\$ 1.40 (a)
Net profit used for diluted earnings per share	\$ 38,073	\$ 33,646	\$ 149,502 (a)
Weighted average number of shares	105,776	102,083	106,776

(a) Three months ended December 31, 2017 included \$82,370 Israeli deferred tax asset realization following valuation allowance release and \$12,970 income tax benefit related to U.S. tax reform.

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

	Year ended	
	December 31,	
	2018	2017
REVENUES	\$ 1,304,034	\$ 1,387,310
COST OF REVENUES	1,011,087	1,033,005
GROSS PROFIT	292,947	354,305
OPERATING COSTS AND EXPENSES:		
Research and development	73,053	67,664
Marketing, general and administrative	64,951	66,799
	138,004	134,463
OPERATING PROFIT	154,943	219,842
FINANCING AND OTHER EXPENSE, NET	(15,626)	(18,074)
PROFIT BEFORE INCOME TAX	139,317	201,768
INCOME TAX BENEFIT (EXPENSE), NET	(5,938)	99,888 (a)
PROFIT BEFORE NON CONTROLLING INTEREST	133,379	301,656 (a)
NON CONTROLLING INTEREST	2,200	(3,645)
NET PROFIT	\$ 135,579	\$ 298,011 (a)
BASIC EARNINGS PER SHARE	\$ 1.35	\$ 3.08 (a)
Weighted average number of shares	100,399	96,647
DILUTED EARNINGS PER SHARE	\$ 1.32	\$ 2.90 (a)
Net profit used for diluted earnings per share	\$ 135,579	\$ 306,905 (a)
Weighted average number of shares	102,517	105,947

(a) Year ended December 31, 2017 included \$82,370 tax benefit resulted from Israeli deferred tax asset realization following valuation allowance release and \$12,970 income tax benefit related to U.S. tax reform.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
RECONCILIATION OF CERTAIN FINANCIAL DATA (UNAUDITED)
(dollars and share count in thousands, except per share data)

	Three months ended		
	December 31,	September 30,	December 31,
	2018	2018	2017
RECONCILIATION FROM GAAP NET PROFIT TO ADJUSTED NET PROFIT:			
GAAP NET PROFIT	\$ 38,073	\$ 33,646	\$ 147,211
Stock based compensation	3,906	2,710	3,481
Amortization of acquired intangible assets	1,614	1,627	1,564
Income tax benefit resulted from Israeli deferred tax asset realization following valuation allowance release	--	--	(82,370)
Income tax benefit related to U.S. tax reform	--	--	(12,970)
ADJUSTED NET PROFIT	\$ 43,593	\$ 37,983	\$ 56,916
ADJUSTED EARNINGS PER SHARE:			
Basic	\$ 0.42	\$ 0.38	\$ 0.58
Diluted	\$ 0.41	\$ 0.37	\$ 0.55
Fully diluted	\$ 0.41	\$ 0.37	\$ 0.55
ADJUSTED NET PROFIT USED TO CALCULATE PER SHARE DATA:			
Basic	\$ 43,593	\$ 37,983	\$ 56,916
Diluted	\$ 43,593	\$ 37,983	\$ 59,207
Fully diluted	\$ 44,663	\$ 40,149	\$ 59,207
NUMBER OF SHARES AND OTHER SECURITIES USED TO CALCULATE PER SHARE DATA:			
Basic	103,997	100,158	98,312
Diluted	105,776	102,083	106,776
Fully diluted	108,268	108,146	107,721
EBITDA CALCULATION:			
GAAP OPERATING PROFIT	\$ 40,239	\$ 38,559	\$ 54,486
Depreciation of fixed assets	46,950	46,172	47,741
Stock based compensation	3,906	2,710	3,481
Amortization of acquired intangible assets	1,614	1,627	1,564
EBITDA	\$ 92,709	\$ 89,068	\$ 107,272

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
RECONCILIATION OF CERTAIN FINANCIAL DATA (UNAUDITED)
(dollars and share count in thousands, except per share data)

	Year ended	
	December 31,	
	2018	2017
RECONCILIATION FROM GAAP NET PROFIT TO ADJUSTED NET PROFIT:		
GAAP NET PROFIT	\$ 135,579	\$ 298,011
Stock based compensation	12,661	11,648
Amortization of acquired intangible assets	6,554	8,307
Income tax benefit resulted from Israeli deferred tax asset realization following valuation allowance release	--	(82,370)
Income tax benefit related to U.S. tax reform	--	(12,970)
ADJUSTED NET PROFIT	\$ 154,794	\$ 222,626
ADJUSTED EARNINGS PER SHARE:		
Basic	\$ 1.54	\$ 2.30
Diluted	\$ 1.51	\$ 2.19
Fully diluted	\$ 1.51	\$ 2.15
ADJUSTED NET PROFIT USED TO CALCULATE PER SHARE DATA:		
Basic	\$ 154,794	\$ 222,626
Diluted	\$ 154,794	\$ 231,520
Fully diluted	\$ 163,194	\$ 231,520
NUMBER OF SHARES AND OTHER SECURITIES USED TO CALCULATE PER SHARE DATA:		
Basic	100,399	96,647
Diluted	102,517	105,947
Fully diluted	108,268	107,721
EBITDA CALCULATION:		
GAAP OPERATING PROFIT	\$ 154,943	\$ 219,842
Depreciation of fixed assets	187,460	185,464
Stock based compensation	12,661	11,648
Amortization of acquired intangible assets	6,554	8,307
EBITDA	\$ 361,618	\$ 425,261

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONSOLIDATED SOURCES AND USES REPORT (UNAUDITED)
(dollars in thousands)

	<u>Three months ended</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	\$ 464,446	\$ 480,407
Net cash provided by operating activities	91,496	85,285
Investments in property and equipment, net	(48,654)	(41,349)
Exercise of options, net	9	3,278
Investments in short-term deposits, marketable securities and other assets, net	(123,126)	(64,867)
Debt repaid, net	(2,924)	(16,863)
Effect of Japanese Yen exchange rate change over cash balance	3,844	70
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 385,091</u>	<u>\$ 445,961</u>
FREE CASH FLOW	<u>\$ 42,843</u>	<u>\$ 43,936</u>
	<u>Year ended</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
CASH AND SHORT-TERM DEPOSITS - BEGINNING OF PERIOD	\$ 445,961	\$ 389,377
Net cash provided by operating activities	312,897	355,635 (b)
Investments in property and equipment, net	(169,741)	(164,717)
Exercise of warrants and options, net	714	31,315
Investments in short-term deposits, marketable securities and other assets, net	(158,476)	(114,736)
Debt repaid, net	(48,849)	(50,255)
Effect of Japanese Yen exchange rate change over cash balance	2,585	3,720
TPSCo dividend to Panasonic	--	(4,378)
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 385,091</u>	<u>\$ 445,961</u>
FREE CASH FLOW	<u>\$ 143,156</u>	<u>\$ 190,918 (b)</u>
 (b) Net cash provided by operating activities for the year ended December 31, 2017 included \$18,000 received from Tacoma as announced on August 21, 2017.		

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year ended		Three months ended	
	December 31,		December 31,	
	2018	2017	2018	2017
			(unaudited)	(unaudited)
CASH FLOWS - OPERATING ACTIVITIES				
Net profit for the period	\$ 133,379	\$ 301,656	\$ 36,515	\$ 148,642
Adjustments to reconcile net profit for the period to net cash provided by operating activities:				
Income and expense items not involving cash flows:				
Depreciation and amortization	214,391	208,411	54,157	51,310
Effect of indexation, translation and fair value measurement on debt	(9,791)	12,865	(4,042)	2,281
Other expense, net	2,442	2,627	4,006	3,027
Changes in assets and liabilities:				
Trade accounts receivable	(3,096)	(6,564)	10,933	788
Other assets	11,260	(8,321)	3,096	445
Inventories	(26,344)	(4,277)	(9,702)	92
Trade accounts payable	(3,562)	(8,649)	(4,783)	(2,786)
Deferred revenue and customers' advances	2,625	(21,803)	8,768	(17,882)
Other current liabilities	(867)	(8,219)	(7,239)	1,765
Long-term employee related liabilities	(795)	(3,247)	(361)	(2,482)
Deferred tax, net and other long-term liabilities	(6,745)	(108,844)	148	(99,915)
Net cash provided by operating activities	<u>312,897</u>	<u>355,635</u>	<u>91,496</u>	<u>85,285</u>
CASH FLOWS - INVESTING ACTIVITIES				
Investments in property and equipment, net	(169,741)	(164,717)	(48,654)	(41,349)
Investments in deposits, marketable securities and other assets, net	(158,476)	(114,736)	(123,126)	(64,867)
Net cash used in investing activities	<u>(328,217)</u>	<u>(279,453)</u>	<u>(171,780)</u>	<u>(106,216)</u>
CASH FLOWS - FINANCING ACTIVITIES				
Debt repaid, net	(48,849)	(50,255)	(2,924)	(16,863)
Exercise of warrants and options, net	714	31,315	9	3,278
Dividend paid to Panasonic	--	(4,378)	--	--
Net cash used in financing activities	<u>(48,135)</u>	<u>(23,318)</u>	<u>(2,915)</u>	<u>(13,585)</u>
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGE	<u>2,585</u>	<u>3,720</u>	<u>3,844</u>	<u>70</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(60,870)	56,584	(79,355)	(34,446)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	445,961	389,377	464,446	480,407
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 385,091</u>	<u>\$ 445,961</u>	<u>\$ 385,091</u>	<u>\$ 445,961</u>

(b) Net cash provided by operating activities for the year ended December 31, 2017 included \$18,000 received from Tacoma as announced on August 21, 2017.



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